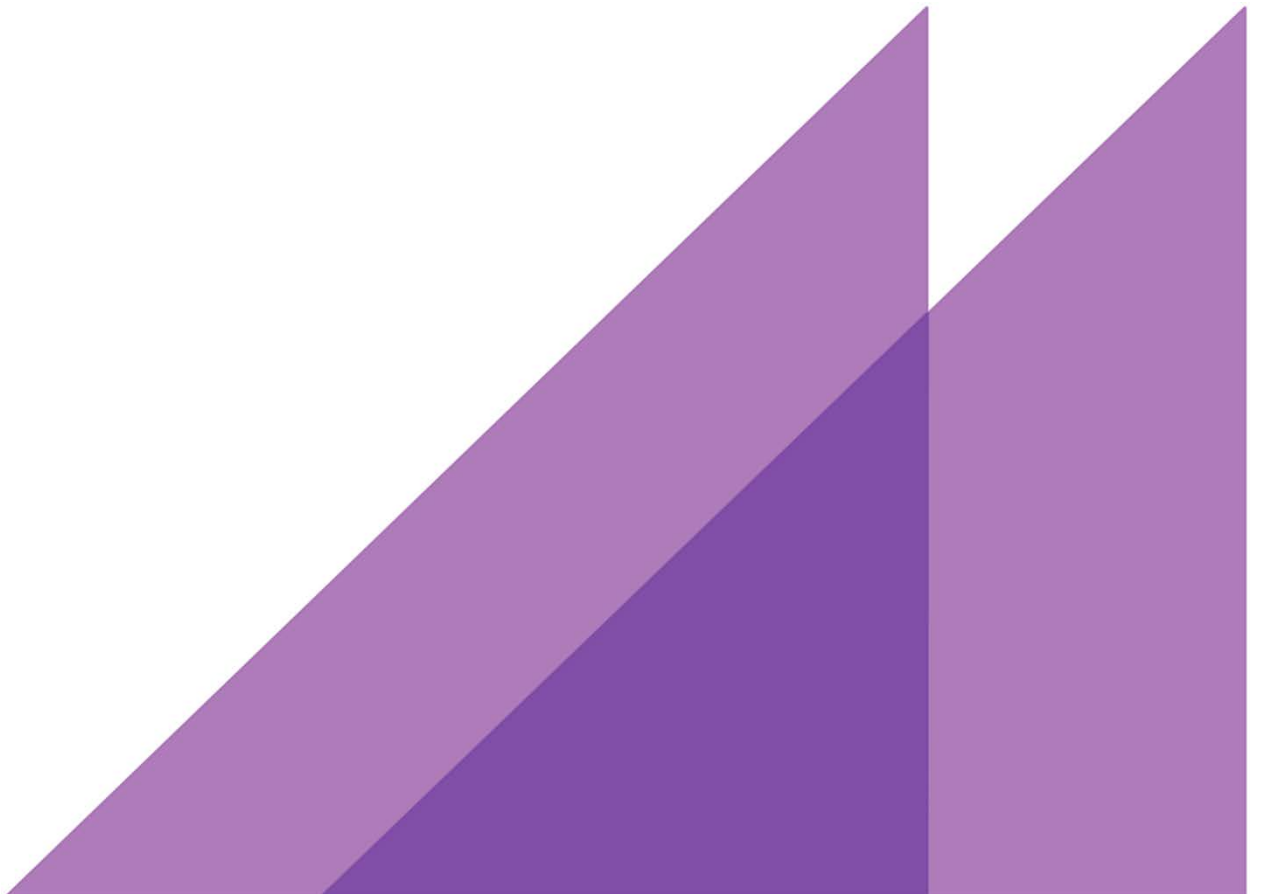


REPORT TO
HORTICULTURE AUSTRALIA LIMITED

MAY 2014

BETTER VALUE FOR GROWERS – A FUTURE FOR HAL

▲ ▲
INDEPENDENT REVIEW OF
HAL AND HORTICULTURE
LEVY SYSTEM





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A navigation guide to the report

This report provides the findings and recommendations of the Independent review of Horticulture Australia Limited (HAL) and the horticulture levy system. It also presents the context, case for change, and how the new system (including levy arrangements) would work. Readers who are already familiar with HAL and its operations are likely to focus their attention on this section.

There are a numerous specific terms and abbreviations associated with HAL and the levy system. A glossary of the abbreviations and terms used in this report is on the next page.

In some cases more than one term is used to describe the entity in relation to different roles or responsibilities. For example peak industry body (PIB), prescribed industry body (also PIB) and industry representative body (IRB) can be used to describe the same organisation. For the purposes of this report the term used for an industry body is as follows:

- For existing arrangements the term used to describe industry bodies relates to the specific role in HAL or the levy system being discussed
- For recommended future arrangements industry bodies are described as industry representative bodies

The review had broad terms of reference, set out at Appendix A.

Attachment 1 contains a report provided to the HAL Board in late 2013. It provides an overview of the current operations of HAL and an assessment of its performance since the last performance review three years ago. This detail and background information may be helpful to readers less familiar with HAL.

Attachment 2 is a report on the extensive consultations undertaken to inform the recommendations. Consultation was widespread including interviews, workshops, a grower survey, submissions, telephone calls, emails, and other communication channels. This provides an overview of the wide range of inputs and opinions from Australia's highly diverse horticulture stakeholders.

Glossary

List of Abbreviations

ACC	Australian Competition and Consumer Commission
AIC	Across Industry Committee
AIP	Annual Investment Plan
AOP	Annual Operating Plan
ASX	Australian Stock Exchange
BCA	benefit cost analysis
CEO	Chief Executive Officer
CRRDC	Council of Rural Research and Development Corporations
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DOA	Department of Agriculture
GVP	Gross Value of Production
HAL	Horticulture Australia Limited
IAC	Industry Advisory Committee
IRB	Industry Representative Body
KPI	key performance indicator
LCC	levy collection costs
MD	Managing Director
MOU	Memorandum of Understanding
NHRN	National Horticulture Research Network
PIB	Peak Industry Body – see definition in Glossary
PIB	Prescribed Industry Body – see definition in Glossary
R&D	research and development
RD&E	Research, development and extension
RDE&M	Research, development, extension and marketing
RDC	Research and Development Corporation
SARDI	South Australian Research and Development Institute
SFA	statutory funding agreement
SIP	Strategic Investment Plan – developed by an IAC
VC	Voluntary Contributions

Glossary of terms

Across Industry Committee	One of the 32 Industry Advisory Committees focusing on R&D across all horticultural industries
Annual Investment Plan	Annual plan developed by an Industry Advisory Committee
Annual Operating Plan	Annual plan developed by HAL
Capacity building	<p>HAL funds provided to build the capacity of individuals or representatives bodies in horticulture. The review recommends capacity building investments should</p> <ul style="list-style-type: none"> ▪ be capped at 10% of industry levies ▪ assessed against all other investment opportunities, based on anticipated returns for industry in both the short and long term ▪ procured through a competitive process
Constitution	This refers to the document that defines to objects, roles and responsibilities of current HAL or New HAL under the Corporations Act 2001
Consultation funds	Funds provided to HAL Members to consult with the industry they represent

Eligible R&D	Types of R&D investments eligible for matching Australian Government investment as specified in the SFA
Grower	A grower of horticultural produce
Grower-owned	Recommended future ownership model for horticulture's industry services body (New HAL). The company would be owned by growers whose horticultural produce is subject to a statutory or voluntary levy for R&D or marketing
Industry Advisory Committee	A committee of HAL that reports to the Board and is responsible for planning and recommending investments for a particular industry or group of industries
Industry	The collective term for the growers, and representative bodies associated with a particular horticultural crop (e.g. bananas). An industry with a levy is the basis for HAL Membership, through an IRB.
Industry Sector	Term in the HAL Constitution used to describe an industry with a levy that is managed by HAL.
Industry Representative Body	A body that represents growers. A term used in legislation, in explanatory materials from the Department of Agriculture and in the HAL Constitution to describe both A and B class Members
Industry services body	The body which receives and manages horticulture levy matching Australian Government funds for R&D and marketing under the Horticulture Marketing and Research and Development Services Act 2000. The body is currently HAL and the review recommends New HAL becomes the body in the future
Levy collector	The body that collects and pays a horticultural levy to the Department of Agriculture
Levy payer	A grower who pays a horticultural levy. The term is also used to describe the organisation (often a wholesaler or other agent) that collects and pays levies to the Department of Agriculture.
Levy paying grower	A producer of horticultural produce with a statutory or voluntary R&D or marketing levy. Note that not all horticulture products have a levy: some fall outside the scope of HAL and the current levy system.
Maintenance	Generic term for HAL funding to IRBs for capacity building, industry consultation and other non-R&D or marketing types of activities
Matched Australian Government R&D funds	Australian Government funds provided to HAL for eligible R&D investments matching (statutory and voluntary) industry R&D levies up to 0.5% of horticultural GVP per annum
Members	<p>The organisations that own and/or are formally associated with HAL. In accordance with section 7.2 of the Constitution of Horticulture Australia Limited, the membership of the Company is subject to the following classes:</p> <ol style="list-style-type: none"> a) An "A" Class Member shall be: <ol style="list-style-type: none"> i) an Industry Representative Body who contributes Levy funds to the Company; ii) a Prescribed Industry Body; and iii) a body which, by its constitution, prohibits the distribution of profits or any assets, whether on winding-up or otherwise, to any individual Member. b) A "B" Class Member shall be: <ol style="list-style-type: none"> i) an Industry Representative Body; ii) a body which either: <ol style="list-style-type: none"> (A) collects or arranges for its Members to pay, whether directly or indirectly, voluntary levies or contributions which are paid (whether in whole or in part) to the Company to fund Research and Development and Marketing activities; or (B) is nominated to be a Member by a person or persons who participate in the Industry making voluntary levies or contributions which are paid (whether in whole or in part) to the Company to fund Research and Development and Marketing activities; iii) (iii) a body which, by its constitution, prohibits the distribution of profits or any assets, whether on winding-up or otherwise, to any individual Member; and iv) (iv) a body which is not a Member of another "A" or "B" Class Member unless the body is an existing Member or is approved for admission as a Member by the Members voting at a meeting of Members. c) (c) A "C" Class Member shall be: <ol style="list-style-type: none"> i) a person who pays an Industry Contribution, excluding a

company, organisation or individual whose main activity is the conduct or provision of research and development or marketing services, partially or wholly funded through Horticulture Australia Limited.

This report recommends that in the future the Members should be the levy paying growers.

National Horticulture Research Network	Formal network of senior horticultural R&D representatives from the State and Commonwealth government agricultural agencies, Australian Council of Deans of Agriculture and HAL. Responsible for developing and delivering the National RD&E Framework for Horticulture
Peak Industry Body	Used in HAL documents to describe its Members, the industry representative bodies, each with their own governance arrangements and membership rules
Prescribed Industry Body - definition	The bodies that represent growers in relation to the establishment of a levy arrangement as specified in legislation and regulations on levies.
Statutory Funding Agreement	Agreement between HAL and the Commonwealth on HAL's operations
Strategic Investment Plan	3-5 year strategic plan of an IAC
Strategic Plan	HAL's five year strategic plan
Whole of horticulture	The growers and representative bodies for all horticultural industries

Executive summary

The review has found that Horticulture Australia Limited (HAL) and the horticulture levy system need reform. They were designed for a previous era, and have delivered benefits in the past, but are no longer adequate to meet the needs of Australia's horticultural growers. This reflects changes both in the industry and in the way agricultural research and development are delivered in Australia.

The horticulture industry has matured since HAL was established in 2001. The current arrangements now impose unnecessary costs, lead to widely perceived conflicts of interest, and provide little compelling evidence of net benefits to levy paying growers.

A new structure is needed that provides greater accountability back to levy paying growers from the body responsible for spending the levy funds.

The fundamental recommendation of the report is to move away from the present structure where Members of HAL are industry representative bodies to a grower-owned model. The report provisionally calls this "New HAL". Its Board would be elected by growers.

There will still be an important role for the industry representative bodies. They will be able to apply, on a competitive and transparent basis, for funds to undertake projects. Under the new arrangements if they are the best provider they will obtain those funds, without the current problem of having a perceived conflict of interest.

New HAL will make decisions on which projects to fund based on a single strategic plan, and with regard to what will deliver the best returns for growers. It will be able to take advice as needed from outside sources; it will not have the structural impediment of a set of advisory committees embedded in its constitution.

The report also recommends that projects should be larger or organised into programs, so as to reduce overhead costs.

New HAL should move away from a "one size fits all" approach to reporting and minimise paperwork for small projects. It would be able to communicate directly with growers, and research results would be made available to growers as a matter of course.

Internal processes can be more efficient, allowing New HAL to direct more effort to improving benefits for levy paying growers.

There was a concern amongst growers and industry representative bodies about whether HAL's current approach to marketing horticulture products was effective. The report recommends marketing levies could be spent directly by industry representative bodies where they can demonstrate this is more effective, and HAL should engage in marketing on a fee-for-service basis where requested.

Levy collection should be more transparent, and the New HAL empowered to negotiate with the Department of Agriculture on ways to reduce levy collection costs. Over time this could lead to a more uniform and more efficient levy structure. The new system will allow annual grower feedback on horticulture levies and, subject to legislative change, the potential for more rapid and responsive changes to levy rates and structures.

Recommendations

Introduction

This report recommends far reaching changes to the current model for horticulture industry research, development and marketing in Australia. It proposes changes to the governance and operations of Horticulture Australia Limited (HAL), to the way levies are collected from the growers of horticulture products, and how expenditure of those levies is managed.

These recommendations are based on wide consultation with stakeholders in horticulture. This included a survey which HAL provided to industry representative bodies to distribute to all growers in their respective areas of horticulture.

There was a strong consensus from this feedback that change was required, but opinions differed widely on how best to do this. The report has drawn on the numerous different views received and the wealth of evidence provided from HAL and other sources. On this basis we have developed recommendations aimed at enabling HAL to deliver better value for levy paying growers in future.

These recommendations are a step in the ongoing evolution of horticulture in Australia. From a relatively small industry, horticulture has grown to become a major part of Australian agriculture and an important export earner, as outlined in the report from the first phase of this review. HAL has been a key player in this growth. It has contributed to the development of the industry, and its past achievements are well recognised and valued within horticulture.

The recommendations for change recognise that the present structure of HAL was the best practical arrangement that could be achieved at the time it was created. However, without further changes to how HAL operates it is highly doubtful that it will be able to make a strong positive contribution to horticultural productivity and grower returns into the future.

Recommendations and findings

RECOMMENDATION 1

Horticulture Australia Limited (HAL) should over a transition period move to become a grower-owned rural Research and Development Corporation

Rationale

The conflict of interest problem of monies flowing to peak industry bodies (PIBs) that are also owners of HAL is insoluble under the present governance arrangements. Present approaches to managing conflicts are widely perceived¹ not to be working, and are costly.

The option of prohibiting HAL Members from obtaining HAL funds for service provision would solve the conflict of interest problem but is not favoured – PIBs play an important part in horticulture and the services they provide contribute to industry productivity and growth.

¹ By organisations and individuals who are not the HAL Member PIBs

Direct ownership will improve accountability, removing the need for levy paying growers to be represented by third parties (PIBs).

Why transition? Why not move to the new model now?

The evidence gathered from consultations across Australia was that it would be difficult to move to a grower-owned model immediately. In horticulture industries where levies are collected and paid by wholesalers, packers or manufacturers, neither HAL, the PIBs nor the Department of Agriculture know who all the growers are in that industry. Although they may not directly pay the levy, growers bear the costs and benefits from the research, development and extension (RD&E) and marketing, so growers rather than the firms at levy collection points should be the owners.

Establishing who the growers are in each horticulture sector will require creation of a register of the growers. Investment and publicity is needed for this to happen and this will take time. The register can be established at relatively low cost via a share registry firm (there are various providers in the market). The larger cost element will be communication with growers.

There are two options for establishing a register: make it mandatory for all growers to be registered (which would require an extensive information gathering exercise and a validation process to ensure comprehensive coverage) or make it optional, with growers invited to register at the point at which levies are paid.²

If the latter option were chosen, implementation could be managed in a relatively short time, perhaps over a period of some months.

Options for governance during the transition

There are many possible options for transition. Our preferred option is creation of a Commonwealth owned company with directors chosen by the Minister for Agriculture following consultation with industry.

Creation by the Australian Government of a company would be feasible. The latest publicly available *List of Australian Government Bodies*³ lists 67 Commonwealth companies limited by guarantee. A company is preferable to a new statutory body because a statutory model has the disadvantages of a) possible time lags in legislation and b) the Commonwealth has a presumption against creation of new statutory authorities.

The advantage of this option is that it would immediately resolve current problems and signal a new approach to horticulture RD&E. A Commonwealth owned company may have some grower opposition among proponents of the current system, and selection of directors could be difficult. These potential disadvantages will need to be addressed through effective communication and extensive consultation during the implementation phase.

Of the various other options, the ones that might be considered could be continuation of the status quo until a new body can be created, formation by HAL of a purpose designed subsidiary, or creation of a wholly new grower-owned shell company as an interim vehicle for transition.

² This could be via provision of information that the body collecting the levy would distribute to growers. The information would be developed and made available by HAL either in electronic or printed form; whichever best matched the communications between the company at the levy collection point and the growers.

³ Department of Finance and Deregulation (October 2009) *List of Australian Government Bodies and Governance Relationships 3rd Edition*, Commonwealth of Australia, Canberra. There is no more up to date list.

A subsidiary special purpose company of HAL would be legally possible and correspond to practices often seen with change of ownership in the corporate world. It is a common mechanism used in merger and acquisition activity, where a new vehicle (often with a generic name such as "Company A") is created to facilitate a transfer of ownership. Advantages are that it would signal support from the present owners of HAL for moving to a grower-owned model, and may assist transition of projects. Disadvantages are that it might allow for the transfer of undesirable practices and processes, including conflicts of interest, associated with the present model; that it could be time consuming and difficult to negotiate with current stakeholders; and that it could be subject to legal challenge. The Board of HAL has advised that it does not consider this a viable model.

The maintenance of the status quo would be highly undesirable, leading to the strong prospect of delaying reform indefinitely.

Various other options including designation of another group or a newly created company as the horticulture services provider might be pursued but would be complicated and open to manipulation. They are highly risky and uncertain.

In any of the options, the new body (provisionally titled "New HAL") could make use of the existing staff and infrastructure of HAL. Existing projects and programs would continue to be managed by HAL.

Chapter 6 outlines the advantages, disadvantages and features of transition options in more detail.

Following the transition period, the new company would be a fully grower-owned body.

Governance features of New HAL

The main governance structure of New HAL would include:

- Company limited by guarantee under the *Corporations Act 2001*⁴
- Independent Board with Board Members selected on the basis of skills and experience rather than representational interests
 - Initially, appointed by present HAL Board following consultation with the Minister
 - After transition period ends, 50 per cent of Board elected directly, 50 per cent selected by the Board, following consultation with the Minister for Agriculture⁵
- Voting proportional to levy dollars paid. This is an important step in ensuring the best use of funds to the overall benefit of Australian horticulture. It is in line with the democratic principle of "no taxation without representation" and helps ensure that small but vocal groups are not disproportionately influential in decision making. .
- Chief Executive Officer (CEO) selected by Board. Not a Board Member but attends Board meetings and is accountable to the Board for performance of HAL
- Constitution of New HAL to clearly set out its obligations to levy paying growers and the Commonwealth
- Clarity in goals and objectives with a primary focus on research, development, extension and marketing.

⁴ The *Horticulture Marketing and Research and Development Services Act 2000* provides that "A body may be declared by the Minister to be the industry services body and/or the industry export control body if the body is established as a company limited by guarantee under the Corporations Law and has an appropriate constitution". The company limited by guarantee model reflects HAL's not for profit status.

⁵ Or if an odd number of directors is preferred, proportions roughly the same: for example, three elected and four independent directors nominated by the Board.

— Continue to administer export efficiency powers for horticulture in consultation with the Department of Agriculture.

These features of the New HAL will enable it to be more flexible, strategic and focused on delivering the best returns to levy paying growers from their investment in RDE&M. Advice from HAL, setting out the context in which it operates, suggests that the constraints imposed by the present system are extensive and are the likely source of other problems identified with processes and operations.

Box 1 Context for HAL operations at present

The context in which HAL operates under the current model includes a number of constraints. The HAL Board has provided a review team that set out current arrangements. They include in particular:

Government:

- d) unilaterally approves new levies;
- e) designates eligible industry bodies for the purposes of representing levy payers in relation to statutory levies (referred to as Prescribed Industry Bodies (PIBs) in HAL's Constitution);
- f) requires HAL to accommodate new levies and PIBs under its model, in accordance with its Constitution;
- g) contributes Government matching dollars (capped at 0.5% of the annual GVP for all of horticulture (the *Cap*)), but does so under the HMRDS Act:
 - i) annually, rather than over the period of HAL's strategic plans and research projects;
 - ii) on a "use it or lose it" basis each year;
 - iii) without enabling HAL to carry forward any unspent funds in the Cap to the next financial year, or to access funds available in the Cap for the next financial year to meet current year commitments; and
 - iv) without confirming the actual quantum of the Cap until after the end of the financial year in which the funds are expended by HAL.

HAL

- a) may make a recommendation on the rate of new levies, after consultation with the relevant PIB, but cannot approve or reject a levy application;
- b) has no role in, or ability to control the costs of, levy collection and disbursement;
- c) has no direct engagement with, or ability to readily identify, growers who pay levies;
- d) under its Constitution and statutory funding agreement:
 - i) must accommodate PIBs as "A" Class Members;
 - ii) must create an IAC for each "A" Class Member with at least \$150,000 in annual levy receipts, and procure strategic and annual investment plans from each IAC; and
 - iii) must develop plans and allocate funds using a "bottom-up" approach; and
 - iv) must create an Annual Operational Plan each year.

Members (on behalf of levy payers)

- a) require HAL to re-invest all or substantially all levies back into the specific industries from which they were sourced;
- b) expect that for every \$1 of levies raised for RD&E, the Government (through HAL) will provide another \$1 (i.e. 2-for-1 funding for all (eligible) projects);
- c) expect HAL to access 100% of available funding from Government each year;
- d) in general, see HAL as mere custodian of the levies and Government matching dollars on behalf of industry;
- e) are paid by HAL for consultation activities, rather than outcomes, pursuant to Schedule 4 of HAL's statutory funding agreement; and
- f) in the case of a significant majority, are substantially reliant on HAL funding for their continued operations.

Source: HAL, communication to review team, 2014

RECOMMENDATION 2**Remove Industry Advisory Committees but retain ability to seek independent advice*****Rationale***

The present Industry Advisory Committees (IACs) provide a mechanism for decision making on the many projects HAL undertakes.

HAL needs some sort of mechanism to obtain the best possible advice on the many science, research, development and communications issues faced by Australian horticulture. It is unlikely, without unacceptable cost, to be able to source all of the necessary advice in house.

The IAC structure, while established with the best intentions to fulfil this advisory function, has over time institutionalised conflicts of interest for many of the industries covered by HAL. They also involve excessive administrative process, taken on partly as an attempt to deal with the conflict problem. The current structure is costly, unwieldy and undermines the overall interests of HAL and growers.

Advice will still be needed, but can be structured better

The Board and management of New HAL should be able to obtain external advice as needed to assist in determining the best allocation of funds in the interests of growers. This advice should be based on skills, not representation. Skills should be defined broadly to include knowledge of RD&E and/or of horticulture industries.

In appointing advisors, the Board of New HAL should aim to maximise the strategic contribution its advisors can make and minimise conflicts of interest. In the event it establishes reference panels or committees of advisers, there should be a presumption⁶ against office holders or employees of PIBs being Members.

RECOMMENDATION 3**Rationalise and strengthen strategic planning for horticulture RD&E*****Rationale***

Improvement in the quality of strategic planning has been identified as one of the highly positive features of the way HAL has been operating in the past three years. Nonetheless HAL's RD&E planning framework is skewed towards the preparation of a large number of industry specific plans, including strategic and annual operating plans for HAL and a strategic investment plan and annual investment plan for each of the IACs. The plethora of strategies and plans encourages siloes, limiting integration and investment in whole of horticulture priorities. Strategic planning should be maintained within a revised framework that establishes a clear planning hierarchy where:

- industry is responsible for industry strategy
- New HAL is responsible for RD&E strategy (as a sub-set of industry strategy)

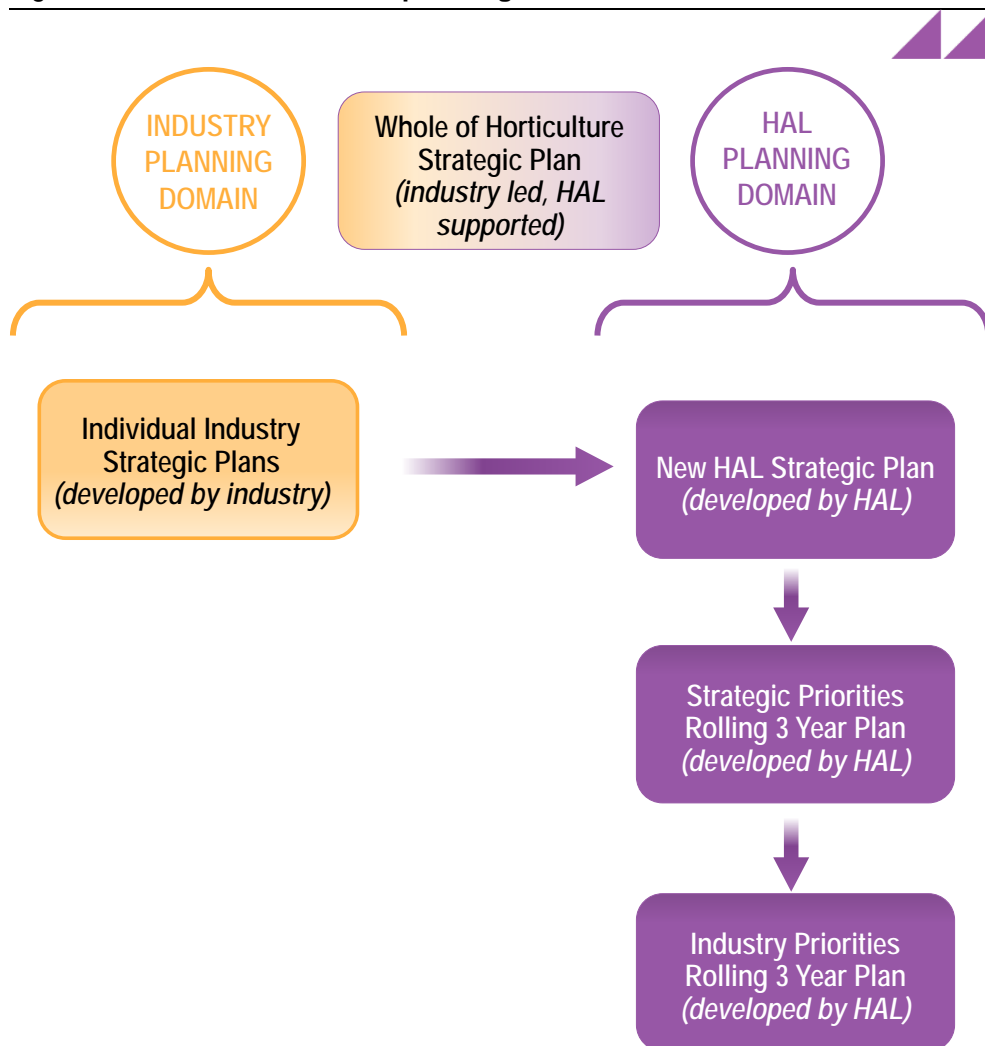
⁶ A presumption about appointments is recommended rather than an absolute prohibition – in some smaller industries there may be an unavoidable need, at least in the short term, for an overlap of personnel.

Features

There would be only one strategic RD&E plan for New HAL, replacing the existing company strategic plan and 32 IACs' strategic investment plans. The strategy should be:

- informed by horticulture's priorities (as defined by industry strategies and liaison with industry and other stakeholders), and
- implemented through a series of whole of horticulture ("top-down") and industry ("bottom-up") rolling three year annual plans (Figure 1)

Figure 1 Recommended HAL planning framework



Note: Purple and orange shaded boxes are the responsibility of New HAL and industry respectively. Planning in the orange-purple shaded boxes are led by industry and supported by New HAL.

Source: ACIL Allen Consulting, 2014

New HAL's strategic plan should be developed from both "bottom-up" (consolidating key themes from individual industry strategies) and a "top-down" whole of horticulture (strategic 'over the horizon' issues such as changes in global horticulture markets, impact of new technologies or climate change adaptation) perspectives.

Industry strategies would play a crucial role informing New HAL's strategic plan by articulating which priorities each individual industry has. They would be industry, rather than RD&E, strategies. The strategies would be the responsibility of Industry rather than New HAL. They could be based on horticultural crops (bananas, vegetables etc.), regions (e.g.

horticulture in the Bundaberg region) or any other basis on which horticulture growers and other stakeholders need to collaborate.

New HAL could, if a convincing case were made in terms of improved returns to growers, provide resources to support industry strategy development (i.e. capacity building investment by New HAL). This may include development of a whole of horticulture industry strategy which has been a long-standing goal for many stakeholders.

The New HAL strategic plan would be implemented through rolling 3-year annual operating plans for strategic priorities and key industry groupings. Rolling 3-year plans are recommended to broaden the planning horizon beyond an annual cycle, given many investments run over multiple years. Each rolling 3-year annual operating plan would be based on HAL's strategic plan. The shift from using HAL's strategic plan rather than IAC strategic investment plans as the basis for investment is critical to achieving greater value for growers. It is at this level that the trade-offs between "top-down" and "bottom-up" can be properly prioritised and the benefits from integrating investment realised.

The number of rolling 3-year annual operating plans will be determined and adjusted by the Board. The number of plans should be based on having significantly fewer decision making envelopes so that overall investment can be integrated with New HAL's strategic plan while maintaining effective and efficient stakeholder liaison. It is expected that the plans would include:

- a limited number of strategic "top-down" plans focused on whole of horticulture priorities and shared priorities common to many industries
- significantly fewer "bottom-up" industry plans than the current 32 IACs based around key groupings of horticultural industries and/or regions

The make-up and number of plans should be adapted each strategic planning cycle in line with changing priorities and industry developments.

We expect that a whole of horticulture RD&E strategic plan would identify capacity gaps in common with those identified by the National Horticulture Research Network and other rural RDCs. This information would enable New HAL to contribute more to Commonwealth and State/Territory Agriculture Ministers' expressed aim of building Australian rural RD&E capacity.

RECOMMENDATION 4

The number of industry liaison and RD&E service units or functional areas within HAL should be streamlined.

Rationale

One of the overwhelming elements of feedback received during the review, supported by the review's own analysis, was that the division of work in HAL amongst 43 different industry focused groups led to dissipation of effort, lack of coordination and high administrative costs. The move to a grower-owned model and single strategic plan for New HAL will lead to significantly fewer decision making envelopes based around the rolling 3-year annual operating plans. This reform makes the IACs redundant while allowing for new mechanisms to strengthen and streamline industry liaison.

Multiple industry liaison mechanisms replace IACs

New HAL will need to liaise with levy paying growers and the industry representative bodies in developing and implementing the strategic plan and rolling 3-year annual operating plans. This should involve the following key phases:

- **Asking** levy paying growers and industry representative bodies what should be in the annual operating plans (yearly) and strategic plans (every 3-5 years depending on the length of the strategic plan)
- **Reporting** to levy paying growers and industry representative bodies annually on what is in the annual operating plans and strategic plan, what they will invest in and progress towards the associated priorities, outcomes and key performance indicators

Importantly New HAL will no longer rely solely on IACs and industry representative bodies to liaise with levy paying growers. Rather New HAL will need to establish a number of mechanisms to liaise with both levy paying growers and industry representative bodies as well as other stakeholders (providers, wholesalers, processors, retailers, levy collectors, government agencies etc.). These may include:

- using electronic media to liaise directly with levy paying growers and industry representative bodies
- conducting regular forums open to levy paying growers, industry representative bodies and other stakeholders
- targeted liaison with individual levy paying growers, industry representative bodies and other stakeholders in relation to a particular priority, issue or area of investment using electronic media and personal contact
- convening multi-stakeholder reference panels to inform one or a number of 3-year rolling annual operating plans and New HAL's strategic plan

The level of consultation funding provided to industry representative bodies will reduce over time as there is no requirement to fund industry bodies to manage IACs and New HAL will directly communicate with levy paying growers as one of the multiple liaison mechanisms.

This will eventually lead to a new liaison structure where industry representative bodies amalgamate their interests to inform New HAL's decision making processes in place of the current IACs.

An option that would encourage industry representative bodies themselves to amalgamate their interests would be to stipulate that all industries with levy income less than \$2 million per annum be covered within one of New HAL's "bottom-up" industry rolling 3-year annual operating plans. This would provide one point of contact for industry representative bodies to provide input to New HAL's decision making. If industry representative bodies for the smaller industries, in consultation with growers, chose to aggregate their levy income under one industry representative body⁷, then that body would come out from under the umbrella. This would encourage the different sectors to find collective interests among themselves rather than have it set by the HAL Board.

Alternatively, obvious groupings that could be amalgamated include tropical fruits, nuts, deciduous fruits, berries, vegetables and intensive industries. This would be for the purposes of New HAL decision making only. How growers choose voluntarily to associate among themselves is outside the scope of the review.

⁷ Whether or not they then chose to maintain separate identities within this consolidated body would be up to them.

The envelopes for decision making would not be based on the present IACs. The present IAC structure derived from the HAL Constitution entrenches interests of industry representative bodies (the PIBs)

RD&E investment principles

New HAL should apply a principle that, after allowing for multiple or cross industry programs (i.e. “top-down” strategic priorities), funds should be allocated to industry programs (i.e. “bottom-up” industry priorities) broadly proportional to the levy funds contributed by each industry. This is to be applied so that proportions are maintained over time on average⁸ rather than a specific fixed dollar allocation in any one year.

New HAL should recognise the need in the case of some industries for capacity building: that is, building representative and consultation structures that allow better communication in an industry, the sharing of ideas and provision of input into decision making. This is different to RD&E. Present funding does in reality go to this purpose, although that is not often apparent from project information. A transparent allocation of funds could be made for capacity building via industry representative bodies, based on industry needs but set at no more than 10 per cent of total levy proceeds.

A small group within New HAL should be appointed with a specific mandate to examine all projects and consolidate and amalgamate activity where desirable.

A large percentage of HAL funds should be allocated to research that crosses boundaries between different product types. This could include issues such as: horticulture market access and strategies; impact of climate change on horticulture; water management; biosecurity risk measurement; pests and diseases that affect multiple industries; application of new positioning technologies; computer aided horticulture.

Rather than a fixed percentage, the amounts applied to multiple (“top-down”) industry and individual (“bottom-up”) RD&E should be determined under New HAL’s strategic plan.

It is important that formulae for allocation of funding to different priorities or groups are not embedded in the Constitution, to avoid creating the kind of structured inflexibility that has been imposed by the current model.

This report recognises that there will be a need in New HAL for a variety of different types of investment. However, the allocation of funds between them is likely to be different year on year, as the industry continues to grow and evolve. Setting in place fixed percentages for each investment creates a roadblock to New HAL adapting in the future.

RECOMMENDATION 5

Improve project procurement, management and reporting

Rationale

Current internal project management within HAL is designed to ensure accountability for the use of funds in accordance with the Deed of Agreement with the Commonwealth. The feedback received from almost all stakeholders outside HAL is that this has led to a proliferation of paperwork, with detailed and complex processes.

⁸ Rather than a fixed formula, we suggest the expenditure on projects for each industry be published, with a rolling average over three years, and that New HAL publish a notification and an action plan if the average three-year expenditure varies as a pro rata proportion of levy by plus or minus 5 per cent.

Accountability for use of funds is vital. However, at present HAL deals with project approvals for roughly 1,200 different projects each year, and each of these creates reporting obligations. The sheer volume of paperwork makes it difficult for there to be real accountability for results achieved. It also imposes costs.

Almost all researchers and research bodies consulted during the course of the review expressed concerns about the small size of projects. One prominent university researcher commented that his/her organisation was no longer proposing projects to HAL because the ratio of paperwork to funds received was prohibitive.

Features

New HAL would move to a program rather than project basis for RD&E. The programs would be multi-year with larger funding envelopes and evaluation and reporting focused on results (particularly benefits to industry from investment) and adoption.

Industry representative bodies (currently known as PIBs) would be able to apply for funds on the same competitive basis as any other provider. In particular, they would be able to apply for funding to manage distribution to growers of results of research and work on the application of those results. This recognises the vital role that the industry representative bodies play in developing the industries they serve.

New HAL should introduce transparency in the decision making around project selection: applications for funding, criteria for selection of projects (based on strategic plans), decisions taken and the reasons for the decisions should all be published online.

It would also aid transparency and accountability if there were more explicit recognition of differences between research, development and extension projects. Some programs could contain all three elements; however there could also be scope for purely extension programs with reporting requirements focused on quantitative measurement of degree of adoption.

A more risk based approach to project reporting would apply different requirements based on size and criticality of projects. It would be possible to minimise paperwork for small projects provided they can demonstrate results.

The present approach to applications for funding requires applicants to complete extensive proposals for both large and small projects, some of which are easy to describe and explain and others of which are complex and need supporting detail.

A more streamlined approach would make use of a filtering process whereby brief applications, preferably no more than two pages, would be used to sort out which projects could be considered on the basis of further information. In some cases, two-pages might provide all that is required for a well informed decision to be made.

Accountability reporting needs to focus on outcomes achieved rather than processes (recognising that for research, reporting of negative results is often expected and is a result in itself).

A condition of any research funding to be included in funding agreements should be that unless there are good reasons otherwise, research results are made available to levy paying growers before publication. As a general principle, research should be distributed to these growers one to two years before wider publication (although exceptions could be applied case-by-case based on the nature of the research). New HAL should reserve the right to publish results only to growers who pay levies. Researchers unwilling to provide research services on this basis would not be funded.

A library of all HAL-funded research, both past and present, with search and reporting functionality should be made available online to growers on the New HAL share register. This would reflect the view expressed by a large number of growers and grower representative bodies that past research was not available, and address a concern expressed by some that new research projects were repeating work that had already been done but not tracked. A good online library would allow decision makers to check for overlap or repetition.

RECOMMENDATION 6

The industry services body (New HAL) is to engage in marketing on a fee for service basis, and only on the request of the body representing the industry that contributes marketing levy funds

Rationale

Under the *Horticulture Marketing and Research and Development Services Act 2000* the Commonwealth makes matching payments for eligible R&D (s.16), but does not match levy funds raised for marketing. Examination of HAL projects indicates that there has been activity around what is often labelled “marketing research”: this blurs the boundaries between different levy streams and related expenditure.

The consultations for the review suggested larger industry representative bodies often have a better developed appreciation of the marketing needs for their industries than HAL does itself – which is not surprising given their closeness to markets and opportunities directly relevant to the products they represent. They have argued that the channelling of marketing levy funds via HAL imposes an administrative cost with no benefit.

In addition, concerns were expressed about the effectiveness of marketing projects coordinated by HAL. The review noted that some of the marketing projects were of the order of a few thousand dollars and highly unlikely to have had any effect at all on buyers.

Features

The use of growers’ funds, for any purpose including marketing, should be fully transparent and accountable. If this can be demonstrated by an industry representative body (including that there is majority grower support for the marketing activities) there is a case for the marketing levy to be made available directly to the body to disperse on marketing that it determines best meets growers’ needs.

One of the preconditions for use of funds in this way should be that marketing work is openly and competitively tendered, and the results evaluated and reported onto growers in terms of the impact of the marketing activity on grower returns. Without this proviso there is a risk that the funding would be used internally by the representative body, including marketing itself to its Members. This could lead to a vicious cycle of a body using levy monies to attempt to justify raising more levy monies, in effect, engaging in agri-political campaigning.

If the projects were openly tendered, there should be no impediment to HAL being able to bid to undertake marketing, on a competitive basis.

New HAL could undertake cross-industry marketing for a multiple number of industries (for example, in association with a market access campaign or a public health campaign) on request of the relevant IRBs.

To implement this recommendation section 17 of the *Horticulture Marketing Research and Development Services Act (2000)* will need to be amended.

RECOMMENDATION 7**Improve direct communications with growers*****Rationale***

There was limited feedback from growers during the review, due in part to the fact that they do not have a direct relationship with New HAL and their information comes through PIBs. The feedback that was obtained indicated strongly that growers wanted more information from HAL across a wide range of topics.

Features

A direct channel between New HAL and levy paying growers could be established quickly and cheaply through electronic means, drawing on the levy paying grower register. It should feature multiple overlapping channels, both passive (a web page) and active (social media, email bulletins). Any active communication (for example email) would be on a voluntary basis: that is, any levy paying growers can opt onto an electronic HAL mailing list.

New HAL would benefit from early engagement directly with growers in order to pursue strategic objectives established following implementation of recommendations 1 and 2.

RECOMMENDATION 8

Apply greater transparency and efficiency in the Department of Agriculture's levy collection activities and levy mechanisms in the immediate term.

In the long run, New HAL and the department work collaboratively to develop a strategy and plan to reform horticultural levy arrangements to fit in with the timetable for existing sunset provisions of levy instruments

Rationale

One of the positive effects of this review that has already been observed is that the Department of Agriculture's has provided more information to industry bodies about the details of the levy collection system relevant to the particular industry. This is a positive step.

Further improvements in transparency should include provision of information by the department to HAL to communicate with growers on levies, and an active engagement between HAL and the department to find better collection mechanisms. At present HAL, due to its structure, maintains a hands-off stance on levies and leaves negotiations on levy arrangements to the PIBs, the HAL Members.

Without legislative change, which could have implications for other agriculture sectors outside horticulture, the present system whereby levies are set in consultation with industry representative bodies needs to be maintained. However, a grower-owned model where growers themselves have a relationship with HAL would allow a more active role for HAL in this structure without a requirement to change legislation.

The report also notes that the sunset date for levies and customs charges regulations enabled by the *Primary Industries (Excise) Levies Act 1999* and the *Primary Industries (Customs) Charges Act 1999* is 1 April 2019. This will require negotiation of new arrangements for levies, or reinstatement of current arrangements. It is important that this is done in consultation with growers.

Steps for the future

Reforming the levy arrangements is a complex and lengthy process

To reform the levy arrangements in the longer-term (once a grower-owned New HAL is established), a strategy and plan to improve the levy system should be developed by the department in collaboration with HAL (and growers). This should be negotiated and agreed to by the transitional New HAL and the department.

The sunset dates for levies and customs charges regulations enabled by the *Primary Industries (Excise) Levies Act 1999* and the *Primary Industries (Customs) Charges Act 1999* are 1 April 2019. It has been indicated that the sunset instruments will be tabled in Parliament 18 months before the date of sunset. Any review and pathway forward for levies should be determined and finalised by August 2017.

To foster more efficient and effective levy arrangements, a review of levy arrangements should seek to explore:

- a) a reduction in the number of levies – over time, new levies have been introduced with few levies abolished or consolidated. Consequently there are currently over 50 different types of horticulture-related levies. Many could be consolidated
- b) better IRB collaboration and possible amalgamation (including establishing New HAL as the IRB for the smaller horticulture levies which parallels other agricultural sectors where the relevant RDC plays a role in relation to levies)
- c) multi-commodity levies (and their design) that are the responsibility of larger, more capable IRBs
- d) increased efficiency, effectiveness and transparency of the levy collection process
- e) minimum thresholds for the maintenance of levies
- f) accreditation of IRBs for the purposes of being:
 - i) prescribed as the eligible industry body to represent levy paying growers in relation to the levy
 - ii) eligible as a supplier to provide consultation marketing and/or industry maintenance services
- g) providing levy paying growers the ability to periodically review levies and the performance of IRBs in a cost-effective manner
- h) the approach to managing other horticultural levies collected by the department but beyond HAL's statutory remit (e.g. Plant Health Australia contribution levy, Emergency Plant Pest Response Deed levy and National Residue Survey levy)

Deferring reform of the levy arrangements until New HAL is established will ensure:

- New HAL and the Government collaborate on a joint strategy and plan for improving the levy system
- the implications and possible intended, unintended and/or undesirable consequences of changes to the levy arrangements can be thoroughly analysed in light of moving HAL to a grower-owned RDC and the environment in which it will operate

RECOMMENDATION 9

Improve internal accountabilities and processes

Rationale

A number of changes to internal processes would reduce regulation (both internal and applied to suppliers) and make New HAL more efficient. These include:

- change from a one size fits all approach to paperwork and reconciliation of spending to a flexible scheme where smaller projects have less paperwork: provided there is also reporting on and accountability for results
- New HAL management/service costs for each industry to reflect actual costs of servicing those industries
- New HAL to be allocated funds for its own internal management not as a percentage of spending but as a fixed cost. Over the transition period we recommend that this be based on a formula of the current cost of HAL, adjusted for movements in the consumer price index less a percentage (efficiency dividend) amount to be determined annually in consultation with the Minister for Agriculture
- no requirement for all available project funds to be spent in any one year. Use of strategic planning to find highest value projects over longer timeframes
- a summary of reports to the Board on internal HAL expenditure to be published online, to provide an incentive for New HAL to reduce administrative spending over time.

Implementation

The first step in implementation is consideration of the recommendations by both HAL and the Australian Government. If the recommendations are accepted, there will still be a major task in sorting out the details of implementation.

Chapter 6 of the report outlines some of the considerations that will need to be taken into account in implementation, and the key role that communications with growers will play in the success of the New HAL. Both HAL and the Australian Government will have other issues that they will want to consider as part of the implementation task.

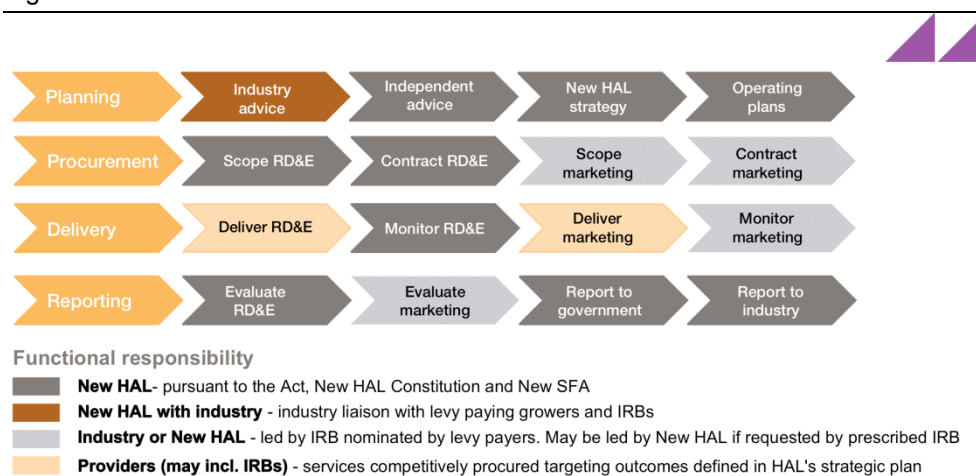
It is worth noting that there was a strong view from horticulture industry leaders that if there were to be changes, they need to be put in place quickly. A quick transition will deliver better results, and is less likely to bog down the implementation processes in unnecessary bureaucracy.

Implementation will require further comprehensive strategy and planning once the recommendations of the report are considered.

What the new structure would involve for stakeholders

The proposed changes are extensive. As outlined in Figure 2, the changed arrangements will deliver a very different focus for HAL.

Figure 2 Core New HAL business functions



Source: ACIL Allen Consulting, 2014

These changes will affect numerous stakeholders: growers, staff of HAL, industry representative bodies and their staff, the Commonwealth and various state departments of agriculture, horticulture researchers and others.

What would the new world look like for these various stakeholders?

Levy paying growers, if they choose, can have a greater say in the workings of New HAL and more direct access to the findings from projects funded out of levy monies. For growers with a lower level of interest in these there will be little obvious change.

The major challenge for the staff of the current HAL will be developing a different culture. The present staff Members are, as a generalisation, highly skilled, dedicated to the best interests of the horticulture industry and hard-working. Due to the current structure of HAL, there is however a strong culture of working to meet the interests of the various industry representative bodies and dissipation of effort across various threads of work. Better measurement of the impacts of R&D projects and stronger communication of these results to growers will help refocusing the culture towards achieving the best possible results from R&D investments made by HAL.

A change in HAL ownership will have a major effect on industry representative bodies. They will lose the direct influence over New HAL project selection and New HAL strategic directions that they currently have. The advantage for them will be an ability to compete for funds on a fair and open basis, without being subject to perceptions that they have conflicts of interest. Some industry representative bodies may find their influence and effectiveness with their own Members grows as a result; it will be the reverse for others. The new arrangements will put a premium on accountability and demonstrated effectiveness on the part of industry representative bodies.

During the transition phase the Commonwealth Department of Agriculture will have additional workload. The longer term benefit will be a more efficient and effective New HAL, which will mean better long-term results for Australia's agriculture R&D system.

State agriculture departments will be less affected, because in many cases they play only a minimal role in horticulture R&D. However to the extent that some states still see this as important the proposed new arrangements for project selection and management should encourage them to work more closely with the New HAL and undertake more projects.

Researchers, extension providers and other recipients of New HAL project funds should welcome reductions in paperwork and greater economies of scale. There will be a period of some uncertainty for providers, which emphasises the importance of making a quick transition so as not to lose capacity or expertise in research.

Table 1 overleaf provides an indication of the opportunities that the new arrangement will offer to key stakeholders in Australian horticulture RD&E and marketing.

Table 1 **Opportunities for stakeholders from moving to a grower-owned corporation**

Stakeholders	Opportunities
Horticultural growers	<ul style="list-style-type: none"> ▪ Improved accountability of New HAL to growers (direct ownership) ▪ Encourages more direct engagement between New HAL and growers. New HAL has ability to initiate engagement directly with growers, including large growers in order to pursue strategic objectives ▪ Grower 'influence' directly related to grower value (i.e. voting rights in proportion to horticulture levies paid) ▪ Better understanding of New HAL's role and obligations (direct relationship with New HAL and improved Constitution) ▪ Better understanding of levy mechanism (more simple and transparent) ▪ Better outcomes for growers from improved accountability of New HAL to growers and because addresses market failure at grower level (see Commonwealth government stakeholder and identified opportunity)
New HAL	<ul style="list-style-type: none"> ▪ Obligations to growers and Australian government clearer ▪ Better able to initiate engagement directly with growers, including large growers in order to pursue strategic objectives ▪ Facilitates partnership between growers and Australian Government ▪ Skill-based Board provides opportunities to draw upon expertise and skills to achieve more efficient and effective HAL ▪ Increased control and influence (able to introduce decision making processes to address multiple industry R&D etc.) ▪ Increased ability to streamline processes and operations within New HAL ▪ Better able to undertake evaluation and reporting focused on results (particularly benefits to industry from investment) ▪ Only engage in marketing only on a fee for service basis on request of industry bodies ▪ Rationalise and strengthen strategic planning for horticulture RD&E: <ul style="list-style-type: none"> ♦ Broaden strategic planning to include one strategic RD&E plan for whole of horticulture ♦ Industry strategic planning to become industry plans, rather RD&E plans and will be the responsibility of industry not HAL
Industry representative bodies	<ul style="list-style-type: none"> ▪ Cannot be accused of having actual/perceived conflict of interest ▪ Able to provide focused and timely advice to New HAL on RD&E priorities ▪ Better able to focus on primary objectives of industry representative bodies (due to reduced number of planning and reporting processes) ▪ Able to direct own industry funds in line with an agreed industry plan by providing advice to New HAL ▪ Able to contest for RD&E funding on an equal and objective basis (if choose to do so) ▪ More efficient and transparent levy mechanism
Service providers	<ul style="list-style-type: none"> ▪ Can compete for funds on an equal and transparent footing. Removes existing perception that competing on an unequal and non-transparent footing due to existing governance weaknesses. ▪ Provided with opportunity to contest for RD&E and marketing funding ▪ Improved opportunities to contest for funding for longer-term projects
Commonwealth government (Minister for Agriculture, Department of Agriculture)	<ul style="list-style-type: none"> ▪ Better meets Commonwealth Government's underlying objective – market failure ▪ Better addresses market failure, which is strongest at grower level ▪ Improved accountability to Australian government for matched RD&E funding (as a result of more clear objectives and ownership and accountability structure) ▪ Better able to work in partnership with growers via New HAL ▪ Strengthen strategic planning for horticulture RD&E

Source: ACIL Allen Consulting, 2014

1 Context

This chapter provides the overall context for the review, outlining why it was commissioned and how it was undertaken. It covers the rationale for compulsory levies and matching government contributions for agricultural R&D. A table at the end of the chapter summarises the findings from the first phase of the review.

1.1 Independent Review of HAL

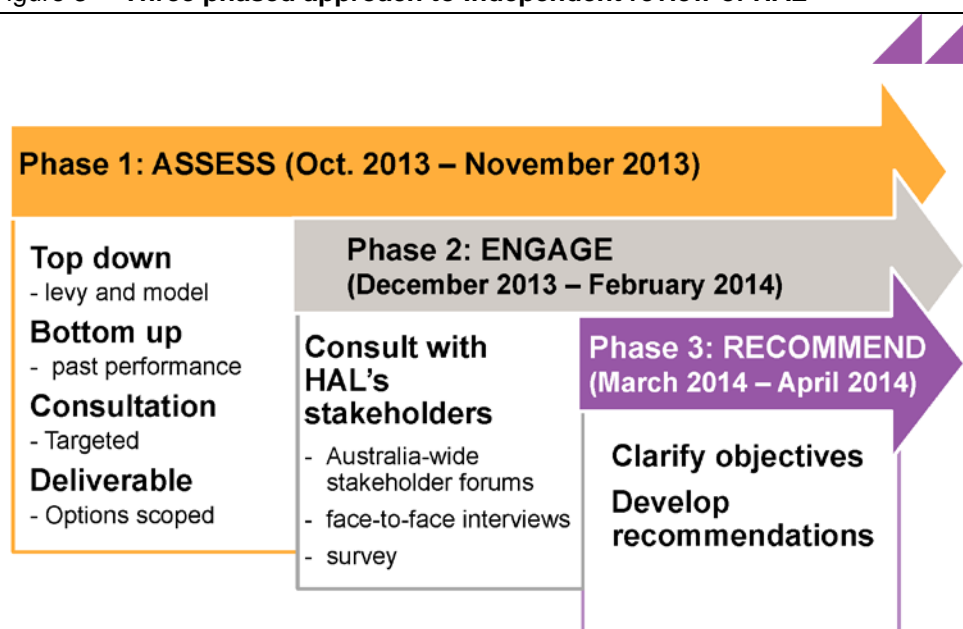
Horticulture Australia Limited (HAL) commissioned ACIL Allen Consulting to conduct an Independent review of HAL's operations and model and the horticulture levy system.

Reviews are conducted regularly under the Deed of Agreement between HAL and the Australian Government to inform stakeholders on HAL's performance. This is the third review since HAL was formed in 2001.

This Independent review also includes an examination of the HAL service delivery model and the efficiency of the horticulture levy arrangements. Levy arrangements are the basis for HAL's ownership and revenues. The full terms of reference for the review are at Appendix A.

The review has been conducted in 3 phases. This is the third phase to the review – see Figure 3 for approach to the Independent review of HAL.

Figure 3 Three phased approach to Independent review of HAL



Source: ACIL Allen Consulting, 2014

As shown in the figure, the three phases to the review comprised:

- Phase 1: Review of past performance and HAL's industry services model and levy system

- Phase 2: Engaging HAL's stakeholders on phase 1 findings and consulting with them about the need for change
- Phase 3: Recommendations to improve HAL's industry service model and levy system.

1.2 The value from Horticulture Australia Limited

HAL is one of the 15 Research and Development Corporations (RDCs) responsible for approximately one-fifth of funding for rural research and development (R&D) in Australia. The RDCs commission rural research and development on behalf of primary producers, some processors and Government. HAL is an industry-owned corporation within the RDC model and funds R&D and marketing programs and supports industry consultation to this end.

As with all RDCs, HAL operates within a framework of agricultural policies and funding activities that span all levels of Government and their agencies. Some producers and other private organisations are assisted by the R&D tax incentives as well as other general R&D support programs including Cooperative Research Centres and the CSIRO. HAL's rationale should be viewed within this broader framework.

Funding for HAL's activities is sourced through statutory and voluntary levies, matched in the case of R&D, by funding from the Commonwealth Government up to a limit of 0.5 per cent of gross value of production.⁹ The funded activities aim to deliver benefits to horticultural enterprises along the total supply chain but with a focus on producers. They result in transaction costs as well as opportunity costs for levy paying growers who might have otherwise invested these funds in other research, production or marketing activities.

The overarching rationale for HAL's funding of these activities derives from the fact that the level of investment in R&D and marketing would be sub optimal if left to individual horticultural producers. This market failure arises primarily because of the existence of:

- unpriced spillovers
- risk
- indivisibility.¹⁰

1.2.1 Unpriced spillovers

Unpriced spill-overs, or externalities, arise when others benefit from the results of the investment in R&D and marketing by individual producers are enjoyed by others. Spillovers can occur in several contexts including:

- intra-industry benefits
- inter-industry benefits
- wider society benefits including those accruing to consumers and to the environment
- overseas industries and consumers.

The possibility of benefits accruing to rivals both within an industry sector, and more broadly across rural industries and society, is high for R&D in the horticultural sector. There are also wider intra and inter industry benefits that arise from certain marketing efforts.

⁹ The statutory levies are raised under the powers granted by the Primary Industries (Customs) Charges Act 1999 and the Primary Industries (Excise) Levies 1999 and managed by HAL under the Horticulture Marketing and Research Act 2000.

¹⁰ The topic of market failure has been covered a length in economic literature and most recently reviewed in the 2011 Productivity Commission report into rural research and development arrangements (Productivity Commission, February 2011)

These conditions support the economic case for compulsory levies to fund research and development and some aspects of marketing. The wider societal benefits that accrue from R&D also support a case for some Government funding of this R&D. However in the interests of maximising economic welfare for society as a whole, the benefits from such interventions should exceed the cost (including opportunity cost) of doing so.

Such considerations led the Independent review of HAL to examine how well the governance and administrative arrangements apply under HAL's operating structure ensures that the net benefits of intervention are maximised. It is also important for Independent review of HAL to be satisfied that growers have:

- the opportunity to communicate their needs to decision makers in the HAL structure
- access to information on the results of research so that they can take advantage of research results as they materialise.

1.2.2 Risk

Risk is a characteristic of most endeavours but is a feature of R&D. Risk could lead to sub-optimal private investment in R&D by individual growers and enterprises given atomistic nature of the horticultural industry. The compulsory and voluntary levy arrangements provide a mechanism to pool this risk between a larger number of growers, reducing the exposure of single growers to the associated risk.

There is also risk associated with levy setting where specific growers or industries do not benefit equally from R&D. This could lead to setting a sub-optimal levy rate.

These considerations have been taken into account in our analysis of the manner in which research projects are formulated by HAL and the processes by which levy rates are set.

1.2.3 Indivisibility

Indivisibility relates to the scale of investment required to address R&D challenges. The Australian market for horticultural products is small relative to the rest of the world and the scale of research required may well exceed the capacity of growers to address and support in the absence of some scaling of the projects.

Indivisibility as a market failure tends to be more relevant to the research phase and less to the development and adoption phases. Addressing such market failures requires a strong strategic focus and clear assessment of the levels of innovation involved in each project, the size required to effectively mount a research project, and the intra-industry and inter-industry benefits that are expected to accrue if the research is successful.

These considerations suggest that this review should also focus on the strategic role for HAL in overseeing inter and intra-industry commonalities inherent in research projects and the process of formulating projects.

1.2.4 The rationale for HAL and where the review must look for value

R&D policies and programs are only one of a number of policy instruments involved in the ongoing development of an internationally competitive and sustainable horticultural sector. Policy failures in other areas of economic policy, both internationally and domestically are also important. R&D policies cannot be examined in isolation.

The three areas of market failure discussed above are interrelated with their centre of gravity being the fact that there is likely to be sub optimal investment R&D and marketing in the horticultural sector if investment is left to individual growers.

As a minimum, transaction costs suggest that coordination of voluntary levies needs to be efficiently managed and monitored. Compulsory levies need to be set within the framework of the intra and inter industry benefits that are likely to accrue to R&D and marketing. The nature and focus of R&D programs in this context is also critical where Government funding through the matching arrangements are concerned.

Taken together these considerations require a governance arrangement that can minimise transaction costs, develop effective strategies, monitor progress and adjust programs as new learnings emerge. Most importantly the arrangements should facilitate engagement with levy paying growers in the overall HAL program and in the results of its research and marketing efforts.

1.3 Timeliness of review

HAL was created in 2001. The model it adopted reflected a balance of issues and interests that prevailed at that time and was appropriate to the circumstances.

In the 12 years since, the environment in which HAL operates has changed enormously. The industry has grown, diversified, and become more sophisticated and outward looking.

This review of HAL is also timely because of increasing challenges being faced by the horticulture sector, despite its successes to date. They include the appreciation of the Australian dollar and associated increased import competition, consolidation of the agricultural industry and changing consumer preferences.

Some challenges, such as biosecurity risks and the need for productivity growth, remain a constant for all agricultural industries. Competition for scarce resources is becoming more of an issue and productivity is vitally important to sustainable growth. Free trade agreements - currently being negotiated with a number of Asian countries - will provide both opportunities and challenges for Australian agriculture and horticulture.

The horticulture industry is dealing with these challenges while also operating in an increasingly globally competitive sector.

Australian governance practices have also evolved, in all sectors. The Australian Stock Exchange (ASX) Corporate Governance Council has taken a leading role in improving the governance of organisations. Its corporate governance principles and advice were first published in 2003 - two years after HAL began - and have been updated since. Thinking in Australia about how organisations can be governed to deliver value is very different today to what it was in 2001.

Although the joint industry and Government funding model remains a key element in the success of Australia's R&D in agriculture, the way in which R&D is managed is evolving. Recent reforms in the structure and governance of other RDCs have increased accountability of organisations for their performance to funders especially levy paying growers.

Complaints have been raised in Parliament about the governance of HAL and the conduct of its business model. These were found to reflect weaknesses in the checks and balances in the model. While changes have been made to HAL's Governance framework, some key stakeholders continue to voice their concerns about conflicts of interests in HAL's governance framework.

This review provides an opportunity to bring the HAL model and governance up to date so it can contribute more effectively to a sustainable, efficient and growing horticulture sector. The Australian Government has also highlighted the crucial role to be played by levy paying growers in determining how RDCs invest.

1.4 This report follows an earlier phase

This report relates to the Recommendations (phase 3) of the Independent review of HAL.

The Recommendations of the Independent Review are provided in the opening section of this report. The recommendations are based on the key findings from phase 1 (see Table 2) and insights from stakeholder engagement (phase 2).

The remainder of the report provides further findings from the analysis including:

- the case for change
- analysis of alternative HAL service delivery models
- analysis of future horticulture levy systems
- implementation and action plan

Table 2 **Key findings: Phase 1 – Performance review of HAL**

Number	Finding
1.	HAL has adapted and strengthened its governance arrangements over the review period. Good corporate governance practice is applied for the most part, especially in relation to the operations of the Board, and recent changes have improved both internal audit and risk management. Some governance arrangements could however be strengthened further.
2.	Key strategic issues that remain in regard to HAL's governance arrangements are that: <ul style="list-style-type: none"> ▪ HALs structure and governance framework supports a multiplicity of objectives; ▪ the governance framework and structure requires a significant investment in accountability requirements and other controls which imposes a significant burden on the organisation ▪ the structure and governance framework introduces some distance between HAL and levy paying growers.
3.	The Independent review of HAL's strategic, annual operational, risk management, fraud control and intellectual property plans and its effectiveness in meeting the priorities, targets and budgets set out in those plans shows that in general: <ul style="list-style-type: none"> ▪ HALs strategy setting and planning processes have evolved reflecting the need to sharpen and improve planning to get the most from R&D and marketing investments ▪ the current strategic plan streamlines previous priorities.
4.	The industry strategies that were reviewed reflect a fragmented industry-by-industry approach. The priorities of each of the various industries reviewed follow the general lead of the HAL corporate priorities and add their own variations. The many industry priorities are typically stated at a high level of generality. Very few industry strategic priorities address the Across Industry Priorities.
5.	The Independent review notes that there is no template for the many industries preparing Strategic Plans and that the standard of plans varies considerably between industries. There is a lack of a consistent framework to enable assessment of priorities in advance as well as assessment of what has been achieved in the past from previous programs and projects.
6.	The Independent review has identified that there is no strategic plan for the Across Industry Program. While the Across Industry Program does produce annual investment plans, it is not clear that the Across Industry Program provides sufficient scope and scale to address industry-wide issues substantively.
7.	The Independent Review notes with considerable concern that corporate priorities and Industry priorities are not guided by a whole of industry framework or assessment of the business case of the sort provided by the previous <i>Future Focus</i> program jointly developed by HAL, supply chain partners and the Commonwealth Government.
8.	The Independent Review considers that industry Annual Investment Plans have improved over the review period and generally link investments to identified priorities. The Review notes that the focus of industry AIPs is on each industry demonstrating its expenditure of available funding rather than proof that the best investment has been made or that the expected benefits will exceed the costs.

Number	Finding
9.	The Industry Annual Reports use a case study style of reporting which generally does not involve measures of performance and impacts. The material made available to the Independent review suggests that industries and HAL at large meet the annual budgets. The effectiveness of implementation in meeting annual industry plans, including providing benefits to industry is not readily apparent with the data that HAL collects and reports annually.
10.	The Independent Review views that risk management and fraud control has improved over the review period, however some key risks have increased their risk level and the risk management processes have not kept pace. The risks arising from the potential for conflicts of interest given the role that industry IACs and PIBs play in recommending investments and providing services and acting as Members/owners are rated as having increased to 'Severe' by the HAL Board. Measures have been taken to mitigate some of these risks, but many other of the risks identified in the 2011 Fraud Control Plan have not been fully addressed.
11.	<p>The review of costs and efficiency in HAL leads to the following general findings:</p> <ul style="list-style-type: none"> ▪ HAL's industry-by-industry partnership model results in a large number of small programs and projects which are likely to constrain the overall effectiveness of investments ▪ it is not clear that the increasing role being played by PIBs as service providers displacing traditional R&D service providers such as specialist research organisations is increasing or decreasing efficiency ▪ increases in overheads are being driven by resources being dedicated to planning and reporting in response to demands for transparency, rigor and accountability in the current HAL business model ▪ the effort required for consultation and planning varies across industries, which along with levy collection costs reduces the funds available for investment
12.	<p>There is very limited information available about the industry-wide impact of HAL. The information that is available indicates that:</p> <ul style="list-style-type: none"> ▪ most performance information is available about industry by industry programs and projects and the information is mostly qualitative in nature. This generally illustrates substantive and successful investment activities ▪ the results from the ex-ante and ex-post benefit cost analysis (BCAs) that have been performed indicate the expectation or achievement of reasonable to high returns for industry on R&D investments. ▪ there is however a shortfall in the percentage of R&D investment which is currently assessed via the ex-post BCAs. Increasing the sample of projects covered by BCAs would provide HAL and industry with: <ul style="list-style-type: none"> ◆ more certainty in terms of the evaluations (in terms of project clusters evaluated) ◆ greater confidence in the BCA estimates. ▪ there is also currently a gap in terms of how the high return investments are translated into R&D adoption and extension. A clearer governance structure with clearer responsibilities and accountability defined for HAL and the PIBs would assist with addressing this gap. <p>Meeting these gaps in performance would ensure that HAL and the IACs have better information about returns on investment which would improve the ability of decision makers to make decisions that improve or raise the benefits to industry.</p>
13.	<p>The existing levy arrangements for horticulture are complex. This is due to the use of a vast number of different levies which is evident from:</p> <ul style="list-style-type: none"> ▪ levies being applied to 9 different units (i.e. cents/kg, \$/tonne, cents/box, cents/std tray, ad valorem, cents/carton, 1,000 runners and cents per metre-square) ▪ in excess of 40 different active rates being applied.
14.	The complexity inherent in having a large number of different levies is, in part, a function of the number of PIBs/Members of HAL making decisions about the levies. The number of HAL Members has grown over the years and this has increased the diversity and complexity in levies.
15.	Complexity in the levy arrangements is also partly attributable to the administrative process by which levies are conceived, implemented and collected. The process to amend levy rates is administratively burdensome, increasing the costs for industry to make changes and increasing the resources required by Government to administer levies.
16.	The levy collection costs for HAL-related levies are high relative to other agricultural commodity levies. These relatively high costs are a function of the Department of Agriculture having to administer so many different types of levies for horticulture.
17.	The recent shift to an activity-based full cost recovery cost allocation by Department of Agriculture has revealed that the levy collection costs by specific horticultural commodities vary significantly. In particular, the new costing method has highlighted the inefficiency of some horticulture sectors' levies, with a high percentage of levy proceeds being absorbed by collection costs.

Source: ACIL Allen Consulting, 2013, Performance review (Phase 1 report)

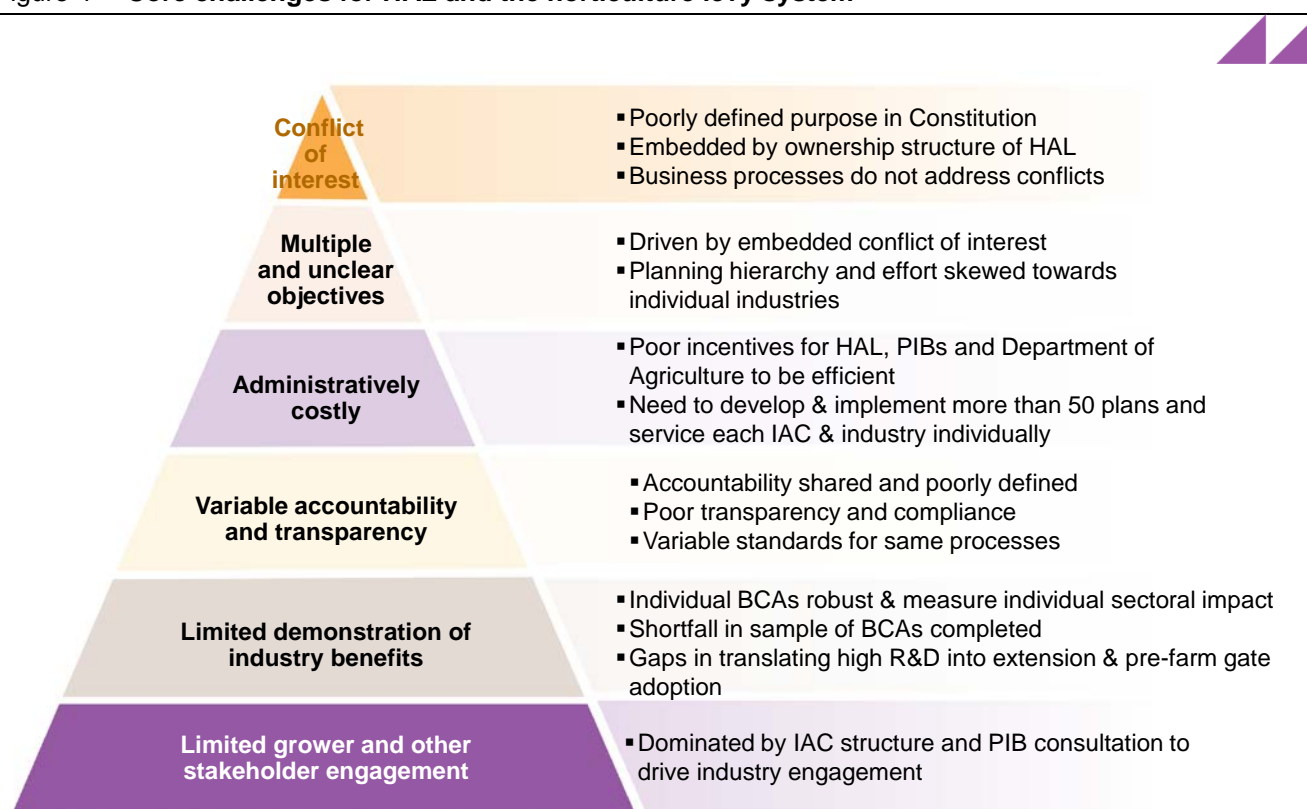
2 The case for change

The chapter outlines the case which has been made from the analysis and consultations completed from phase 1 (Attachment B) and phase 2 (Attachment C) of the review for reforming the structural and operational aspects of the existing HAL.

2.1 Existing challenges for HAL

The current structure of HAL and the horticultural levy system create a series of well-known challenges that constrain the company's performance and relationships with Government, industry and service providers (Figure 4).

Figure 4 Core challenges for HAL and the horticulture levy system



Source: ACIL Allen Consulting, 2014.

These challenges persist despite numerous structural and procedural improvements implemented by HAL since the company was established in 2001. Unless addressed, HAL faces a future of repeatedly having to introduce new and costly responses to issues arising from each challenge. This will continue to erode confidence in the company and critically the rationale for the existence of HAL and the horticultural levy system.

An overview of how each challenge builds the case for change is outlined in the following sections followed by a detailed diagnosis of HAL and the horticulture levy system in chapter 3 and chapter 4 respectively.

2.1.1 Conflict of interest in HAL ownership and operations

A key challenge for HAL is that conflict of interest is constitutionally and operationally embedded in the company.

Under the Constitution, HAL is owned by a group of Members consisting of industry representative bodies (commonly known as PIBs), representing the growers who pay the levies that fund the company. The Members also play an active role in the planning, selection and delivery of investments made with these levy funds and matching Commonwealth R&D contributions. This means that while the company must invest and be accountable to Members (as levy paying grower representatives) and Government, Members also simultaneously direct/receive funds from HAL (these are otherwise known as related-party transactions).

Over the review period, HAL has introduced procedures such as de-conflicting larger IACs, independent officers and procurement guidelines to address the existing conflict of interest issues in response to complaints from stakeholders in a number of industries. Nonetheless the conflict of interest is still present in un-conflicted IACs and the PIBs' role in appointing IAC Members. It is also challenged by some industries' inability to source sufficient capacity to separately service the IACs and their own PIB representative positions.

At the same time, PIBs are increasingly receiving funds from HAL to provide services. PIB provided services have increased from 24 per cent to 34 per cent of HAL project expenditure since 2008-09. The increase in related party transactions will lead to on-going external scrutiny to address the risk of any potential/actual conflict of interest.

A key conflict of interest driver is that while HAL is responsible for investing in R&D and marketing, prescribed industry bodies and the Australian Government are responsible for the levies that provide the necessary funds. This creates a situation where HAL's governance structure mirrors the levy system. As a result HAL's Constitution and core business functions institutionalise an industry by industry approach and limit its ability to plan and invest in whole of horticulture priorities. These arrangements create a general expectation that industry levies and all the associated matching Australian Government R&D funds can only be spent on the industry that provides the levy.

Furthermore responsibility for improving efficiency of the levy system lies with the prescribed industry bodies and Australian Government rather than HAL. There is no regular mechanism to review levies individually or as a whole. The associated processes are perceived to be cumbersome, burdensome and risky. This means opportunities to rationalise levies, reduce collection costs and confirm who the appropriate prescribed industry body should be are not realised. The up-coming sunset provision for all horticulture levies provides such an opportunity. An agreed process for reviewing all the levies together at that time is yet to be established. Balancing multiple competing objectives

The conflict of interest is further embedded in HAL's objectives and operational model. HAL's objectives include providing industry research, development and marketing leadership and generating bottom-up research, development and marketing programs to create value for industry while serving the best interests of Members. These objects create competing priorities between:

- the company and its Members
- how HAL should prioritise and allocate resources at the individual industry level compared to cross-sectoral/whole of horticulture levels.

Competing priorities are common in organisations needing to address multiple issues at different scales in consultation with a range of stakeholders. The challenge HAL faces is that

its planning framework is dominated by individual industry plans whereby 32 IACs receive, prioritise and allocate more than 85 per cent of available funds. The limited residual balance is managed by the industry representative based Across Industry Committee and Board managed Transformational Fund. Additional funds must be negotiated from each individual IAC. Practically, this is challenging given IACs generally have insufficient resources to address all of their priorities and many have small budgets.

The net result is that HAL's planning hierarchy is skewed toward individual industry priorities. This limits HAL's ability to effectively and efficiently plan for cross-sectoral and whole of horticulture priorities. It also limits the ability of HAL to achieve economies of scale and scope across the R&D and marketing investment portfolios.

2.1.2 Increasing administrative effort and expense

Growth in HAL's membership and concerns around conflict of interest has led to an increase in administrative effort by HAL and its Members. HAL's membership has grown to 43 Members (up from 28 Members since 2001). In response HAL has expanded existing and established new IACs to guide investments, increased PIB consultation funding and expanded its own industry liaison function to engage with PIBs and levy paying growers (via the PIBs). Similarly, improving IAC procurement and project management, procedures and audit functions, and introducing independent officers has increased the administrative burden on HAL, PIBs and other service providers.

Overheads for HAL administration, levy collection, and PIB consultation now account for around 28 per cent of industry levy funds, or approximately 17 per cent of total funds. These costs vary considerably across Members, with some industries facing overheads of more than 30 per cent of total funds.

There are differing drivers for HAL, PIBs and the Department of Agriculture to pursue overhead efficiencies. HAL's corporate cost recovery overheads are a percentage, meaning it can offset efficiency against seeking additional revenues. Industry consultation is a source of direct PIB funding underpinning a large proportion of the industry liaison they undertake for HAL, albeit at the expense of funds for research, development and marketing. The department administers the agreed levy mechanism rather than seeking the most efficient mechanism. Overall each dollar of overheads needs to be "earnt back" by the research, development and marketing programs before the investments create a net gain for industry. While overheads are essential, the incentives for HAL, PIBs and the department should support increasing efficiency rather than increasing overheads to maximise investments.

2.1.3 Variable accountability and transparency

The industry focused nature of HAL's processes has led to a wide range of different planning, procurement, project management and compliance approaches within HAL, PIBs and other providers. While this in-built flexibility provides HAL with the ability to tailor its functions to each industry, they limit the ability to effectively manage risk and appropriately integrate investments and activities.

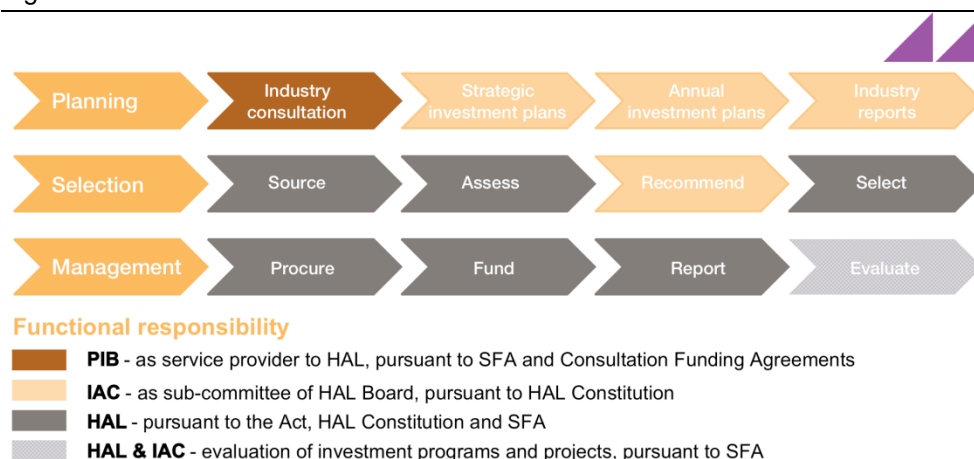
This is illustrated by the way core business functions responsibilities are shared between HAL, PIBs and IACs. Procedurally (see Figure 5) the IACs leads the planning function, with support from PIBs, before recommending the project and providers selected by HAL. Delivery of the contracted services is managed by HAL which are then jointly evaluated.

In practice, many IACs play a greater role in selecting projects by assisting HAL to source, assess and select providers, which create a conflict of interest for IAC Members if they are a potential service provider. IACs also need to monitor the progress of investments to inform

their own planning and individual IAC Members often sit on Steering Committees to guide projects. Within HAL, Industry Services leads planning, while R&D and Marketing lead the selection and management functions. In practice, the responsibility for these functions is often shared between the Divisions based on individual skills and available resources.

Collectively these arrangements make accountability challenging given responsibilities are not clearly defined or delegated, thereby limiting transparency. The distributed responsibilities also hinder the ability of IACs, HAL management and the HAL Board to exercise oversight to avoid duplication and achieve economies and scale and/or scope through integration of priorities or resources.

Figure 5 Core HAL business functions



Source: Horticulture Australia Limited, 2013

HAL has sought to address these issues by strengthening its planning and project management policies over the review period and intends to implement a revised procurement policy in the future. Nonetheless HAL cannot easily and repeatedly demonstrate that the company and its Members are compliant with core business function policies and procedures. Rather it relies on specific investigations such as the PIB mini-audits to demonstrate compliance. During the Review consultation, Members of the HAL Board, management, staff, IACs, PIBs and other external stakeholders noted that variable and inconsistent practices persist.

Overall accountability and transparency challenges are still present within HAL. As a result, it is not known at any point in time as to where the key risks in the company lie and whether they are appropriately managed. Given the increasing scrutiny of HAL and its Members, there will be increased demand for greater transparency and compliance. This will place pressure on overheads unless policies and procedures are standardized and complied with.

2.1.4 Limited measurement of industry-wide impacts

Ultimately the purpose of HAL is to generate research, development and marketing programs which promote farm business innovation, enhance industry competitiveness and promote the environmental sustainability of horticultural production. HAL seeks to demonstrate what value it has created through its plans, evaluation system and reporting.

Under current arrangements, HAL relies on the industry plans to articulate which priorities have been set and what the associated performance indicators are. There has been a marked improvement in the quality of industry plans during the review period. Nonetheless

many performance indicators are output focused and lack measurable and attributable industry impact measures. The overall HAL strategic plan is focused on defining its operations rather than the value created through HAL's investments. The inclusion of targets against key industry measures, such as productivity, in the last strategic plan is a positive development. However, the HAL strategic plan does not articulate how its investments align with and contribute to these targets.

HAL's evaluation system involves in-house ex-ante assessments and external ex-post benefit cost analyses and program evaluations of investments. The ex-ante assessments are not centrally collected or reported, remaining within each IAC. HAL aims to conduct a random sample of 5 per cent of its investment portfolio using ex-post benefit cost analysis each year. Despite the BCAs which have been completed being robust evaluations of the returns from the investments examined, HAL has fallen short of this target. This significantly limits the ability of the evaluation system to demonstrate the value of HAL's investments with confidence and certainty across the entire horticultural investment portfolio.

In addition, there is currently a gap in translating high return HAL investments into farm gate adoption and R&D extension. This performance gap limits the ability of investments to produce tangible benefits for growers and the horticulture industry.

Demonstrating the value of HAL's investment portfolio, rather than individual projects, to external stakeholders is reliant on the company and IAC annual reports. The IAC annual reports rely on documenting projects against the IAC's priorities and project case studies to demonstrate value. Some, but not all IAC annual reports, include key performance indicators. At a company level the annual report demonstrates value by documenting the proportion invested by industry and national priorities, illustrative case studies, and operational performance indicators. The IAC and HAL Annual Reports are more than 1,000 pages in length.

Overall the combination of plans, annual reports and targeted evaluations do not fully or properly allow HAL to demonstrate the value of its investments across the entire horticulture sector, despite the considerable effort involved. This stems from HAL lacking a mechanism to align the priorities and associated measures arising from the numerous plans into a coherent performance framework which is measured, reported and integrated into its business functions.

2.1.5 Effective grower and other stakeholder engagement

HAL is not required to directly engage with levy paying growers. Rather under the Constitution and business model, HAL relies on its Members, the PIBs, to effectively engage with levy paying growers on governance and operational matters.

The rationale for this arrangement stems from horticulture consisting of a large number of diverse businesses and industries who can be difficult to engage individually. The details of each levy paying grower are not known to either HAL or the PIBs, because the levy system only records collection points rather than the businesses that pay the levy. In addition the PIBs are responsible for establishing the levy in consultation with industry and Government. Therefore it was decided that PIBs should represent industry and levy paying growers when HAL was established. The now redundant Horticulture Advisory Committee (HAC) was also created as the peak structure for all PIBs at that time. These arrangements are reflected in the HAL model where Members (PIBs) own the company and consultation/ planning/resources are organised on industry/PIB lines.

Since HAL was established in 2001 the horticulture sector has evolved and led to the questioning of the whether the current arrangements are effective in engaging and

representing growers. The growth in larger and vertically-horizontally integrated growers has created the demand for direct engagement and proportional representation, by volume or value, with HAL. Industries without levies are not represented, limiting the ability of HAL to invest for the whole of horticulture and these industries to access the matching R&D contributions. Some smaller industries would prefer direct representation/engagement rather than the current PIB/IAC structure. At the same time PIBs are required to represent all levy paying growers, not all of whom are Members of the PIBs. There are also grower questions as to the role of HAL, PIBs, the public sector and private providers in delivering research, development and extension services to industry. In addition the industry skewed planning framework limits HAL's ability to effectively engage with Government, growers, providers and others. For example a provider serving more than one industry must engage with each IAC on planning and procurement.

It is apparent that horticulture has evolved to a state where the PIB ownership and consultation mechanisms can no longer effectively engage and represent levy paying growers and industry. This requires HAL's Constitution and model to be reviewed in order for the company to more effectively engage with levy paying growers, industry representative bodies and other stakeholders into the future.

2.2 Stakeholder support for the case for change

There was a high level of support for sustaining and improving HAL and the horticulture levy system from stakeholders consulted during the review. Support was contingent on whether the changes would lead to improvements in the efficiency and effectiveness of HAL. They did not support change for change sake. The level of support also varied within and between groups of stakeholders.

Table 3 shows that stakeholders from Government, research community and growers, on average, expressed the highest levels of support for change. By comparison feedback from PIBs, especially those who are HAL Members, demonstrated little appetite for change, other than reduced administrative burden, without significant demonstration of the benefits of change.

Table 3 Support for change (by stakeholder group)

Stakeholder	Level of support	Comment / observation
Commonwealth, State and Territory Government	Supportive – highly supportive	Almost all Government stakeholders were strongly of the view that there was a need for change
PIBs (HAL Members)	Not supportive - supportive	Generally, these PIBs showed a high level of caution about changing the current HAL model
PIBs (non-HAL Members)	Not supportive – highly supportive	The large majority of these PIBs expressed high levels of support for change, but this was not universal
Research institutions and researchers	Supportive - highly supportive	The large majority of researchers expressed high levels of support for change; group included some of the strongest proponents for change
Growers and producers	Supportive – not supportive	These stakeholders expressed a diversity of views which were highly contingent on the type of change being proposed (see below)

Source: Summary of feedback gained through targeted consultations and stakeholder forums

2.3 Findings – the case for change

The existing HAL model is one of representative industry ownership which plans, procures and manages research, development and marketing to address the priorities of each Member's industry.

The case for change for HAL is strong.

1. Conflict of interest is constitutionally and operationally embedded in the company. Under the Constitution, HAL is owned by a group of Members consisting of PIBs. These Members also play an active role in planning, selecting and delivering investments made with levy funds and Commonwealth matched R&D contributions. The increasing receipt of funds by PIBs to provide services to HAL over time is increasing these embedded conflict of interest issue risks within HAL.
2. Increasing the transparency of HAL's operations and procurement alone will not sufficiently address the increased risks associated with the increase in related-party transactions. In response to increasing concerns about embedded conflict of interest within HAL, there has been an increase in compliance checks and balances (compliance churn) implemented by HAL. This compliance churn has sought to directly deal with conflict of interest issues but it has come at a cost: burdensome compliance controls with real compliance risks still remaining.
3. The existing PIB ownership of HAL and consultation mechanisms (via the IACs) prevents HAL from effectively engaging with and representing levy paying growers. As a result of how it was set up, HAL is not required to directly engage with levy paying growers. The evolution of the horticulture sector has meant that HAL's effective grower and other stakeholder engagement is limited. This is because there has been:
 - growth in the larger and vertically-horizontally integrated growers which is, in turn, creating demand for direct engagement and proportional representation with HAL
 - industries without levies are not represented by HAL which is, in turn, limiting HAL's ability to invest for the whole of horticulture with these industries not being able to access matching R&D contributions
 - the industry skewed planning framework is further limiting HAL's ability to engage with Government and service providers on across-industry issues.
4. The current structure of HAL is resulting in an imbalance between HAL's multiple and competing objectives (priorities). This imbalance is exacerbated by its skewed industry planning policies and process framework and the competing priorities between:
 - the company and its Members
 - the individual industry level and at the cross-sectoral/whole of horticulture level.
 Operationally, the industry skewed planning framework limits transparency, accountability, industry engagement and how HAL's investment creates demonstrable value.
5. There is a real risk that the Australian Government will not enter into a new Statutory Funding Agreement (SFA) with HAL without fundamental reform of the governance model of HAL which separates the PIBs from the ownership function. The embedded conflict of interest issue is a result of the simultaneous different roles of PIBs in HAL as Members, allocators of funds and service providers. This is because there is evidence that the 'usual' compliance checks and controls are inadequate as a result of the status given to HAL's PIB Members in HAL's Constitution whereby its Members decide appointment to the IACs that advise the HAL Board on the allocation of industry levy

funds and matched R&D Commonwealth contributions. This is exacerbated by the recent trend whereby the PIBs are also increasingly service providers to HAL.

The root of these fundamental flaws with the existing HAL is the embedded conflict of interest which has built in unclear lines of accountability into HAL's governance model which. These unclear lines accountability have, in turn, contributed to the fragmented planning and procurement processes, increased burdensome compliance controls and limited HAL's engagement with grass-root growers and levy-payers. These outcomes are limiting HAL's performance and its ability to:

- address risks faced both within the organisation and across the horticulture industry
- increase its performance by maximising opportunities for the tangible benefit of the horticulture industry.

Without fundamental reform of the governance model of HAL, these accountability challenges will persist regardless of the type and significance of the changes made to its model and operations. Without significant reform, HAL cannot perform at a level needed for it to fulfil its important role as the industry services body for horticultural research, development and marketing for the future growth of the horticulture industry.

Table 4 overleaf summaries how each challenge aligns with the issues expectations the Minister for Agriculture Fisheries and Forestry defined for the review and ACIL Allen's diagnosis and recommendations. These are outlined in the remainder of this report.

The recommendations outlined in chapter 1 are designed to:

- address the existing challenges facing HAL
- meet the expectations of the Australian Government which is a significant funder of HAL
- provide the future industry services body for horticulture with the ability to meet future risks facing the sector and maximise its performance for the benefit of the horticulture sector.

Table 4 Overview of core challenges for HAL and the horticulture levy system identified by ACIL Allen and the Minister

Challenge	Issues identified by Minister	ACIL Allen diagnosis	Ministerial expectation	Related ACIL Allen recommendation
Conflict of interest	<ul style="list-style-type: none"> PIB constitutional status – PIBs appointment of IACs that advise allocations (page 2, para 4) Reform of IAC and procurement not sufficient (page 1 para 6 to page 2 para 4) Influence of PIBs/IRBs on decision making by HAL's Board, management and IACs (page 2, para 11) 	<ul style="list-style-type: none"> Constitution poorly defines purpose PIBs own/directly benefit from HAL Structure of core business processes allows influences/creates conflict Will improve role clarity and risk management if addressed Will lead to increasing controls that address the symptoms not causes of risk if not addressed 	<ul style="list-style-type: none"> No material conflict of interest in HAL Constitution and operational model (page 3, expectation 1) 	<ul style="list-style-type: none"> R1: Establish grower-owned RDC (New HAL) R2: Remove Industry Advisory Committees (IACs) R6: New HAL only services marketing on request R7: Improve direct grower communication R8: Greater levy transparency and efficiency
Unclear objectives	<ul style="list-style-type: none"> Operating environment has changed – industry priorities and change in service providers (page 1, para 5) 	<ul style="list-style-type: none"> Driven by embedded conflict of interest Planning hierarchy skewed toward individual industries Will improve clarity of purpose and quality of investments if addressed Will perpetuate on-going misalignment between priorities and fragmentation into poorly linked investments if not addressed 	<ul style="list-style-type: none"> Capacity to address national all of industry issues in a timely manner (page 3, expectation 4) 	<ul style="list-style-type: none"> R1: Establish grower-owned RDC (New HAL) R2: Remove Industry Advisory Committees (IACs) R3: Rationalise and strengthen planning R4: Streamline industry liaison and RD&E principles R6: New HAL only services marketing on request R7: Improve direct grower communication
Administrative costs	<ul style="list-style-type: none"> The capacity of the HAL model to deliver services in an effective, efficient and transparent manner to provide value for money to levy paying growers and corporate Members (page 3, para 1) Efficiency of the levy system 	<ul style="list-style-type: none"> Poor incentives for HAL, PIBs and the Levy Revenue Service to be efficient HAL needs to service many plans and industries individually Will increase resources available to invest in R&D and marketing if addressed R&D and marketing investments will need higher returns to recoup administrative costs if not addressed 	<ul style="list-style-type: none"> More efficient horticultural levy mechanism and structure that reduces collection and administration costs and provides greater equity across all of horticulture (page 3, expectation 3) 	<ul style="list-style-type: none"> R2: Remove Industry Advisory Committees (IACs) R3: Rationalise and strengthen planning R4: Streamline industry liaison and RD&E principles R5: Improve project management and reporting R6: New HAL only services marketing on request R7: Improve direct grower communication R8: Greater levy transparency and efficiency R9: Improve internal accountabilities and processes

Challenge	Issues identified by Minister	ACIL Allen diagnosis	Ministerial expectation	Related ACIL Allen recommendation
Accountability and transparency: effectiveness, variability and compliance	<ul style="list-style-type: none"> Unclear lines of accountability in governance model compromises HAL's ability to prepare industry for risks and opportunities (page 2, para 4) Operations of IACs, including independence from PIBs/IRBs and the extent of effectiveness of HAL's Board Regulation of PIBs, the nature of their direct and indirect funding and PIB accountability to own Members and PIBs (page 2, para 9) 	<ul style="list-style-type: none"> Accountabilities of HAL, IACs and PIBs shared and poorly defined Poor transparency and compliance for core business functions and projects Variable standards for the same processes across HAL divisions and IACs Will improve transparency and accountability if addressed Will lead to increasing demand for controls that are ineffective if not addressed 		<p>R1: Establish grower-owned RDC (New HAL) R3: Rationalise and strengthen planning R4: Streamline industry liaison and RD&E principles R5: Improve project management and reporting R6: New HAL only services marketing on request R7: Improve direct grower communication R8: Greater levy transparency and efficiency R9: Improve internal accountabilities and processes</p>
Demonstrating value	<ul style="list-style-type: none"> Structurally cannot meaningfully report investment performance which impedes required government transparency and fetters HAL Board's ability to respond (page 2 para 5) 	<ul style="list-style-type: none"> Poor incentives to demonstrate the value of investment for HAL and PIBs Achievements of HAL will be known and shared to demonstrate performance and inform future decisions if addressed Will perpetuate political influence rather than objective measurement to development plans and allocate resources if not addressed 		<p>R3: Rationalise and strengthen planning R5: Improve project management and reporting R6: New HAL only services marketing on request R7: Improve direct grower communication</p>
Effective engagement	<ul style="list-style-type: none"> Direct levy paying growers rather than PIB ownership (page 2, para 8) 	<ul style="list-style-type: none"> Dominated by IAC structure and PIB consultation to drive engagement Stakeholders are looking for alternative and effective engagement mechanisms Will improve stakeholder support for HAL if addressed Stakeholder dissatisfaction will continue if not addressed 	<ul style="list-style-type: none"> More efficient consultation model as it applies to the application of R&D and marketing (page 3, expectation 2) An appropriate mechanism by which levy paying growers, particularly large industry contributors may directly participate in the horticultural R&D model (page 3, expectation 5) 	<p>R1: Establish grower-owned RDC (New HAL) R2: Remove Industry Advisory Committees (IACs) R3: Rationalise and strengthen planning R4: Streamline industry liaison and RD&E principles R7: Improve direct grower communication R8: Greater levy transparency and efficiency</p>

Source: Letter to HAL from the Minister for Agriculture, Fisheries and Forestry to the Chairman of Horticulture Australia, 2013 (see Appendix B) and ACIL Allen Consulting, 2014.

3 Aspects of the case for change

This chapter outlines in detail the evidence gathered from the earlier phases of the review that have led to the recommendations for change. The elements of the work include:

- a detailed analysis of documentation and records held by Horticulture Australia Limited (HAL)
- interviews with HAL Board Members and key staff of HAL (phase 1)
- widespread consultations, a call for submissions and a survey targeted at growers (phase 2).

3.1 Structural weaknesses

3.1.1 Multiplicity of objectives

Phase 1 identified that the multiple objectives of HAL were a barrier to improved performance. It noted how much more complex HAL's service delivery and levy arrangements are relative to other rural RDCs. The observation made at this stage was that the multiple objectives possibly reflected the nature of horticulture, with a multiplicity of different stakeholders, each having diverse products and business models.

Further consultations during phase 2 found that opinions were divided over whether the complexity of the industry was a key driver. There was a strong consensus that HAL had difficulty managing multiple objectives. There were differences as to the reasons why. Some stakeholders were of the view that this was due to complexity and diversity in horticulture. This was not a universal view. Some of the PIBs within horticulture (for example AUSVEG) indicated that they themselves have numerous different product categories and highly diverse Member size and interests yet are able to operate without conflicting objectives and present a united front. Other stakeholders with experience in different agricultural industries suggested that the diversity of horticulture was not materially different to diversity in other mixed farming businesses.

The reason why HAL has difficulty managing competing objectives arises not from complexity as such, but from its structure. The Independent review found that HAL Members had very different views on which objectives should take precedence. The Member structure at present where PIBs own HAL means it is inherently difficult for the staff and management of HAL to resolve such differences.

A consequence is that multiple decision-makers need to be involved in setting directions, and it is also in part one of the reasons for a large number of relatively small projects.

We also noted that our interviews established that there is no consensus among important stakeholders – including HAL Board directors, Members and key staff – about desirable outcomes. While general high level objectives would receive support (HAL should spend money wisely and deliver good R&D and marketing) interpretations of what this involved in practice varied considerably. This was also not reflected in the formal objects of HAL as set out in its constitution, particularly in relation to leadership of marketing and R&D.

3.1.2 Leadership

The first object of HAL, 4(a) in its constitution, is “to provide the Industry leadership on the provision of Marketing and Research and Development services to the Industry”. One of the very common comments in both consultations and surveys was that HAL was not meeting this objective. Some stakeholders took the view that it was not HAL’s role to do so, others considered that it should be taking a lead on R&D and marketing and setting strategic directions but had failed to do so.

We note that the membership structure of HAL as it is presently constituted makes this objective unachievable unless the Members have a united view. This does not mean unanimity, but it was clear from the consultations that a simple majority of Members would not be sufficient to set a direction if some of the large and influential industry representative bodies took a different view. Given differences between the interests of Members, which became clearly apparent during consultations, a united view on R&D and marketing priorities is rarely found.

3.1.3 Tiers of decision making

A particular feature of HAL is the formal use of a two tier planning structure involving the HAL Board and IACs. IACs are established under the HAL Constitution in a way that guarantees fragmentation. Among other things the HAL Board has to establish and maintain “such IACs as best represent the diverse Industry Sectors” (22.2.a) and in doing so “consider and pay full credit¹¹ to the recommendations of their relevant Industry Representative Bodies in respect of:

- structure
- Industry Sector grouping
- strategic investment plans, annual investment plans for the Industry Sector for which the IAC is responsible” (refer to HAL Constitution 22.2 for full text).

The IAC for an industry has its own reporting line set out in the Constitution, back to levy paying growers via the annual general meeting for the relevant industry representative body and the Annual Levy Payers Meeting for that Industry Sector (22.3). It is implicit in this wording that there is an assumption that there is one IAC for each industry representative body.

We were told by various stakeholders consulted early in the Independent review that IACs are intended to be committees of the Board, and report to the Board. This is not how the structure works in practice. Some Board Members themselves indicated that they did not see the IAC operating as a Board sub-committee. Their membership does not consist of Board Members and it is difficult for the Board to have much influence over their workings. Even apart from concerns over conflict of interest, discussed elsewhere in this report, consultations in phase 2 revealed widespread concerns over the complexity, lack of transparency and high regulatory burden involved with the IAC structure.

¹¹ “Pay full credit” is an ambiguous term which could be interpreted in a variety of ways

3.1.4 Governance obligations under the Deed

Under the Deed of Agreement with the Commonwealth, HAL:

Should adopt good corporate governance and practice in managing and investing the Funds drawing on the *ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, Second Edition, August 2007* as appropriate. (s.4.1)

HAL complies with many of the aspects of the ASX principles of corporate governance but has weaknesses in relation to some. The phase 1 report to HAL summarised these in the table below:

Table 5 HAL's governance practices against the ASX principles

Principle	Comment	HAL
Lay solid foundations for management and oversight	The CGC recommends a company establish the functions reserved to the Board and those for management. The commentary suggests a formal statement or Board charter. Good practice is that these are published. Appointment letters, induction.	HAL does not publish a Board charter. There are different opinions among Board Members about what their role involves
Structure the Board to add value	Majority of Board should be independent. Chair should be independent. Companies should disclose their process for Board evaluation. Board should establish a nomination committee.	Board appointments process influenced by representational interests. Nominations not exclusively a Board recommendation. Chair is independent
Promote ethical and responsible decision making	Code of conduct and practices. Diversity policy. Disclosure on proportion of women in the organisation.	HAL values are published. Lack of diversity, significant under representation of women on the Board
Safeguard integrity in financial reporting	Audit committee, with clearly defined role and independence.	HAL has good financial audit processes. Internal audit process starting. Some evidence of audit results not being followed up
Make timely and balanced disclosure	Compliance with listing rules, continuous disclosure	Listing rules not applicable. Disclosure to Members seems effective
Respect the rights of shareholders	Communicate with shareholders, encourage attendance at meetings, use electronic communication effectively.	Smaller Members feel the larger industries dominate. Emails and other electronic means of communication are used
Recognise and manage risk	Policies for risk management and internal control.	HAL has good financial risk management. Less evidence of attention to stakeholder, environment and political risks
Remunerate fairly and responsibly	Board should have a remuneration committee. Distinguish executive from non-executive remuneration	HAL remunerates responsibly

Source: ASX 2007 and ACIL Allen Consulting analysis 2013

Box 2 Review of the Structure and Governance of other RDCs

There are 15 rural Research and Development Corporations (RDCs) covering a broad spectrum of the agricultural, fishing and forestry industries. They bring industry and researchers together to establish research and development strategic directions and to fund projects that provide industry with the innovation and productivity tools to compete in global markets.

Based on legislated or industry funding agreements, the Australian Government agrees to collect industry levies for the purpose of R&D and/or marketing. To expand Australia's rural R&D efforts, the Australian Government provides a contribution to equal industry levy expenditure on R&D up to 0.5 per cent of industry Gross Value of Production. The RDCs are accountable to both industry and government for their expenditure.

The RDCs are a mix of statutory bodies and industry-owned companies (IOCs) – there are six statutory RDCs and nine IOCs. All undertake R&D activities and the IOCs also undertake marketing activities.

Statutory RDCs

The Primary Industries and Energy Research and Development Act 1989 sets out arrangements for the establishment of statutory RDCs and the preferred structure for the administration of their R&D program funds. It also sets out the reporting and accountability obligations for statutory RDCs. The Australian Government is amending this Act.

Statutory RDCs are required to comply with the requirements of various financial controls acts that apply to statutory corporations.

Industry Owned Companies

The IOCs are declared by the Minister for Agriculture in the Australian Government as an industry service body under industry specific legislation. They are established under, and must comply with the provisions of, the Corporations Act 2001, which sets out the obligations of companies and their boards of directors.

The key accountability framework for IOCs is set out in SFAs signed with the Australian Government. These SFAs are required to allow funds appropriated by Parliament to be provided to the IOCs and to ensure that the funds are spent for the purposes for which they are appropriated, essentially for the delivery of marketing and research and development (R&D) services. Agri-political activities are not allowed under the SFAs.

There are significant differences in the way that industry is involved in ownership and the establishment of the board in the IOCs. A summary of key membership and Board selection arrangements that apply to a selection of IOCs is provided in the table below.

It is notable that many IOC RDCs have been established with direct ownership or representation of Australian producers and farmers who are levy payers. Such Members also generally have a direct say in appointments to their RDC's Board. HAL is unusual in not having its producers (growers) and levy payers involved directly as Members, relying on Industry Representative Bodies instead.

Membership in the IOCs is often widespread including relatively large numbers of producers across the country. Applicants typically apply and provide personal particulars including information about levies paid. Generally acceptance of new Members is subject to a decision by the IOC's Board. The IOCs also generally maintain a register of Members and a system to invite eligible new Members to join (without fees).

Most IOCs allocate voting rights of Members in proportion to levy funds.

Notably, most of the IOCs involve industry representative bodies in the governance arrangements as a separate section of membership. The industry representative Members often have rights to attend and participate in general meetings. In some cases they assist in guiding appointments to the board.

Table 6 Structure and governance of other RDCs

Legislation	Industry membership	Voting rights	Board selection
Australian Egg Corporation Limited			
	Egg Industry Service Provision Act 2002	Board acceptance of applications from Australian egg producers and levy payers. Associate Members are admitted at the board's discretion	One vote for each laying hen
Australian Pork Limited ^a			
Pig Industry Act 2001	Board acceptance of applications from Australian producers who pay pig slaughter levies	One vote per \$1 Pig Slaughter Levy amount recorded by APL Delegates have one vote per delegate	Up to 9 Directors. 5 Elected Directors elected by delegates. 4 Specialist Directors appointed by the Board and ratified by delegates
Dairy Australia Limited ^b			
Dairy Produce Act 1986	Group A -Board acceptance of applications from Australian dairy farmers who pay the Dairy Service Levy. Group B – Industry representatives supported by at least 100 Group A Members and accepted by the Board.	1 vote for each dollar paid as levy	Up to 9 Directors (including Managing Director). Appointments on a 3 year rotation with a maximum of three terms. Nomination by Group A Members Board selection by a selection committee process and by election by Group A Members.
Horticulture Australia Limited ^c			
Horticulture Marketing and Research and Development Services Act 2000	A Class Members – Industry Representative Body who contributes levy funds to the Company B Class Members – Industry representative bodies that contribute voluntary funds to the company C class Members - persons who pays an industry contribution.	If the value of Receipts made by an "A" Class Member or a "B" Class Member is in the range: (i) \$1,000 to \$200,000, the Member is allocated 2 votes (ii) \$200,001 to \$500,000, the Member is allocated 4 votes (iii) \$500,001 to \$1,000,000, the Member is allocated 6 votes (iv) \$1,000,001 to \$2,000,000, the Member is allocated 8 votes; and (v) in excess of \$2,000,000, the Member is allocated 10 votes If the value of Industry Contribution by an "C" Class Member is in the range: (i) \$1,000 to \$200,000, the Member is allocated 1 vote (ii) \$200,001 to \$500,000, the Member is allocated 2 votes (iii) \$500,001 to \$1,000,000, the Member is allocated 3 votes (iv) \$1,000,001 to \$2,000,000, the Member is allocated 4 votes; and (v) in excess of \$2,000,000, the Member is allocated 5 votes	Up to 7 Directors plus an independent Chairman. Directors selected through a Directors Selection Committee selecting for a balance of skills in consultation with the Members and Industry participants
Meat and Livestock Australia ^d			
Australian Meat and Livestock Industry Act 1997	Two Member categories: Producers and peak councils. Peak council Members made up of cattle producers, lot feeders, sheep producers and Goat producers Producer membership is free to levy-paying producers of grass or grain fed cattle, sheep, lambs and/or goats Directors approve applications for membership	One vote for each dollar of levy paid up to \$14,400 0.75 votes per dollar up to \$43,200 in levy and 0.50 votes per dollar of levy paid after \$43,201	Up to 11 Directors elected by the Members. 3 year term with 1/3 being elected each year. Candidates put forward for election by the Members are selected by Selection Committee made up of Board, industry and Member-elected representatives, including three Members of the current Board

^a Levy-paying Members are entitled to nominate a delegate to represent their interests to APL. Only Members are entitled to vote on the Constitution and the Pig Slaughter Levy.

^b Around 5000 farmers are registered as Members.

^c Industry Advisory Committees are established in consultation with A class Members.

^d Around 47,500 livestock producer Members

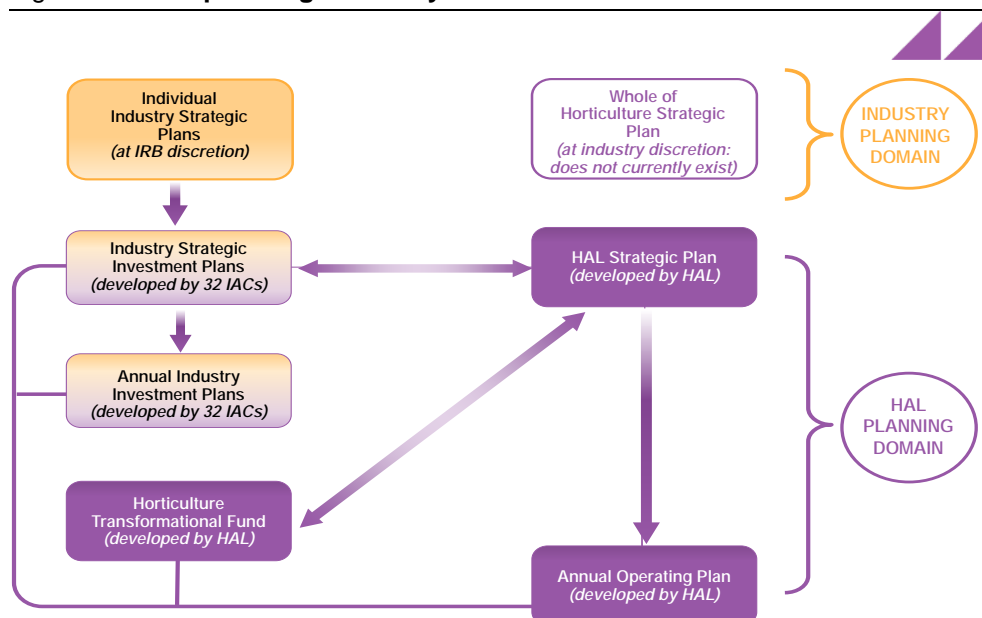
Source: Australian Egg Corporation, Australian Pork Limited, Dairy Australia Limited, Horticulture Australia Limited, Meat and Livestock Australia

3.2 Process weaknesses

3.2.1 Fragmented planning hierarchy/process

HAL's planning framework has an industry dominated representative structure, where 32 industry strategic and annual investment plans sit along-side the company's own strategic and annual operating plans (Figure 6).

Figure 6 HAL planning hierarchy



Note: purple and orange shaded boxes are the responsibility of HAL and Industry respectively. Planning in the orange-purple shaded boxes are led by Industry and Supported by HAL.

Source: Horticulture Australia Limited, 2013

The rationale behind the framework is that an industry representative structure aligns with HAL's constitutional objective of developing bottom-up R&D and marketing programs. The industry based framework also provides a transparent structure to align planning with HAL's industry based membership.

In practice the framework is cumbersome and contributes to fragmented strategy and investment.

We recognise HAL operates in the context of a highly fragmented industry by a plethora (43) of peak industry bodies while being bound by specific terms of reference. Regardless of the inherent challenges associated with collaborating with such a diverse audience, operations of HAL are firmly supported by industry....

AUSVEG submission

HAL's approach to these two core challenges (balancing planning for whole of horticulture and individual industries) has created a spiral of cumbersome systems and administrative overhead, in both HAL & Peak Industry bodies (PIBs), which also serve to work against the capture of synergies. It has also meant that R&D investment decision making is not being lead to clearer end goals and outcomes or to clearer returns on investment.

PMA Australia-New Zealand submission

There is an excess of planning. As things stand the structure of HAL, including the IAC Board sub-committees, must prepare more than 50 annual plans for industry R&D, industry marketing and the company itself each year and a further 33 associated strategic plans

every 3 to 5 years. This is driven by strong support for industry-based planning. Thirty-seven per cent of survey respondents stated that HAL should only plan on an individual industry basis and 81 per cent of respondents stated HAL should plan using a mixture of industry and cross industry approaches – see Appendix C in Attachment 2 for more detailed survey results from phase 2 of the Independent review.

The financial incentives within HAL reward a tactical annual rather than longer-term strategic focus. HAL is paid annually by the Australian Government against actual expenditure. Individual industries can increase their voluntary contributions to access matching eligible Commonwealth contributions if HAL's total R&D levy income is below the 0.5 per cent GVP cap which is calculated for the whole of horticulture rather than at an individual industry level. This creates significant pressure to commission new projects at the end of each financial year, irrespective of their merit.

In addition more than 85 per cent of the levy and matching Commonwealth funds are allocated to the 31 industry plans annually on the proportion of industry levies contributed. The Across Industry Committee (the thirty second IAC) and Transformational Fund receive 1 to 2 per cent of funds annually. The balance is allocated to industry consultation and HAL's corporate costs.

Many stakeholders noted there are cross industry projects within industry plans and funds should only be allocated to specific cross industry initiatives where there is a defined need, and clear objective. Understanding the relative benefit to each industry is seen as critical to establishing a fair cost-sharing basis for specific cross industry investments.

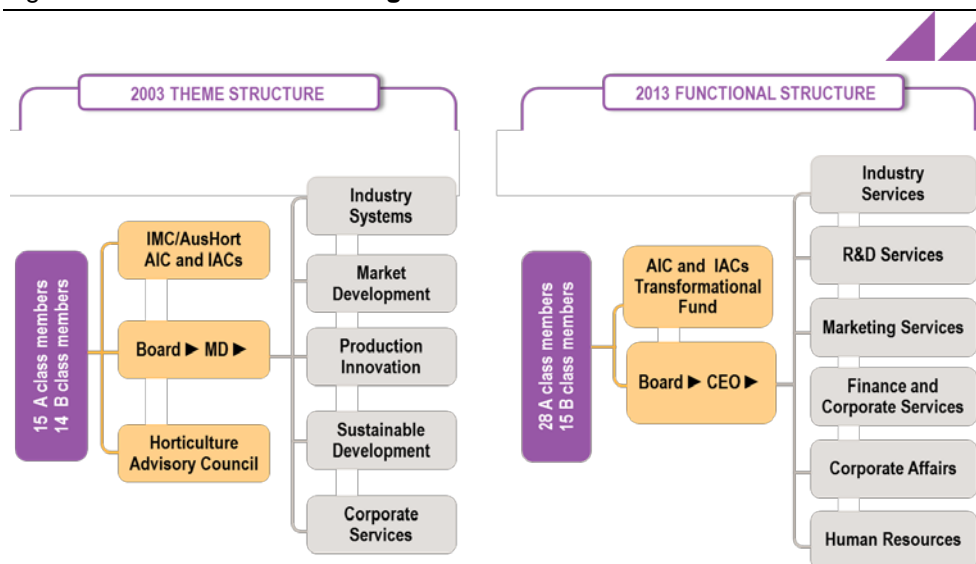
The net result is that integrating 32 industry R&D and 22 industry marketing plans with whole of horticulture priorities into a single coherent strategy for HAL is politically, technically and financially challenging. HAL must negotiate individual with each IAC and associated PIBs. Many industries do not have an industry (rather than R&D or marketing) strategy and there is no whole of horticulture industry strategy.

Furthermore funds for national priorities and cross industry initiatives to achieve economies of scale and scope must be negotiated from each IAC/industry plan given that they are allocated 85 per cent of available funds. This is further confounded by HAL, IACs and PIBs sharing responsibilities in developing the plans, selecting investments and managing their delivery.

HAL has changed its organisational structure over time to achieve greater alignment between whole of horticulture and individual industry planning and investment (Figure 7). Over the last decade HAL has operated the Across Industry Committee (AIC) and tried numerous strategy committees such as the Industry Management Committee, AusHort and currently the Transformational Fund to facilitate integration across industries and alignment with national priorities. All of these committees have struggled to articulate priorities, develop clear and owned plans, secure funds and achieve integration where appropriate due to lack of funds and/or PIB representative based membership. This is illustrated by the most recent iteration of the Industry Management Committee which resigned after being unable to self-identify a purpose or a plan.

In 2003 HAL moved from a theme to a functional structure to improve alignment between business processes/resources and the core business functions of planning, selection and management. Given the dominance of individual industry based planning this has further weakened HAL's ability to integrate industry plans and invest in whole of horticulture priorities.

Figure 7 Evolution of HAL organisational structure



Source: Horticulture Australia Limited

In 2006 HAL commenced developing a National Horticulture Industry Strategic Plan called *Future Focus*. Key roles to be played by *Future Focus* were to identify directions for the Horticulture industry at large and to improve the quality of the business case that underpins industry strategies. *Future Focus* lapsed in 2008 and has not been replaced.

In response, HAL has sought to strengthen industry planning by IACs. The Independent review analysed the Strategic Investment and Annual Investment Plans for 11 representative industries: Apple and Pears, Vegetables, Avocados, Citrus, Macadamias, Mushrooms, Nursery, Processing Tomatoes, Pyrethrum, Lychees and Across Industry.

We found that all seven available Strategic Investment Plans articulated strategic priorities and included industry consultation during their development. The strategic planning approach varied across industries and there was limited commonality in presentation although there are shared priorities, albeit worded differently. Very few plans mentioned HAL priorities or the Commonwealth Rural R&D priorities. Some mentioned them but did not identify how their strategies contributed to these priorities (Table 7).

Table 7 Summary of reporting in industry Strategic Industry Plans

	Year	Industry priorities	HAL Priorities	Govt Rural R&D Priority	Evidence of template used	Evidence of consultation
Apples and Pears	2010-15	Yes	No	No	No	Yes
Vegetables	2012-17	Yes	No	No	No	Yes
Avocados	2011-15	Yes	No	No	No	Yes
Citrus	2011-16	Yes	No	Yes	No	Yes
Macadamias	2009-14	Yes	No	Yes	No	Yes
Mushrooms	2011-16	Yes	No	Yes	No	Yes
Nursery	2012-16	Yes	Yes	Yes	No	Yes

Source: Industry Strategic Investment Plans.

Analysis of the associated Annual Investment Plans found a marked improvement over the past four years (Table 8). In 2009-10 the plans were of a low standard particularly in the Vegetable, Processing Tomatoes and Pyrethrum industries. All of the plans were generally of a poor standard in 2010-11 with the exception of the Avocado and Citrus industries. The standard of reporting was much higher in subsequent years; however the Processing Tomatoes and Pyrethrum industries had a lower standard than other industries. There has also been a marked increase in documenting investment against HAL and Commonwealth R&D priorities. It was noted that IACs do not formally consult with industries in framing their Annual Investment Plans. Industry consultation is largely dependent on the activities of the relevant PIBs and varies by industry.

Table 8 Summary of reporting in industry Annual Investment Plans (number of industries)

	2009-10	2010-11	2011-12	2012-13
Report Priorities	10	10	10	10
Strategies to achieve priorities	5	5	10	9
Projects to achieve strategies	10	2	10	10
Evidence of template used	10	8	10	10
Evidence of consultation	6	6	2	9
Spending by objective	0	0	10	10
Spending by HAL Priority	0	0	8	10
Spending by Commonwealth Government Rural R&D Priority	0	0	10	10

Source: Industry Annual Investment Plans.

More than two-thirds of survey respondents reported that the Strategic Investment Plans and Annual Investment Plans detailed the strategic direction and expenditure to achieve them positively. However many others were critical of their effectiveness.

The strategic plans are mish mash of ideas without any real purpose or direction. The annual plans are ok for detailing where money will be spent though misguided by weak strategic plans.

... strategic investment plans & R&D programs are output not outcome focussed – i.e., we spent the funds available & produced reports rather than achieved specified outcomes that benefit growers & the industry & deliver value for the levy & government funds expended

Survey respondents

At the same time HAL has increasingly focused its own planning on operational support sitting alongside industry plans. As one survey respondent noted:

"...it is only an overarching generic document. Information about detailed strategies are included in individual industry strategic plans".

The shift towards an operational focus rather than driving an integrated whole of horticulture R&D and marketing strategy is illustrated by the changes in HAL priorities. In HAL's first strategic plan, priorities were focused on industry issues with the aim of developing a culture driven by delivering value to levy paying growers. In second plan, the focus shifted, adding priorities which delivered efficient services to industry. The current plan includes only three industry side priorities and one corporate priority.

Table 9 Summary of Priorities by HAL Strategic Plan

2000-2005	2010-2015	2012-2015
<ul style="list-style-type: none"> ▪ Meeting needs of consumers and key customers. ▪ Break down trade barriers and develop new markets. ▪ Enhance efficiency, responsiveness and product integrity in the supply chain. ▪ Improve production efficiency and sustainability in response to market needs. ▪ Provide quality, value for services. 	<ul style="list-style-type: none"> ▪ Consistently meet the requirements of consumers and key customers. ▪ Break down trade barriers for horticultural produce in export markets. ▪ Ensure consumers appreciate the health-giving properties of consuming fruit and vegetables. ▪ Enhance efficiency, responsiveness and product integrity in the supply chain. ▪ Improve industry's access to water and efficient utilisation of this resource. ▪ Improve industry's access to skilled resources. 	<ul style="list-style-type: none"> ▪ Deliver new information and knowledge. ▪ Build consumer demand (domestically and internationally). ▪ Enhance industry skills and capability. ▪ Deliver operational excellence.

Source: Horticulture Australia Limited, Strategic Plans

In summary HAL's planning framework is skewed towards individual industry plans, which dominate the associated resources and processes at the expense of other planning. The critical question for HAL is not whether individual industry planning is important or what proportion of funds should be allocated to national and cross sectoral priorities? Rather it is whether relying on one dominant form of planning is the most cost-effective way of prioritising and delivering benefits to industry?

It is clear that planning in HAL is constrained by constitutional ambiguity. HAL's role in leading and supporting any form of planning other than "using a bottom-up approach" is not specified in the Constitution's objects. Yet at the same time there is an expectation from the Australian Government, many industries and other stakeholders that HAL does plan and invest in other priorities. This suggests that HAL's role in planning and investing on a national, regional, thematic or other basis needs to be properly authorised in the Constitution to remove the ambiguity. Consideration should also be given to HAL's role, as the largest single investor in Australia, in sustaining efficient and effective horticulture RD&E capability in the Constitution.

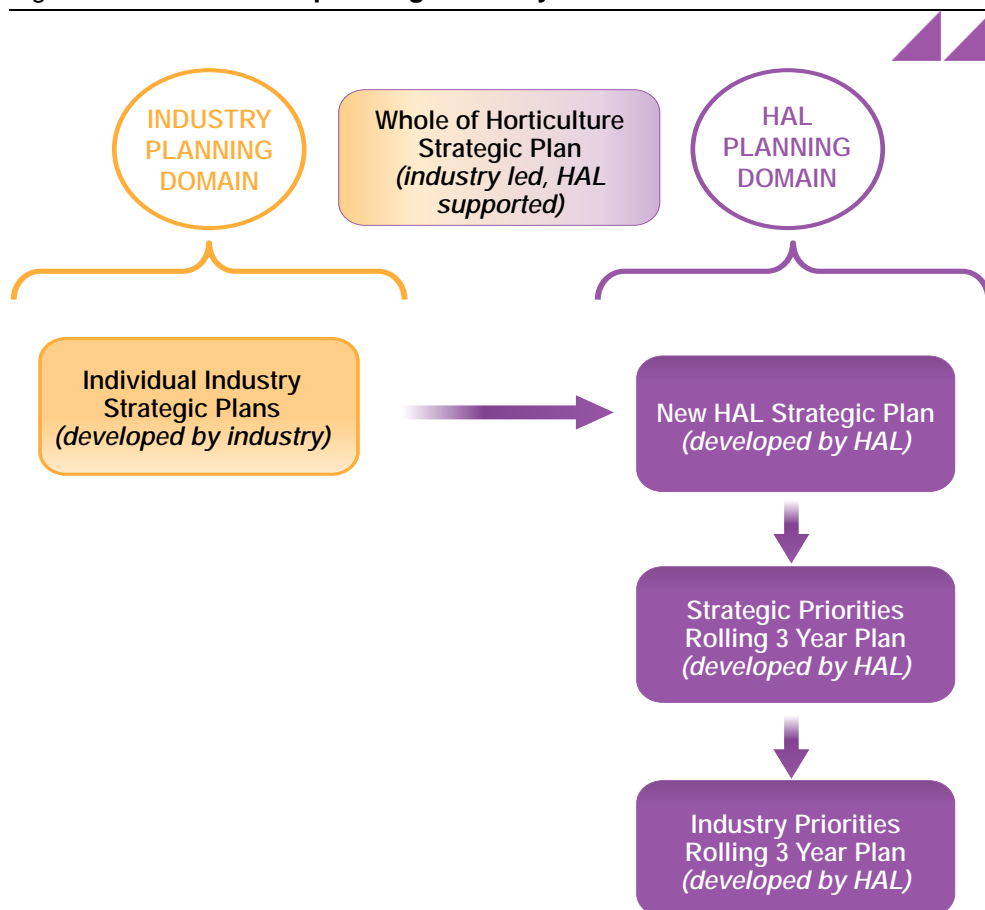
HAL is further constrained by the lack of overarching strategies for all industries or the whole of horticulture, the domain of industry, to create linkages and priorities for horticulture R&D and marketing, the domain of HAL (Figure 6).

The planning process is also intensive; requiring HAL to produce more than 50 annual plans of higher and higher quality, equating to one plan per week.

These challenges can only be addressed by a fundamental reform of the planning framework which defines HAL and industries' plans and roles in a clear hierarchy and reduces the number of plans produced. A practical approach would clarify existing roles where:

- industry is responsible for industry strategy
- HAL is responsible for R&D and marketing strategy (Figure 8).

Figure 8 Revised HAL planning hierarchy



Note: purple and orange shaded boxes are the responsibility of HAL and Industry respectively. Planning in the orange-purple shaded boxes are led by Industry and Supported by HAL.
Source: ACIL Allen Consulting, 2014.

In the industry domain each industry would be responsible for its own strategy and would work with HAL, given the size of the challenge, to develop a whole of horticulture strategic plan. Within the HAL domain the number of plans can be dramatically reduced by having only one strategy supported by operating plans for strategic and industry priorities. These should be rolling three year operational plans to create a longer term focus. The number of rolling 3 year industry priorities plans should be significantly less than the current 31.

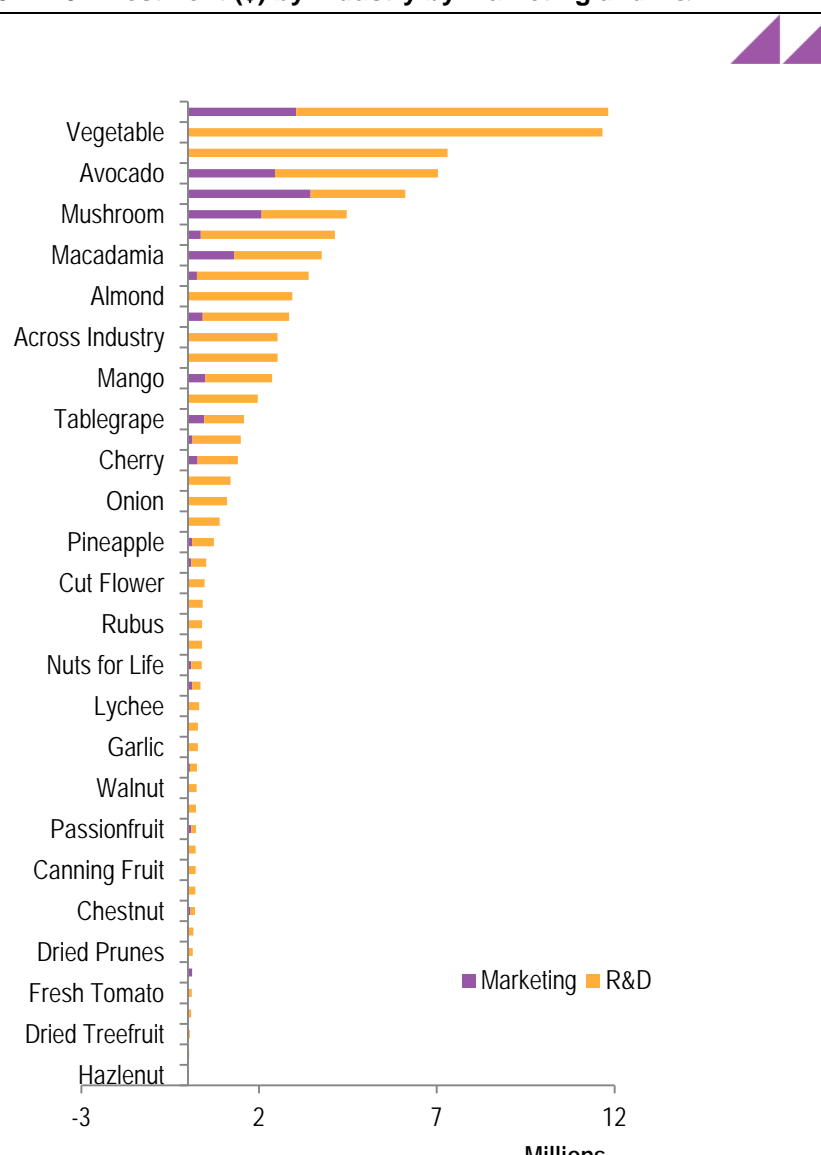
3.2.2 Uncertain performance

The performance of HAL in producing tangible outcomes for levy paying growers and Government contributing funds for the benefit of the entire horticulture industry (as opposed to on a sector by sector basis) is uncertain and currently not used well to support future priority setting nor translated into farm gate adoption and R&D extension.

Annually, HAL receives funding (inputs from levy paying growers and Government) and invests around \$100 million per annum in programs aligned with the investment priorities of Australia's industries and wider horticulture sector. These programs are outputs of HAL but alone say little about the outcomes of HAL.

The HAL total R&D and marketing expenditure by industry for 2012-13 is presented in Figure 9. Clearly, a small number of HAL industries invest a relatively large amount and a large number of HAL industries invest a relatively small amount.

Figure 9 2012-13 investment (\$) by industry by marketing and R&D



Note: includes consultation funding.

Source: Horticulture Australia Limited, 2013. ACIL Allen Consulting analysis.

A break-down of horticulture investment expenditure into project number highlights that the respective R&D and marketing portfolios comprise many smaller-sized projects – see Table 10 for R&D and Table 11 for marketing.

This trend towards HAL completing many small projects is emphasised by the median expenditure on:

- R&D projects of \$35,000 and \$45,000 between 2008 and 2013
- marketing projects of between \$17,000 and \$25,000 between 2008 and 2013.

Table 10 HAL investment portfolio for R&D projects

	2008-09	2009-10	2010-11	2011-12	2012-13
Number of R&D projects	1,026	993	975	897	855
Average \$ per R&D project	\$72,591	\$72,035	\$74,132	\$85,306	\$87,987
Median \$ per R&D project	\$37,951	\$40,000	\$35,000	\$41,155	\$45,000
Maximum \$ on R&D project	\$2,648,583	\$2,648,583	\$3,504,975	\$3,963,440	\$2,642,293

Note: The R&D and marketing portfolios of the horticulture sector were examined using the financial account information from Horticulture Australia Limited. The financial accounts information record the level of expenditure by project as specified in the financial accounts. The data identified projects on an accounting project number basis. ACIL Allen Consulting sorted the data in order to remove projects with zero or negative numbers as they were reflecting individual financial accounting adjustments as opposed to individual projects. The total number of projects over the 5 years is not the sum of the reported annual number of projects due to some projects continuing over multiple years. Source: Horticulture Australia Limited, 2013. ACIL Allen Consulting analysis.

Table 11 HAL investment portfolio for marketing projects

	2008-09	2009-10	2010-11	2011-12	2012-13
Expenditure on marketing projects	\$12,412,462	\$14,436,856	\$12,362,409	\$16,523,773	\$15,565,438
Number of marketing projects	229	209	218	213	206
Average \$ per marketing project	\$54,203	\$69,076	\$56,708	\$77,576	\$75,560
Median \$ per marketing project	\$17,672	\$25,357	\$19,784	\$24,992	\$20,758
Maximum \$ on marketing project	\$1,500,000	\$1,869,110	\$1,968,000	\$2,120,000	\$2,000,002

Note: The R&D and marketing portfolios of the horticulture sector were examined using the financial account information from Horticulture Australia Limited. The financial accounts information record the level of expenditure by project as specified in the financial accounts. The data identified projects on an accounting project number basis. ACIL Allen Consulting sorted the data in order to remove projects with zero or negative numbers as they were reflecting individual financial accounting adjustments as opposed to individual projects. The total number of projects over the 5 years is not the sum of the reported annual number of projects due to some projects continuing over multiple years. Source: Horticulture Australia Limited, 2013. ACIL Allen Consulting analysis.

All of this evidence provides an indication of how inputs (funding of HAL) is translated into outputs (investments made in which sector and by who). Nevertheless, it says little about:

- the outcomes (the tangible benefits) delivered to industry and growers by HAL
- the overall performance of HAL.

Benefits cost analyses (BCAs) are one way of measuring the outcomes of HAL's performance. HAL commissions both ex-ante and ex-post BCAs of project clusters. The evaluations are frequently undertaken by third party expert consultants. The BCAs are reviewed by HAL internally and also by the relevant IAC to confirm that the assumptions made are both relevant and reasonable. Where the BCA are considered not be reasonable or relevant, revisions are made to the BCA. The importance of obtaining feedback from the IAC due to their specific industry expertise highlights the importance of HAL's IAC being independent, industry experts and also being separate from the PIBs, particularly where the PIBs are increasingly service providers to HAL.

The Independent review considers that of the sample of BCAs undertaken they do individually highlight the value of HAL and its partners for those sectors in which they are completed. These evaluations are invaluable as they are used as inputs into industry strategic plans which are a positive development. Table 12 outlines BCA s undertaken by HAL for a rolling series of 18 evaluations since 2009.

Table 12 Benefit cost analyses of HAL projects

Industry	BCR range	Year	Number of clusters	Name of clusters & number of projects in each	Present value of costs for all projects evaluated
Apple & Pear	\$2.10 - \$5.20 benefits per \$1 of costs	2013	5	Breeding & Biotechnology (21), Crop Production & Environment (10), Plant Health (12), Biosecurity & Market Access (41), Market Development (21)	\$74.81 million (2011-12 dollar terms)
Mango	\$9.00 benefits per \$1 of costs	2013	One project	n/a	\$1.11 million (2011-12 dollar terms)
Strawberry	\$4.05 benefits per \$1 of costs	2013	1	Breeding & Biotechnology (17)	\$19.19 million (2011-12 dollar terms)
Banana	\$1.90 - \$9.10 benefits per \$1 of costs	2012	4	Breeding & Biotechnology (4), Crop Production & Environment (7), Postharvest, Quality assurance & Food Safety (6) Biosecurity & Market Access (7)	\$14.59 million (2010-11 dollar terms)
Lychee	\$4.30 benefits per \$1 of costs	2012	1	Plant Health (10)	\$1.6 million (2010-11 dollar terms)
Custard Apple	\$11.80 of benefits per \$1 of costs	2012	One project	n/a	\$0.33 million (2010-11 dollar terms)
Chestnut	\$8.84 of benefits per \$1 of costs	2012	One project	n/a	\$0.10 million (2010-11 dollar terms)
Passionfruit	\$5.26 of benefits per \$1 of costs	2012	One project	n/a	\$0.89 million (2010-11 dollar terms)
Papaya	\$2.58 of benefits per \$1 of costs	2012	One project	n/a	\$0.51 million (2010-11 dollar terms)
Persimmon	\$15.07 of benefits per \$1 of costs	2012	One project	n/a	\$0.12 million (2010-11 dollar terms)
Pineapple	\$10.92 of benefits per \$1 of costs	2012	One project	n/a	\$0.49 million (2010-11 dollar terms)
Almond	\$8.65 - \$11.48 per \$1 of costs	2011	3	Biosecurity & Market Access (14), Environment (4), Industry & Development (13)	\$5.47 million (2009-10 dollar terms)
Macadamia	\$1.85 - \$4.60 per \$1 of costs	2011	5	Varietal Improvement (8), Technology (7), Crop Protection (9), Handling & Quality (7), Market Research (5)	\$20.11 million (2009-10 dollar terms)
Mushroom	\$7.20 - \$12.60 per \$1 of costs	2011	3	Human Health & Nutrition (12), Communication & Extension (21), Mushroom Health (11)	\$10.92 million (2010-11 dollar terms)
Summerfruit	\$2.07 - \$9.18 benefits per \$1 of costs	2011	4	Breeding & Biotechnology (6), Post-Harvest & Quality Assurance (11), Plant Health (9), Industry Development (9)	\$19.86 million (2010-11 dollar terms)
Citrus	\$2.40 - \$4.30 benefits per \$1 of costs	2010	5	Biosecurity & Market Access (27), Breeding & Biotechnology (12), Crop Production (8), Plant Health (23), Postharvest & Quality (9)	\$52.3 million (2009-10 dollar terms)
Cherry	\$8.80 benefits per \$1 of costs	2010	1	Quality, Market Development & Workplace Safety (11)	\$0.49 million (2009-10 dollar terms)
Dried Fruit (Grape, Prune, Tree-fruits)	\$3.10 - \$6.70 benefits per \$1 of costs	2010	3	Breeding & Biotechnology (13), Crop Production (10), Industry Development (8)	\$15.44 million (2009-10 dollar terms)
Table Grape	\$2.40 - \$9.00 per \$1 of costs	2010	4	Consumer Research & Market Analysis (5), Biosecurity & market Access (11), Industry Development Services (7), Plant Health (5)	\$5.81 million (2009-10 dollar terms)
Onion	\$3.40 - \$12.10 per \$1 of costs	2010	2	Market & Supply Chain (8), Extension & Communication (6)	\$1.4 million (2008-09 dollar terms)

Industry	BCR range	Year	Number of clusters	Name of clusters & number of projects in each	Present value of costs for all projects evaluated
Avocado	\$2.90 - \$14.60 per \$1 of costs	2009	4	Plant protection (10), Post-Harvest and Fruit Quality (8), Supply Chain (9), Market & Consumer Research (6)	\$5.58 million (2008-09 dollar terms)
Nursery	\$1.70 - \$5.60 per \$1 of costs	2009	4	Business Improvement (14), Industry Development (6), Market Information (6), Environment (14)	\$10.3 million (2008-09 dollar terms)
Processed & Fresh Potato	\$3.50 - \$10.00 per \$1 of costs	2009	6	Seed Production & Seed Quality (13), Processor- disease- soil amendments (1), Processor- DNA monitoring tools (1), Agronomy & Production Management (16), Environment & Health (4), Extension (8)	\$11.4 million (2008-09 dollar terms)

Source: ACIL Allen Consulting analysis of BCAs.

However, while progress has been made in injecting the results of ex-ante and ex-post benefit cost analyses into future planning the Independent review has found evidence that:

- there is a shortfall in the sample of R&D investments which have been assessed. It was indicated to the Independent review that HAL undertaken BCAs on 0.15 per cent of R&D investment on projects (although it has fluctuated from year to year) and that there is the intention to fill this gap by drawing upon HAL corporate funds to undertake additional BCAs to meet the 0.5 per cent requirement
- there is a gap in terms of translating higher return investments into R&D adoption and R&D extension, particularly in terms of the entire horticulture industry
- HAL does not monitor levels of adoption consistently.

These gaps mean that there is a real risk of duplication of research effort by sector and it is difficult to be certain about the overall performance of HAL in providing tangible benefits to the overall horticulture industry and growers.

Stakeholders have also raised with the Independent review the importance of accessibility of completed research and the translation of project outcomes into farm gate practice during the consultation process:

Another area where improvements could be made is in relation to management and access to completed research reports for both levy paying growers and service providers – although I understand that some progress is being made in relation to this issue. In addition there is a need to provide some higher level context or mapping of research at an industry level to maximise understanding of the potential benefits of the investment for those that are not intimately familiar with the long term industry programs.

Confidential submission.

The focus should be on outcomes and effectiveness and less on process and box-ticking that doesn't deliver better outcomes. HAL should work closely with industry to ensure that R&D investments deliver real outcomes and not simply a published report.

Nursery and Garden Industry Australia.

In addition to undertaking the BCAs, an Annual Report is produced for HAL and each IAC. The Annual Report provides a detailed account of expenditure against industry, corporate and Government strategic priorities and progress completed/in-progress.

While HAL does invest in projects that benefit the community and industry, the Annual Reports are limited in their ability to communicate these benefits effectively. The 2011-12 Annual Report for all industries was more than 900 pages in length focused on project

summaries and expenditure rather than presenting KPIs or validated benefits. The monitoring, evaluation and reporting process appears to be compliance focused as opposed to assisting with risk and performance management

The lack of reporting on research outcomes for adoption and extension and the lack of validation of project benefits in the numerous Annual Reports highlights that HAL struggles between separating and then integrating performance information on:

- process (plan, select, manage)
- progress of the investments themselves
- impact – change in industry/sectoral performance.

Meeting these gaps in performance would ensure that HAL and the IACs have better and more certain information about returns on investment. This, in turn, would improve the ability of decision-makers to make decisions that improve the benefits to industry from HAL and the levy arrangements. In addition, it would assist with risk and performance management within HAL and across its investment portfolio. Both of these would be invaluable in ensuring the future successful performance of HAL.

3.3 Cultural weaknesses

HAL's tension between the company needing to simultaneously pursue a top down and bottom up agenda in a participatory manner with industry is reflected in the company's culture.

The 2012 HAL Stakeholder Survey by GFK and Currie Communications found that:

- the Executive are seeking an achievement oriented and self-actualising culture while
- the staff exhibit a conventional conforming culture with a strong avoidance preference.

The inventory noted that setting participatory goals with a reasonable degree of difficulty was a strong feature of HAL's culture. This is consistent the extensive IAC process it uses. Unfortunately this is undermined by many HAL staff and teams not fully understanding that it is their responsibility to identify and meet the needs of industry. At the same time the survey noted that people within HAL did not feel they received adequate feedback and were not always fully supported. This reinforces a conforming culture of "not rocking the boat".

The inconsistency between ambitious goals and low levels of empowerment creates an awkward culture. After all HAL's core function is to efficiently reconcile the competing priorities into a coherent agenda and then set out to achieve them in partnership with others.

This is reflected HAL's bureaucratic nature, one of the most common concerns raised by HAL, Members and other stakeholders during the Independent review. An on-going series of policies and procedures have been progressively introduced to improve performance and deal with concerns raised. While individual policies have addressed some concerns, many in HAL and industry feel the full suite of policies have created a procedural rather than an achievement culture.

Less of a process driven culture and micro management of investment. Trust those who are put in place at an industry level to do their job.

HAL has to operate to Government standards of accountability and management, while interfacing with industries that require a far more streamlined approach and greater flexibility. I think blending the two cultures is the biggest challenge for HAL. In short they need to streamline bureaucracy.

Survey respondents

Between one in 5 and one in 6 stake holders felt that they spend too much time (sic) on project funding application, milestone reporting, general administration and governance in dealing with HAL

Conversely one in three felt that they did not spend enough time on strategy decisions and consultation

HAL Stakeholder Survey 2013 by GFK and Currie Communications

The 2013 Stakeholder Survey found:

- of the 61 per cent of stakeholders who were aware of HAL's strategic direction only 53 per cent were satisfied with the direction
- furthermore 80 per cent of stakeholders believed that it was HAL's role to manage levy funds but only 69 per cent believed it was HAL's role to manage/supervise the actual R&D and marketing programs to achieve industry outcomes
- 59 percent of stakeholders saw being the voice of horticulture as a role for HAL because they were suitable (58 per cent) and the industry needs one voice (35 per cent)
- those who did not agree with HAL being the voice of horticulture cited that HAL is not the appropriate organisation (51 per cent) and that others were doing the role (30 per cent) as reasons.

The variance in views of HAL's role and functions and how they relate to HAL's culture were repeatedly raised during the Independent review. Stakeholders noted that HAL staff were committed and hard-working but were often too focused on procedure. They also felt staff was either too pushy or too passive. This depended on the importance the particular stakeholder placed on HAL being responsible for driving performance (rather than simply "managing the money") and integration (rather than serving their particular industry). Views on the whether the HAL Board were similar, where those who see potential in whole of industry approaches felt that the existing Board is too passive.

Overall these differences, which were widely expressed during the Independent review, point to the issue that there is confusion within HAL and stakeholders as to what the role and the function of the company actually is. The cultural deficiencies are a symptom of the existing governance issues and other challenges faced by HAL.

It is clear that HAL utilises policies and procedures as mechanism to cope with these governance issues and other challenges. It is not clear that the increasingly bureaucratic culture is improving, either the necessary corporate compliance or increasing value for industry and Australia more widely. Rather it is perpetuating the conventional-avoidance culture and HAL's fragmented and inefficient strategy. It is also apparent that any initiatives to improve culture need to be linked to a clear strategy that is supported by the HAL Board and stakeholders to be effective.

3.4 Diagnosis and conclusion

HAL is the industry services body for horticulture. As such it must plan for and invest in R&D and marketing services that benefit the whole of horticulture and individual Member industries. The current HAL structure clearly delegates industry planning and investment to industry based committees which Members are funded to run. The underlying rationale behind the current structure is that the complexity of horticulture requires separate consultation, planning and investment governance for each industry. Whole of industry planning and investment is vaguely defined in HAL's current structures. The result is that:

- HAL and its stakeholders do not agree on what the objectives of the company are or what outcomes it should achieve
- HAL operates under a series of high level objectives that are subject to individual interpretation and are too generalised to drive performance
- HAL's actual strategy is simply a series of fragmented individual industry strategies
- it is difficult for the Board to influence the delegated industry strategies
- Members face increasing scrutiny over conflict of interest and effectiveness of the industry consultation they conduct on behalf of HAL

These structures require HAL implement a complex and bureaucratic planning process. As things stand HAL must produce, in the absence of an overarching whole of horticulture and many individual industry strategies:

- 32 IAC Strategic Investment Plans and 1 HAL Strategic Plan
- 31 IAC Annual Investment Plans and 1 Across Industry Committee Plan
- 32 IAC Annual Reports and 1 HAL Annual Report

The skewed distribution of planning effort towards individual industries accounts for more than 85% of funds and is due to HAL's structure. It limits HAL's ability to plan and invest in whole of horticulture priorities. Despite numerous attempts, whole of industry priorities have struggled for Member support; meaningful investment; and an effective governance mechanism within HAL since the company was established in 2001. In response HAL has strengthened policies and procedures leading to:

- improved planning and reporting by IACs
- greater planning and reporting costs for HAL, IACs, PIBs and providers
- weakening of whole of horticulture planning and investment and HAL's own strategy
- increased reliance on HAL's Strategic Investment Plans to act as industry (rather than R&D and marketing) strategies for Members and horticulture
- a continued fragmented investment portfolio with small median project size
- poor ability to demonstrate the benefit of HAL's investments to growers and industry
- significant residual compliance and performance risk to ineffective controls.

The tensions arising from structural weaknesses and complicated processes are reflected in HAL's culture. The company uses policies and procedures to cope with internal and stakeholder ambiguity over its purpose and respond to external pressure to improve governance. This is consistent with HAL's dominant conventional-avoidance culture but does not actually support the achievement-empowerment culture the Executive and stakeholders seek. Rather it reinforces a procedural orientation over a high performance culture.

These findings support the case for change. Improving the ability of HAL to generate greater benefits for industry and effectively manage risk requires a fundamental reform of governance that addresses conflict of interest and establishes a clear purpose. Only then can HAL develop a sound strategy to align its structure, processes and culture against in order to plan and invest in programs to deliver greater benefits to growers and industry.

4 Horticulture levy system

The efficiency of the levy structure for the horticulture sector (in which many individual commodities maintain separate independent levy rates and collection mechanisms) and the processes by which levies are conceived, implemented, collected and expensed have been examined during the Independent review.

This chapter outlines in detail the evidence gathered from the earlier phases of the Independent review in relation to the efficiency of the horticulture levy system.

4.1.1 Principles of levy arrangements

As outlined in chapter 1 of this report, there is a well-established economic case for Australian Government support for rural R&D both through direct funding and through the administration of levy collection.

Industries can collaborate to find solutions to major challenges such as maintaining productivity growth and increasing their markets by pooling their efforts and resources. Australia's primary industries have historically demonstrated strong support for the levy system and its role in R&D, promotion and marketing and other activities.

The levy system enables established industries to sustain their standing in increasingly competitive global markets. Similarly, emerging industries also value the benefits involved with industry cooperation and resource sharing. Through the Department of Agriculture (the department), the Government's role is to collaborate with industries that desire a levy system and to introduce an efficient collection system at minimum cost¹².

Exercise of its taxing powers to force growers compulsorily to pay a levy by the Australian Government is however not undertaken lightly. A compulsory levy is in essence a tax, and is classified as such in Government finance statistics. There is a strong obligation on those who advocate a levy to demonstrate that the results benefit both Australians and the industry as a whole. Any compulsory levy on industry therefore has to be carefully considered and well justified, and from time to time evaluated. This current Independent review provides an opportunity to do that for horticulture.

4.1.2 Importance of levy efficiency

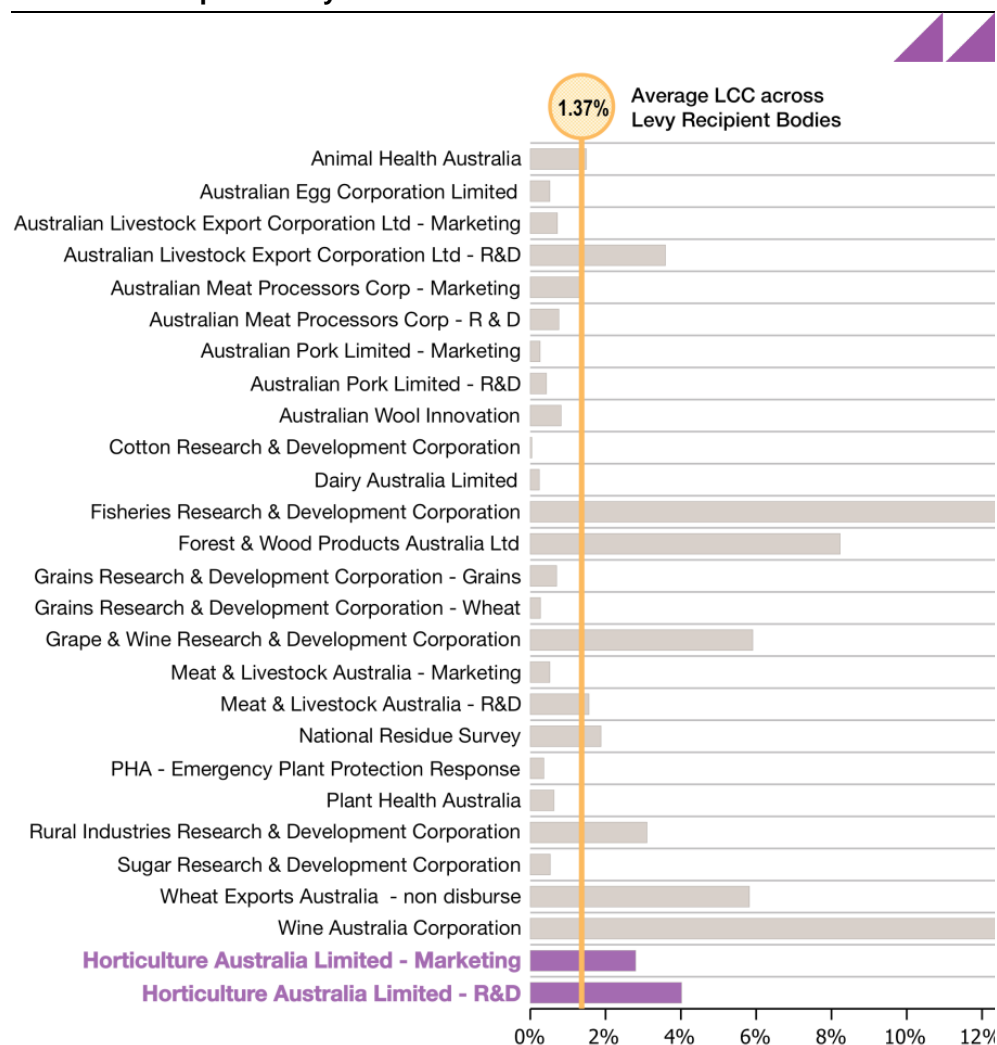
An assessment of the efficiency of the levy structure for the horticulture sector is an important component of this Independent review. The levies collected from industry provide funding for activities undertaken by and through HAL and in the case R&D they trigger a matching contribution of funds from the Australian Government when the levy proceeds are spent on 'eligible R&D' expenditure.

¹² Department of Agriculture 2013, *Levies Explained*, http://www.daff.gov.au/agriculture-food/levies/publications/levies_explained

It is in the interests of all of the bodies covered by Australia's rural R&D arrangements to keep levy collection costs as low as practicable. The quantum of funds passed on to rural R&D bodies, including HAL, is net of collection costs. The higher these costs, the less the amount of funding there is available to invest in R&D (and in instances where a marketing levy is collected, to invest in the relevant marketing programs).

Levy costs for horticulture industries are higher than the average across all comparable arrangements, as shown in Figure 10. They are not the highest amongst levy recipient bodies, but are clearly more costly than a number of other rural R&D corporations.

Figure 10 Levy collection costs as a percentage of levy proceeds by Levy Recipient Body — 2012-13



Note: The levy collection costs which are charged to the respective Levy Recipient Bodies are estimated as a percentage off levy proceeds received by the Levy Recipient Bodies.

Source: Levy Revenue Service, Department of Agriculture, 2014.

During the extensive consultations for phase 2 of this Independent review, growers and grower representative bodies raised several concerns about the levies and their administration. The difficulties related not only to collection costs but also to:

- the complexity of levies
- grower difficulties in understanding how levy rates had been set

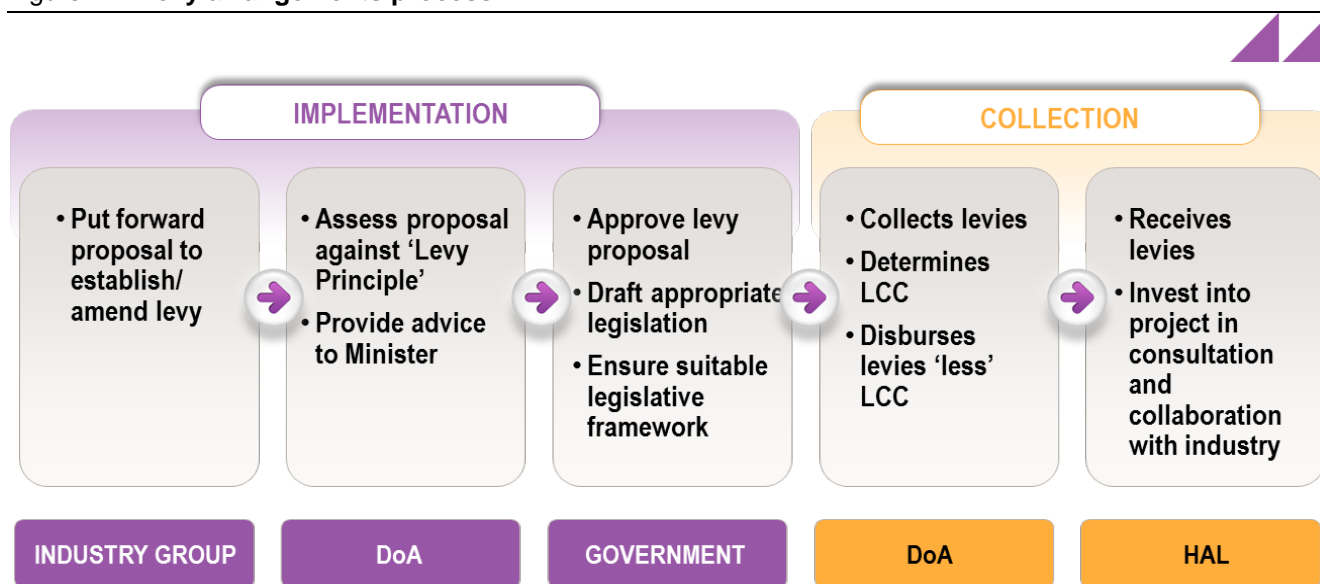
— the difficulty of changing levy rates.

This chapter of the report outlines the drivers of levy collection costs and ways in which the management of levies might be improved for the future.

4.1.3 How horticulture levies work

The process by which agricultural levies are conceived, implemented, collected and expended is depicted in Figure 11.

Figure 11 Levy arrangements process



Note: LCC refers to Levy Collection Cost

Source: ACIL Allen Consulting, 2014.

As summarised by Figure 11:

- the need for a levy or change is normally identified by a specific industry group for the purposes of responding to a challenge or opportunity to benefit its industry
- the development of a levy by an industry groups needs to be discussed and voted on by its Members
- for the successful implementation of a levy, an industry group is required to submit a proposal to establish or amend a levy to organisations that will receive, or currently receive, levy monies
- the department (DOA) is responsible for assessing the proposal against the Government's *Levy Principles and Guidelines*¹³ and providing advice to the Minister
- the Australian Government is responsible for approving (or not) the proposed levy

The relevant legislation for collection of the various horticulture levies is the *Primary Industries Levies and Charges Collection Act 1991*, *Primary Industries (Excise) Levies Act 1999* and for their disbursement to HAL the *Horticultural Marketing and Research and Development Services Act 2000*.

¹³ Department of Agriculture, Fisheries and Forestry (January 2009) Commonwealth of Australia, Canberra

The process of developing and amending a levy is a complex and lengthy process, which is removed from individual growers. The administrative requirements are burdensome and the evidence provided during consultations was that they constituted a barrier to existing levies being amended.

4.1.4 Diversity of horticulture levies

Of HAL's existing Members, currently;

- 10 have a statutory R&D levy alone (including Nashi pears, currently at a zero rate)
- 20 have both a statutory R&D and marketing levy
- 13 have a voluntary contribution investment program.

The Department of Agriculture currently collects 70 types of agricultural levies across 9,000 levy payers. Just over 50 are different HAL-related levies. There are a large number of different HAL – related levies which vary by:

- measurement unit (cents per kilo, \$ per tonne, cents per box, cents per standard tray, ad valorem, cents per carton, spawn, per 1,000 runners and per metre squared), and
- active rate (there are more than 40 different active rates).

Table 13 lists the existing levy arrangements by horticulture commodity.

Table 13 Levy rates and units by horticulture commodity

Commodity	Industry levy rate
Almonds	In shell 1c/kg (R&D)
	Shelled 2c/kg (R&D)
	Nonpareil in shells 1.5 c/kg (R&D)
Apple & Pear	Domestic / export apples 1.845c/kg (0.72c R&D / 1.03c Mkt / 0.02c PHA / 0.075c NRS)
	Domestic / export pears 2.099c/kg (0.775c R&D / 1.249c Mkt / 0.075c NRS)
	Juicing apples \$2.75/tonne (\$0.65 R&D / \$2.00 Mkt / \$0.10 NRS)
	Juicing pear \$2.95/tonne (\$0.60 R&D / \$2.25 Mkt / \$0.10 NRS)
	Processing apples \$5.50/tonne (\$1.30 R&D / \$4.00 Mkt / \$0.20 NRS)
	Processing pears \$5.90/tonne (\$1.20 R&D / \$4.50 Mkt / \$0.20 NRS)
Avocado	Domestic and export fresh 7.5c/kg (3c R&D / 4.5c Mkt)
	Processing 1c/kg (1c R&D)
Banana	1.7c/kg (0.54c R&D / 1.1497c Mkt / 0.0103c EPPR)
Canning fruit	No levy
Cherry	Domestic / export 7c/kg (3.97c R&D / 3c Mkt / 0.03c PHA)
Chestnut	\$100.00/tonne (\$45.00 R&D / \$50.00 Mkt / \$5.00 PHA)
Citrus	Oranges in bulk \$2.75/tonne (\$1.97 R&D / \$0.75 Mkt / \$0.03 PHA)
	Oranges not in bulk 5.5 cents/box (3.94c R&D / 1.5c Mkt / 0.06c PHA)
	Other citrus in bulk \$2.00/tonne (\$1.97 R&D / \$0.03 PHA)
	Other citrus not in bulk 4c/box (3.94c R&D / 0.06c PHA)
Custard apple	Package 40c/standard tray or standard box (27c R&D / 13c Mkt)
	Bulk \$50.00/tonne (\$34.00 R&D / \$16.00 Mkt)
Dried grape	Dried vine fruits \$11.00/tonne (R&D)
Dried prunes	Dried plums (prunes) \$13.00/tonne (R&D)
Dried tree fruits	Dried tree fruits (other than prunes) \$32.00/tonne (R&D)
Lychee	Domestic & export fresh 8c/kg (5.5c R&D / 2.5c Mkt)
	Processing 1c/kg (R&D)
Macadamia	Dried kernel 25.21c/kg (8.57c R&D / 16.01c Mkt / 0.63c NRS)

Commodity	Industry levy rate
Mango	Domestic and export 1.75c/kg (0.75c R&D / 1c Mkt)
Melon	No levy
Mushroom	Domestic \$2.16/kg of spawn (\$0.54 R&D / \$1.62 Mkt)
Nashi	No levy (zero rate)
Nursery	5% ad valorem of the sale price/landed cost per container (2.75% R&D / 2% Mkt / 0.25% PHA)
Nuts/ANIC	No levy
Olives	\$3.10/tonne (\$3.00 R&D / \$0.10 PHA)
Onion	Domestic/export \$2.00/tonne (\$1.60 R&D / \$0.40 NRS)
Papaya	Fresh - domestic/export fresh 2c/kg (1c R&D / 1c Mkt) Processing 0.25c/kg (R&D)
Passionfruit	Packed in cartons 40c/carton (20c R&D / 20c Mkt) Not packed in cartons 40c/8kg (20c R&D / 20c Mkt) Processing 3c/kg (1.5c R&D / 1.5c Mkt)
Persimmons	Domestic/export 6.25c/kg (3.75c R&D / 2.5c Mkt)
Pineapple	Domestic fresh & export \$5.00/tonne (\$2.90 R&D / \$2.00 Mkt / \$0.10 PHA) Processing \$2.00/tonne (\$1.90 R&D / \$0.10 PHA)
Potato	Domestic & export unprocessed 50c/tonne (48c R&D / 2c PHA) Processed 50c/tonne (49c R&D / 1c PHA)
Processing tomato	No levy
Rubus	Domestic/export 12c/kg (10c R&D / 2c Mkt)
Stone Fruit	Domestic/export 1c/kg (0.539c R&D / 0.441c Mkt / 0.02 PHA)
Strawberries	Domestic \$8.00/1000 runners (\$7.87 R&D / \$0.13 PHA)
Table Grapes	Domestic/export 1c/kg (0.5c R&D / 0.5c Mkt)
Turf	Domestic/export 1.5c/m ² (1.2c R&D / 0.3c Mkt)
Vegetable	Domestic/export 0.5% ad valorem (0.485% R&D / 0.015% PHA)

EPPR: Emergency Plant Pest Response

NRS: National Residue Survey

PHA: Plant Health Australia

Note: Active rate is the combined rate taking into account the R&D and marketing levy where they are imposed separately on the sector.

Source: Department of Agriculture 2013.

The large number of horticulture levies and their complexity is related to the large number of industry representative bodies involved in horticulture and HAL. It is a result of the process whereby an industry representative body consults with industry and puts to the Government its proposal for a levy or levies. The diversity of different industry bodies in horticulture has over time led to the diversity of different levies.

The preponderance of levies based on a weight measure (per tonne/kg) was identified as a problem by some stakeholders, because the levy amount did not take account of rise and fall in the value of production. In one industry, for example, a stakeholder noted that the levy amount had not changed over 17 years, was still the same dollar amount, while inflation and growing markets had increased the value of the product many times over: in other words, the levy was failing to keep up.

Levies per box or carton have obvious measurement problems where industry practice on amount of product contained in the box changes over time.

It is notable that the largest single industry in horticulture, represented by an umbrella body for a number of diverse products, is vegetables. There an ad valorem levy (that is, a levy set as a percentage of the gross value of production) is applied in order to arrive at a common rate across the numerous different types of vegetable grown in Australia.

4.1.5 Efficiency of the horticulture levy arrangements

In 2012-13, around \$41.2 million was raised from HAL-related levies. Levy collection costs in 2012-13 were \$1.44 million.

The level of costs is important because they are deducted from total levy proceeds. Matching Australian Government R&D funds available to the horticulture sector are net of levy collection costs. Table 14 summarises levy proceeds and collection costs over the past five years.

Table 14 Levies proceeds and levy collection costs

	2008-09	2012-13
R&D levy proceeds (\$ million)	\$20.35	\$23.81
Marketing levy proceeds (\$ million)	\$15.12	\$17.38
Total levy proceeds (\$ million)	\$35.47	\$41.20
Levy collection costs (\$ million)	\$1.32	\$1.44
LCC as a percentage of total levy proceeds	3.72%	3.5%

Source: Department of Agriculture, 2014 and Horticulture Australia Limited, 2014. ACIL Allen Consulting analysis.

The levy collection costs (LCC) for specific horticulture commodities are estimated by the DOA using an activity-based cost method. Under this system, LCC by horticulture commodity reflect the time and effort spent by DOA collecting levies.

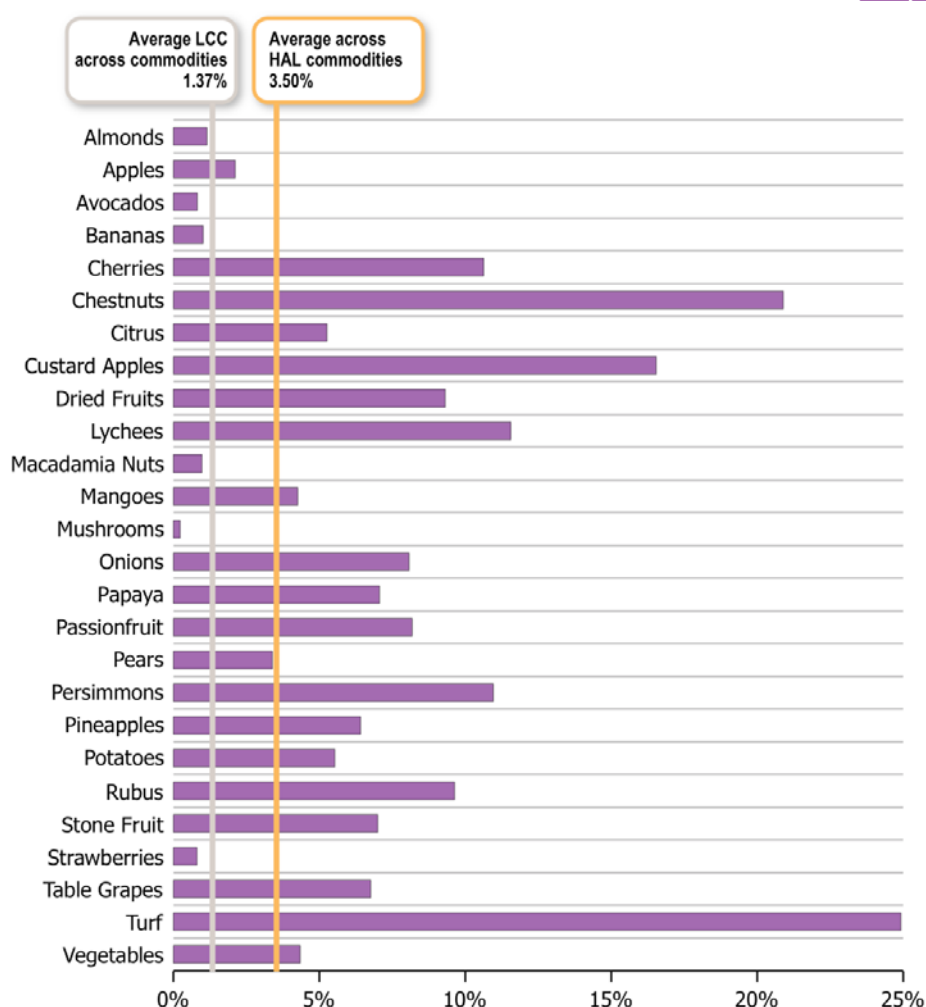
Activity based costing was introduced in 2012-13, following detailed examination of the cost drivers inside the department. This activity-based mechanism for determining LCC increases the transparency of the cost of levy arrangements. In doing so, it has also revealed that some individual levies are inefficient to collect, with a high percentage of the levy collected being absorbed by collection costs.

In the consultations for this Independent review there was no objection raised by growers or their representative bodies to basing the cost recovery on a more accurate calculation by the department of activity based costs. This was seen as positive. There were however some concerns expressed that costs had not been calculated correctly, and that the costs were too high for the commodities concerned.

Figure 11 summarises levy collection costs as a percentage of total levy proceeds for 201213 by horticulture commodity. On average, levy collection costs accounted for 3.5 per cent of total levy proceeds collected across Australia's horticultural sector in 2012-13. This compares to the average across all agricultural commodities which was around 1.37 per cent.

Across the horticulture sector, levy collection costs for specific horticulture commodities varied significantly in 2012-13. Levy collection costs were as high as 28 per cent of total levy proceeds collected for one industry to as low as 0.8 per cent for others.

Figure 12 Levy collection costs as a percentage of total levy proceeds: 2012-13



Note: LCC as a proportion of total levy proceeds was estimated for 2012-13 only because of the new activity based system introduced. The LCC as a proportion of total levy proceeds by horticulture commodity differs significantly in years prior to 2012-13 due to previous cost allocation method. The previous cost allocation method was not based upon the time and effort spent to collect levies on a commodity basis.

Source: Department of Agriculture 2014 and Horticulture Australia Limited, 2014. ACIL Allen Consulting analysis.

It is important to note that while on average the collection costs are high, for some sub-sectors in horticulture they are much lower and are administered efficiently.

In the consultations, some industries with a comparatively high collection cost indicated that this was a function of small size, and that it was easier for the larger sub-sectors to collect levies more efficiently. Other comments made included an observation that the major driver of costs was the number of collection points. Thus, some industries had been able to identify critical points in their supply chain (egg the small number of producers of mushroom spawn, strawberry runners) at which the levy could be collected, which reduced costs.

4.1.6 Horticulture levy cost compared with other industries

Horticulture levy collection costs as a percentage of total levies collected are higher than many other agricultural levies (see Figure 10 and Figure 12).

Although on average horticulture levy collection costs are higher than for other industries, this does not apply uniformly across all horticulture). As shown in Figure 12 some horticulture levies have a collection cost below the average of all agricultural commodities.

The higher than average costs associated with horticulture have been a consistent trend over time, apparent both before and after the introduction of the activity-based costing methodology by the department, as illustrated in Table 15. It is noted by the Independent review that the relatively higher costs cannot be attributed to the department's inefficiency but is a reflection of the agreed industry processes for levy collection and the diverse nature of the horticulture sector and associated levies administered by the department.

Table 15 Levy collection costs (as % of levy proceeds) – 2010-11 to 2012-13

	2010-11	2011-12	2012-13
Average HAL Levy Collection Costs	3.09%	4.01%	3.51%
Average Levy Recipient Bodies (i.e. bodies other than HAL) Levy Collection Costs	1.36%	1.41%	1.37%

Note: The levy collection costs charged to the respective Levy Recipient Bodies are estimated as a percentage of levy proceeds received.

Source: Levy Revenue Service, Department of Agriculture, 2014.

4.2 Changing the levy relationship of HAL and the Department of Agriculture

HAL does not see itself as a major player in levies. We were told during the Independent review that it was not HAL's role; its responsibility was to ensure the best value use of funds, but not to query or investigate levy collections. This is an accurate reflection of the current arrangements whereby PIBs consult with industry and for the case to Government for introduction of or change to a levy.

In the consultations with industry however it became apparent that a number of growers would prefer HAL to take a more active role in liaison with the Department of Agriculture on their behalf. In particular areas that they thought HAL could be more active on included: publishing information about how levies were collected, whether levies were being applied fairly, resolution of disputes with the department, and initiatives to reduce collection costs. This was seen a number of stakeholders as one of the objectives encompassed under the heading of leadership in the industry.

A more active liaison role for HAL with the department in relation to levies supports the broader focus of the Recommendation 1, which in essence re-establishes the partnership between Government and the horticulture industry for the benefit of growers. The principles of the partnership need to be clearly outlined to ensure the clarity of New HAL's purpose and objectives and be reflected in an agreed pathway for improving the levy system. Conversely, any agreed pathway for improving the levy system should ensure that it supports the efficiency, effectiveness and outcomes of New HAL and the interaction between New HAL and its partners.

The Independent review highlights that the recommendation to transition HAL to a grower-owned rural RDC represents a comprehensive re-engineering of the existing governance, structure and business model of HAL. Therefore, any significant reform of levy

arrangements should be deferred until New HAL is established. Delaying structural changes to the levy arrangements will ensure that:

- any joint strategy and plan for improving the levy system can be negotiated and agreed to by New HAL and the department, thereby reinforcing the re-establishment of the partnership between Government and growers
- the implications and possible intended, unintended and/or undesirable consequence can be thoroughly analysed in light of the environment in which New HAL will operate.

4.3 Findings – levies

The existing levy arrangements for horticulture are complex. This is due, in part, to the use of a large number of different levies – around ten different units of measurement, and more than 40 differing active rates.

The main driver of levy collection costs is the number of different collection points. This is the largest source of costs for the Department of Agriculture. The other important drivers are compliance and calculation costs. To some extent compliance behaviour is driven by industry: concerns over some businesses avoiding paying the levy give rise to complaints, these have to be investigated by the department, and the associated costs are charged back to the industry in question. Levy calculation costs in the horticulture sector are driven by the diversity and complexity of different levy types.

The complexity inherent in having a large number of different levies is, in part, a function of the number of PIBs/Members of HAL making decisions about the levies. The number of HAL Members has grown over the years and this has increased the diversity and complexity in levies.

The variable and comparatively high levy collection costs:

- limit matching Australian Government R&D funds available to industries with inefficient levies because they are net of collection costs
- creates opportunities for industries with efficient collections to attract additional matching funds through a higher R&D voluntary contribution because the Australian Government cap of 0.5 per cent applies to all of horticulture.

Complexity in the levy arrangements is also partly attributable to the administrative process by which levies are conceived, implemented and collected. The process to amend levy rates is administratively burdensome, increasing the costs for industry to make changes and increasing the resources required by Government to administer levies.

Moving to a simplified levy system would not change the major cost driver, collection points, but would be likely to reduce compliance and calculation costs.

An across the board levy based on the gross value of production, as measured at the first point of sale of the product, would be comparatively easier to administer and reduce costs (possibly, depending on levels of industry acceptance, to around the average costs of vegetables, which already applies this approach).

The other advantage to a move to a uniform levy system would be that allocation of funds to projects crossing industry boundaries would be far easier. During the course of consultations for phase 2 of the review, the Independent review was told on numerous occasions that calculating an appropriate contribution towards cross industry projects was difficult because the different industries had different levy rates. This was by no means the

only impediment to projects involving multiple industries, but it was seen as one contributing factor.

The recent shift to an activity-based full cost recovery cost allocation by Department of Agriculture has revealed that the levy collection costs by specific horticultural commodities vary significantly. In particular, the new costing method has highlighted the inefficiency of some levies, with a high percentage of levy proceeds being absorbed by collection costs. The publication of this information has already had positive results. Some industry representative bodies have engaged in discussions with the department aimed at finding ways to reduce costs. There has also been more information provided to the representative bodies about the details of levy collection.

Even so, the consultations revealed a strong desire on the part of interested growers and representative bodies for more information about the collection of levies.

Information about individual levy paying growers and the amounts that they contribute is currently, and appropriately, kept confidential. The details of the financial transactions themselves would reveal commercially sensitive data. There are however no legislative or public policy impediments to provision of information by the department on how it goes about collecting levies and the calculation of levy collection costs. Given the high degree of interest expressed by growers through the consultation phase of this Independent review, there are strong arguments for more of this information to be made available online and on request.

Reforming the levy arrangements is a complex and lengthy process. However in the shorter-term, a positive development would be for HAL to take a more active role in liaison with the department on the behalf of growers. In particular, together the department and HAL should,

— make the levy system more transparent:

- publish information about how levies were collected
- outline and highlight how the new activity-based levy costing system operates
- resolve in a timely and open fashion any disputes with the department

— examine initiatives to reduce levy collection costs. This was seen a number of stakeholders as one of the objectives encompassed under the heading of leadership in the industry.

To reform the levy arrangements in the longer-term, a strategy and plan to improve the levy system should be developed by the department in collaboration with HAL (and growers). This should be negotiated and agreed to by the transitional New HAL and the department.

The sunset dates for levies and customs charges regulations enabled by the *Primary Industries (Excise) Levies Act 1999* and the *Primary Industries (Customs) Charges Act 1999* are 1 April 2019. It has been indicated that the sunseting instruments will be tabled in Parliament 18 months before the date of sunseting. Any review and pathway forward for levies should be determined and finalised by August 2017.

To foster more efficient and effective levy arrangements, a review of levy arrangements should seek to explore:

- i) a reduction in the number of levies – over time, new levies have been introduced with few levies abolished or consolidated. Consequently there are currently over 50 different types of horticulture-related levies. Many could be consolidated

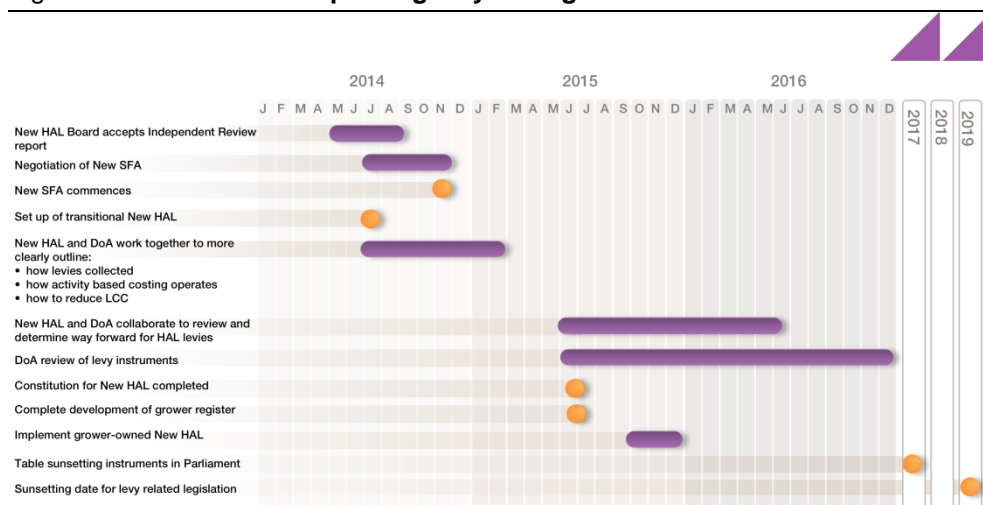
- j) better IRB collaboration and possible amalgamation (including establishing New HAL as the IRB for the smaller horticulture levies which parallels other agricultural sectors where the relevant RDC plays a role in relation to levies)
- k) multi-commodity levies (and their design) that are the responsibility of larger, more capable IRBs
- l) increased efficiency, effectiveness and transparency of the levy collection process
- m) minimum thresholds for the maintenance of levies
- n) accreditation of IRBs for the purposes of being:
 - iii) prescribed as the eligible industry body to represent levy paying growers in relation to the levy
 - iv) eligible as a supplier to provide consultation marketing and/or industry maintenance services
- o) providing levy paying growers the ability to periodically review levies and the performance of IRBs in a cost-effective manner
- p) the approach to managing other horticultural levies collected by the department but beyond HAL's statutory remit (egg. Plant Health Australia contribution levy, Emergency Plant Pest Response Deed levy and National Residue Survey levy)

Deferring reform of the levy arrangements until New HAL is established will ensure:

- New HAL and the Government collaborate on a joint strategy and plan for improving the levy system
- the implications and possible intended, unintended and/or undesirable consequences of changes to the levy arrangements can be thoroughly analysed in light of moving HAL to a grower-owned RDC and the environment in which it will operate.

An indicative timeline for reforming levy arrangements is outlined the following table. The timeline proposed in chapter 6 for moving to a grower-owned company (recommendation 1) via the transitional creation of a Commonwealth-owned company is also outlined to highlight the interaction between the reforms to HAL's model and the horticulture levy arrangements.

Figure 13 Timeline for improving levy arrangements for horticulture



Source: ACIL Allen Consulting, 2014.

5 Assessment of alternative models

This chapter considers the possible alternatives to the HAL model. It uses a balanced scorecard approach to assess the relative merits of each model and to arrive at a conclusion about a preferred model.

5.1 Alternative models

A number of alternatives to the HAL model were identified throughout the Independent review. The models are partly based on stakeholder reactions to five options outlined in the review's consultation paper. They are also in part based on the stakeholders' own views about the HAL model. In addition, the recommended option (Recommendation 1), New HAL, is also addressed. Its characteristics are summarised in Table 16.

A description of each model's general characteristics is provided below.

5.1.1 Status quo (with minimal changes) model

This option was not explicitly listed in the consultation paper (although it is a variation of the streamlined model) however during phase 2 it became clear that this was the most popular option for a number of HAL Member PIBs – see section 7.1.3 of phase 2 Stakeholder engagement report (Appendix C in Attachment 2).

Under this model HAL's governance, roles and responsibilities remain largely unchanged. However, HAL would be encouraged to focus more of its attention on the administration of individual industry funds, and on ensuring compliance with industry and Government requirements.

Under this model specific planning, procurement and delivery functions would be provided to industries/PIBs on a fee-for-service basis. This means that some HAL services (such as marketing) would only be delivered where industries/PIBs were willing to pay for them.

To enhance accountability under the model, an industry ombudsman (as outlined in the AUSVEG Submission) would also be established. The ombudsman would be given a strong mandate to resolve disputes between, and within industries, using mechanisms which are independent of HAL decision makers.

Under this option, HAL would also maintain its current ownership structure.

5.1.2 Streamlined HAL model

This option reduces the complexity in the existing goals, industry engagement and levy arrangements of HAL. The core of the approach is a consolidation of Members so that there are fewer IACs. This consolidation could occur in a variety of different ways. However, it has been suggested that the broad categories of tropical fruits, temperate fruits, nuts, vegetables and so on are considered (see NHRN submission). This consolidation reduces the number of levies and the complexity of the horticulture levies in general, as well as reduces the number of consultation planning and reporting processes.

In theory, this model would address stakeholder concerns about fragmentation in the existing model, and assist HAL to develop industry-wide approaches/strategies.

In practice, this model faces a number of practical hurdles. While many Members have expressed support for consolidation, none have volunteered their PIB/IAC be merged or withdrawn. Also it is not clear if consolidation would increase or decrease the involvement of levy paying growers in making the key decisions especially about the levies and the leadership of HAL.

From the consultations, it became clear that this was one of the more popular options:

Much of what has been covered in this submission agrees with this 'streamlined HAL' option – reducing the number of organisations will reduce the level of duplication and the level of administrative overhead.

PMA Australia-New Zealand Limited submission

Costa supports a streamlining of Hal with a model that allows it to focus upon key issues that affect the horticulture industry nationally, including:

- Pest management such as the eradication of fruit-fly
- The enabling of greater export market access to regions such as South East Asia, especially Japan, China and South Korea
- Improving soil and water management
- Developing climate change prediction models and adaptation strategies.

Costa submission

5.1.3 New horticulture fund

An effective way to address fragmentation arising from multiple levies could be to establish a single horticulture levy, invested by a statutory corporation. Industry would be consulted through thematic and industry based committees.

This option would provide the greatest independence to invest strategically for the benefit of the whole of horticulture. It would enhance the opportunities for HAL to make industry marketing and market access investments.

Practically this option is the most challenging. It requires the introduction of a single levy. This levy would need to be designed and agreed to by industry and Government. There are precedents where this has occurred.

However, only a limited number of PIBs supported this option during the phase 2 consultation process. Numerous stakeholders criticised this option on the basis that it would be unfair to raise levy payments on those industries that currently had low rates and the difficulties in determining who would make decisions about investment (technocrats?) and governance (Government?).

5.1.4 Proposed (hybrid) model

This option focuses on individual industries and the whole of horticulture R&D and marketing having overlapping and competing priorities that need to be managed separately. As a result, two investment pools would be formed, one for individual industries and one for the whole of horticulture. The latter would be funded by a contribution from each levy and the matching Government funds for eligible R&D.

Individual industries would direct investment of their own industry funds in line with an agreed plan. The new manager would direct investment for the whole of horticulture pool against a set of strategic priorities developed in consultation with all of its stakeholders.

Individual industries would contest for additional funding from the whole of horticulture pool on a voluntary basis.

This option combines aspects of the streamlined model with aspects of the statutory corporation model for a new horticulture fund.

This option provides a basis for clearer separation of roles, responsibilities and priorities within HAL. Care would need to be taken to ensure that operating dual processes does not drive overhead costs. Negotiating allocations between the pools would be challenging. In particular, industries would need confidence that any changes would result in a greater return to their industry than simply investing in line with their own priorities.

After the 'Status quo with minimal changes' model and the 'Streamlined' model, this was the next most supported model. This is because it combined:

- PIB autonomy for those that had graduated in terms of proving their ability to be effective
- with support for the remaining industries that could be serviced under the different grades of service that are variations to the old model.

A couple of submissions from research (CSIRO and SARDI) organisations explicitly expressed support for this option but in combination with aspects of the 'Streamlined model' (fewer IACs). The PMA Australia-New Zealand Limited submission expressed:

This option is in line with our submission: a more streamlined HAL coupled with a contribution towards across-industry R&D. It is also our contention that matching funds from taxpayers need to be more heavily weighted towards clear strategic priorities and across-industry projects.

It was noted that issues regarding the Commonwealth matching contribution and its timing, and the nature of service agreements with HAL and the Commonwealth, needed to be addressed before the model could be successful.

5.1.5 No HAL

A thorough and Independent review has to look at the benefits that might be realised by closing HAL and allowing levy paying growers and tax payers to keep their money and to not invest it in horticultural RD&E and marketing. A key test when thinking about the value that HAL brings, is to think about what would happen without it.

While this model is identified here, it has not been assessed using the balanced scorecard. This is because the 'No HAL' model cannot effectively address issues relating to "market failure" (NSW Farmers submission). The 'No HAL' model is also highly inconsistent with the policy rationale of Government and the direction of HAL.

Furthermore, stakeholders expressed unanimous support an entity like HAL to be maintained:

While each model has inherent benefits and pitfalls, AUSVEG has formed the view that no model offers a significant enough improvement to warrant wholesale reform of HAL.

While AUSVEG recognise the existing HAL system can be more efficient, the decentralised nature of the industry is such that the other models would likely fail and not serve the long term interests of industry development.

Rather than wholesale change we have focussed our attention on reforming the existing model to make it more efficient and strengthen its leadership position within the industry.

AUSVEG submission

Minimal change, HAL works.

Chestnuts Australia Inc. submission

In conclusion, SA Mushrooms believes the levy system has delivered significant benefits to the industry in general that have also benefitted our business. Our PIB is doing a good job of looking after levy payer interests and communicating information about levy investments. We believe levy payers get an opportunity for input into how the levy is invested.

SA Mushrooms submission

...the HAL model is the best for achieving a return on investment for both grower contributions and the matching Australian Government funds.

In saying that we also believe that there are components of the HAL model that can be improved to make the process of funding research development, extension and marketing activities more efficient and cost effective but any improvements should come from within the model.

Hazelnut Growers of Australia Inc. submission

5.1.6 Key dimensions of each model

A summary of each model's key dimensions is provided in the Table 16.

Table 16 **Alternative models for HAL**

Model	Key features
New HAL	<ul style="list-style-type: none"> ▪ Company limited by guarantee under <i>Corporations Act 2001</i> ▪ Independent skill-based Board: 50% elected directly, 50% selected by Board following consultation with Minister of Agriculture ▪ Grower (levy paying grower-owned) ▪ Funded by levies, voluntary contributions and matched Commonwealth contributions ▪ Voting proportional to levy dollars paid ▪ CEO selected by Board. Not a Board Member but attends Board meetings and is accountable to HAL Board for performance ▪ Constitution of New HAL to more clearly set out obligations to levy paying growers and to the Commonwealth ▪ Goals and objectives – primary focus on research, development and extension ▪ New HAL to engage in marketing only on a fee for service basis on request of industry bodies ▪ Increase across/multiple/coincidental industry funding. Then of the outstanding funding, allocate in proportion to levy proceeds contributed by each horticulture sector on average rather than each year ▪ HAL introduce a separate decision making process to address multiple industry R&D ▪ Rationalise and strengthen strategic planning for horticulture RD&E: <ul style="list-style-type: none"> ♦ Broaden strategic planning to include one strategic RD&E plan for whole of horticulture ♦ Industry strategic planning to become industry plans, rather RD&E plans and will be the responsibility of industry not HAL ♦ HAL strategic plan implemented through rolling annual operating plans for strategic priorities and key industry groupings. Rolling plan to broaden the planning horizon beyond an annual cycle, given many investments run over multiple years ▪ Move to program rather than project basis for RD&E with multi-year, larger funding envelopes, with evaluation and reporting focused on results (particularly benefits to industry from investment) ▪ New HAL would have the ability to initiate engagement directly with growers, including large growers in order to pursue strategic objectives
Status quo with procedural amendments	<ul style="list-style-type: none"> ▪ Company limited by guarantee under <i>Corporations Act 2001</i> ▪ Retain existing HAL: <ul style="list-style-type: none"> ♦ existing Board structure and appointment process ♦ existing funding sources (levies, voluntary contributions & matched Commonwealth contributions). Over the longer-term, fewer number of levies due to longer-term consolidation of Members ♦ existing goals & objectives ▪ Permanent freeze on establishment of any new PIBs ▪ HAL actively encourage resource sharing initiatives among existing PIBs with a view to facilitating consolidation in longer-term ▪ HAL set administrative budget unlinked to overall project expenditure ▪ Introduce an oversight appeals body that acts as independent adjudicator of issues associated with funding provision

Model	Key features
Streamlined HAL	<ul style="list-style-type: none"> ▪ Company limited by guarantee under <i>Corporations Act 2001</i> ▪ Retain existing HAL <ul style="list-style-type: none"> ♦ existing Board structure and appointment process ♦ existing funding sources (levies, voluntary contributions & matched Commonwealth contributions). Over the longer-term, fewer number of levies due to longer-term consolidation of Members ♦ existing goals & objectives ▪ Differs from 'Status quo with procedural amendments' options as more proactively streamline HAL in the immediate terms by consolidating number of number of Members so that there are fewer IACs. ▪ Consolidation designed to: <ul style="list-style-type: none"> ♦ streamline IAC/PIB responsibilities ♦ reduce number of levies ♦ reduce number of planning processes ♦ reduce reporting processes
New Horticulture Fund	<ul style="list-style-type: none"> ▪ Statutory authority not a company limited by guarantee ▪ Skill-based Board ▪ Single horticulture levy invested by the statutory authority ▪ Industry consulted with through thematic and industry-based Committees ▪ More streamlined than other options as abolishes PIB membership and as a result significantly reduces: <ul style="list-style-type: none"> ♦ number of levies ♦ number of planning processes ♦ reporting processes
Hybrid HAL model	<ul style="list-style-type: none"> ▪ Company limited by guarantee under <i>Corporations Act 2001</i> ▪ Grower-owned ▪ Funded by levies, voluntary contributions & matched Commonwealth contributions ▪ Increase across/multiple/like industry investment ▪ Two investment pools operated via an: <ul style="list-style-type: none"> ♦ individual industries pool ♦ whole of horticulture pool ▪ Individual industries direct own industry funds in line with an agree industry plan ▪ New manager for whole of horticulture fund against a set of strategic priorities developed in consultation with all stakeholders ▪ Individual industries contest for additional funding from whole of horticulture pool on a voluntary basis.

Source: ACIL Allen Consulting, 2014.

5.2 Balanced scorecard assessment

5.2.1 Approach

In order to deliver a balanced, yet consistent analysis of each model, a 'balanced scorecard' approach was adopted. The balanced scorecard approach provides a basis for assessing the conceptual or non-quantitative elements of each model. It also provides a basis for drawing conclusions about the suitability of each model.

Box 1 provides a high level description of a standardised balanced scorecard approach. The box also shows how key elements of the balanced scorecard approach have been adapted for the purposes of this chapter.

Box 3 Explanation of a Balanced Score Card Approach to alternative business models

The Commonwealth Department of Finance and Administration's description of the balanced scorecard demonstrates the scorecard's applicability to a review that incorporates significant non-quantitative elements:

"The balanced scorecard is an approach to performance management that translates an organisation's strategic objectives into a useful set of performance measurements. In addition to traditional financial indicators, it incorporates elements of organisational or non-financial performance such as customer satisfaction, internal business processes, and innovation and learning. This is particularly useful in a public sector environment where 'bottom line' driver are not pre-eminent measures of success."

A common scale of measurement for all variables needs to be found in order to make an aggregate assessment of the wider costs and benefits associated with the alternative business delivery options. While dollar values can be ascribed to some costs and benefits, this is less feasible (but not necessarily impossible) for other findings.

The 'balanced scorecard' approach overcomes the limitations of conventional financial analyses by systematically approaching the central issues in the following manner:

- a range of advantages/disadvantages in achieving the nominated criteria by each business delivery model identified;
- each impact is then given a qualitative score that depends on the scale of the identified impact. In this case, ACIL Allen Consulting has assigned a score between positive three (✓✓✓) and negative three (×××) depending on the adjudged scale of the impact. This immediately raises the issue of what is meant by a 'positive' or 'negative' effect. There is really no way of objectively answering this question — it would vary from impact to impact, and inevitably be a matter of judgment. However, the advantage of this approach is that such judgments are transparent.

Source: Department of Finance and Administration, Specifying Outcomes and Outputs (2000), Appendix E: Key Strategic Planning Methodologies, available at www.dofa.gov.au

5.2.2 Assessment criteria

The Independent review undertook an assessment of each model using the criteria outlined below. The criteria were developed following a review of HAL's performance (phase 1) and substantial consultation with stakeholder (phase 2).

For the purposes of this analysis, the criteria are:

- *Strategic alignment.* The degree to which HAL's activities are aligned with national research priorities, the obligations of funding agreements and its underlying economic rationale, are vital in maximising the net overall benefits arising from HAL's investments. A model which is not well aligned with the directions and obligations of Government (a significant source of HAL's funding) and industries will not be sustainable.
- *Incentives.* The extent to which the HAL's business model provides incentives for its Board, senior management and other staff to deliver high levels of performance, will be vital to the organisation's success. Without the appropriate incentives HAL's decision will struggle to deliver outcomes that are consistent with its mandate.
- *Efficiency.* There are two sub-criterion relevant to efficiency:
 - External efficiency. This criterion involves the extent to which the model will support the delivery of outputs and outcomes in the most efficient way.
 - Internal efficiency. This sub-criterion considers the extent to which HAL's model supports the delivery of R&D, extension and marketing services at an efficient cost. This sub-criterion also involves consideration of whether the model can provide the flexibility needed to ensure service delivery is responsive to changes in the external operating environment.

- *Transparency and accountability.* This criterion considers the extent to which the Government, HAL Members, levy paying growers, service providers and the community at large understand the role, workings and performance of HAL. Transparency is an important aspect in ensuring that HAL is held accountable for its investments decisions and its use of public/industry funds.
- *Needs and expectations of levy paying growers/producers.* This criterion considers the extent to which the model enhances broad stakeholder support for HAL. Without strong stakeholder support no single HAL model will be sustainable.
- *Implementation.* This criterion considers the timeframe and costs associated with the implementation of each model. As such, considerations about the transitional arrangements and the level of resources required for implementation are fundamental.

5.3 Assessment results

The results of the balanced scorecard assessment are provided in Table 17 and Table 18 below. The tables include a consideration of each model's strengths and weaknesses against the assessment criteria outlined above. It is important to note that an assessment of the 'No HAL' model is intentionally excluded from Table 18 because it was rejected by the Independent review for the reasons outlined in section 5.1.5 above.

Table 17 **Balanced scorecard assessment of New HAL**

New HAL	
Strategic alignment	<p style="text-align: center;">✓✓✓</p> <ul style="list-style-type: none"> ▪ Aligned with the Government's direction to the extent that it addresses market failure outcome ▪ Model establishes a single set of objectives which align with Government directions ▪ Addresses unclear lines of accountability within existing HAL structure ▪ Direct ownership by levy paying grower growers consistent with Government's goal of improving accountability to growers
Incentives	<p style="text-align: center;">✓✓</p> <ul style="list-style-type: none"> ▪ Model provides incentives for more multi-industry and strategic initiatives, and collaboration ▪ Model provides incentives for HAL to improve the performance and outcomes of its investments in marketing – i.e. through the introduction of more contestability in marketing ▪ Model focuses HAL activity on R&D and extension, and thereby provides greater incentives to improve the outcomes of these investments ▪ HAL management and Board more accountable for performance of investment portfolio of HAL
Efficiency	<p style="text-align: center;">✓✓✓</p> <ul style="list-style-type: none"> ▪ Model offers lower cost administration by reducing HAL's focus on compliance and enhancing its focus on performance and outcomes ▪ Model supports the implementation of streamlined levy arrangements which seek to reduce the administrative burden of levy collection and levy changes
Transparency & accountability	<p style="text-align: center;">✓✓✓</p> <ul style="list-style-type: none"> ▪ Model addresses concerns about conflicts of interest by removing PIBs from HAL's Board and IACs decision making processes ▪ Provides a direct link to levy paying growers
Needs & expectations	<p style="text-align: center;">✓✓</p> <ul style="list-style-type: none"> ▪ Requires substantial change to HAL's ownership arrangements and is therefore not expected to be strongly supported by existing HAL-Member PIBs ▪ Model likely to have strong support from non-PIB Member stakeholders to HAL and grass-root levy paying growers ▪ Model meets the expectations of State and Territory Governments consulted with during this Independent review ▪ Model meets the expectations of researchers and non-PIB service providers consulted with during this Independent review
Implementation	<p style="text-align: center;">x x</p> <ul style="list-style-type: none"> ▪ Model can be implemented using existing legislative instruments ▪ Model requires substantial change to HAL's ownership and could experience delays in implementation due to

New HAL

unhappy stakeholders

Source: ACIL Allen Consulting, 2014.

The assessment of New HAL in Table 17 indicates that it performs well in terms of all criteria, except for implementation. Any type of change involving significant change to the governance arrangements would be difficult to implement relative to other alternatives and requires however it can be done with the Australian Government and the industry representative bodies to working together to achieve this goal.

Table 18 **Balanced scorecard assessment of alternative HAL model options**

Assessment criterion	Status quo (with minimal changes) model	Streamlined HAL model	New Horticulture Fund	Hybrid model
Strategic alignment	<p>x x</p> <ul style="list-style-type: none"> Aligned with the Government's direction to the extent that it addresses market failure outcome Model does not: <ul style="list-style-type: none"> improve the level of clarity of HAL's objectives completely address current unclear lines of accountability within existing HAL structure 	<p>x x</p> <ul style="list-style-type: none"> Aligned with the Government's direction to the extent that it addresses market failure outcome Model does not: <ul style="list-style-type: none"> improve the level of clarity of HAL's objectives completely address current unclear lines of accountability within existing HAL structure 	<p>✓✓</p> <ul style="list-style-type: none"> Aligned with the Government's direction to the extent that it addresses market failure outcome Addresses unclear lines of accounting within existing HAL structure Direct ownership by levy paying grower growers consistent with Government's goal of improving accountability to growers 	<p>✓✓✓</p> <ul style="list-style-type: none"> Aligned with the Government's direction to the extent that it addresses market failure outcome Model establishes a single set of objectives which align with Government directions Addresses unclear lines of accountability within existing HAL structure Direct ownership by levy paying growers consistent with Government's goal of improving accountability to growers
Incentives	<p>x x x</p> <ul style="list-style-type: none"> Model does not introduce incentives to improve the performance of HAL's making investments 	<p>✓</p> <ul style="list-style-type: none"> Model provides incentives for more multi-industry and strategic initiatives, and collaboration Model simplifies the objectives being pursued because: <ul style="list-style-type: none"> reduces formal fragmentation of HAL membership consolidates strategic planning activities If individual industry participants feel they have no say in levy investments then higher likelihood that will opt-out 	<p>✓✓</p> <ul style="list-style-type: none"> Model simplifies HAL's role and provides incentives to improve funds administration Model provides incentives for more multi-industry and strategic initiatives, and collaboration Model simplifies the objectives being pursued because: <ul style="list-style-type: none"> reduces formal fragmentation of HAL membership consolidates strategic planning activities 	<p>✓✓✓</p> <ul style="list-style-type: none"> Model provides increased incentive for more multi-industry and strategic initiatives, and collaboration Increased contestability of funds for industry programs provides incentives to ex-ante justify investment of funds in more rigorous way Model focuses HAL activity on R&D and extension, and thereby provides greater incentives to improve the outcomes of these investments HAL management and Board more accountable for performance of investment portfolio of HAL

Assessment criterion	Status quo (with minimal changes) model	Streamlined HAL model	New Horticulture Fund	Hybrid model
Efficiency	<p>xx</p> <ul style="list-style-type: none"> Model does not address persistent issues with high administration and compliance costs Does not address governance weaknesses of existing model so over time, efficiency is a difficult goal to achieve. Likely that compliance controls etc. would build up again over time due to risks from ownership despite initial changes at commencement of its operations which would achieve cost savings 	<p>x</p> <ul style="list-style-type: none"> Model introduces simplified governance arrangements through streamlined IACs. These simplifications reduce the burden on industries to develop individual plans and report against these plans The process of refining the IACs a costly and difficult process Does not address governance weaknesses of existing model so over time, efficiency is a difficult goal to achieve. Likely that compliance controls etc. would build up again over time due to risks from ownership despite initial changes at commencement of its operations which would achieve cost savings 	<p>✓✓</p> <ul style="list-style-type: none"> Model reduces HAL's role to an administrator of horticulture funds. Other non-core functions no longer delivered by HAL – i.e. strategic development, marketing and consultation 	<p>✓✓</p> <ul style="list-style-type: none"> Mode offers lower cost administration by reducing HAL's focus on compliance and enhancing its focus on performance and outcomes However model will need to be careful that dual pooling structure does not result in excessive overheads (duplicative overheads in each pool) Model supports the implementation of streamlined levy arrangements which seek to reduce the administrative burden of levy collection and levy changes
Transparency and accountability	<p>xx</p> <ul style="list-style-type: none"> Model includes an Industry Ombudsman to resolve disputes and resolutions Model does not address concerns about conflicts of interest in the existing model 	<p>xx</p> <ul style="list-style-type: none"> Model minimises potential for conflicts of interest through streamlined IAC and decision making processes – i.e. less IACs mean that HAL must fill fewer positions on an IACs Model still reliant on PIBs to provide accountability to producers / ley payers 	<p>✓✓✓</p> <ul style="list-style-type: none"> Model introduces direct accountability to the Minister and the Government for HAL's performance/investments Model addresses concerns about conflicts of interest by removing PIBs for HAL's Board and IACs decision making processes 	<p>✓✓✓</p> <ul style="list-style-type: none"> Model addresses concerns about conflicts of interest by removing PIBs from HAL's Board and IACs decision making processes

Assessment criterion	Status quo (with minimal changes) model	Streamlined HAL model	New Horticulture Fund	Hybrid model
Needs and expectations	<p style="text-align: center;">-</p> <ul style="list-style-type: none"> Model has strong support from PIBs who are currently Members of HAL Model perpetuates low levels of confidence in HAL from non-PIB Member stakeholders Model delivers low direct stakeholder representation for levy paying growers 	<p style="text-align: center;">x</p> <ul style="list-style-type: none"> Model has low levels of support from PIBs who are HAL Members Model reduces the level of direct representation for smaller industries and commodities Model delivers low direct stakeholder representation for levy paying growers 	<p style="text-align: center;">-</p> <ul style="list-style-type: none"> Model is clear, transparent and well understood model amongst Government stakeholders who provide matched funding for R&D Model removes industry ownership of HAL and potentially loss of representation to growers if placed in the hands of Government 	<p style="text-align: center;">✓✓</p> <ul style="list-style-type: none"> Requires substantial change to HAL's ownership arrangements and is therefore not expected to be strongly supported by existing HAL-Member PIBs Model likely to have strong support from non-PIB Member stakeholders to HAL and grass-roots levy paying growers Model meets the expectations of State and Territory Government consulted with during this Independent review Model meets the expectations of researchers and non-PIB service providers consulted with during this Independent review
Implementation	<p style="text-align: center;">✓✓</p> <ul style="list-style-type: none"> Model requires minimal organisational changes (and therefore minimal resources) to implement Seeks to rationalise IACs however not to same degree as proposed 'Streamlined Option'. 	<p style="text-align: center;">x</p> <ul style="list-style-type: none"> Model requires consolidation of IACs which could take time for Members to agree on how consolidation should occur 	<p style="text-align: center;">x x</p> <ul style="list-style-type: none"> Model could experience significant delays during implementation due to the use of a legislative instrument to initiate change 	<p style="text-align: center;">x x x</p> <ul style="list-style-type: none"> Model can be implemented using existing legislative instruments Model requires substantial change to HAL's ownership and could experience delays in implementation Model requires streamlining of existing levy arrangements which is extremely problematic. Could be achieved over the longer-term with the goodwill of the PIBs, Government and HAL however would take considerable time to achieve

Source: Based on ACL Allen Consulting assessment 2014.

5.4 Findings – the preferred model

The goal of obtaining maximum overall value — and therefore benefit to levy paying growers and industry — from HAL should be the ultimate objective of any preferred model. However it is not straightforward one to achieve. From this perspective it is evident from Table 17 and Table 18 that:

- The proposed *status quo* (with minimal procedural changes) model is the least preferred model for implementation. This is because the model provides little uplift in the areas of strategic alignment, incentives to improve performance, efficiency, and transparency and accountability. It is of course the easiest of the models to implement, however does little to address the deeply held concerns about HAL’s governance and performance expressed by stakeholders throughout this Independent review.
- This poor assessment outcome for the ‘Status quo with minimal changes’ model is similar for the ‘Streamlined HAL’ model. The streamlining the IACs improves its assessment in terms providing clearer incentives however it performs particularly poorly in terms of providing clearer lines of accountability within the HAL as its failure to separate the PIBs from ownership continues to embed conflict of interest issues both operationally and constitutionally within the organisation.
- Both the ‘New Horticulture Fund model’ and the ‘Hybrid model’ perform more strongly in terms of strategic alignment with Government direction, providing the correct incentives to improve performance and efficiency of HAL and most importantly to improve transparency and clarify lines of accountability. However both models are extremely difficult to implement: in particular, the hybrid model with a single levy is considered to be an impossible model to implement in the short to medium run.
- The clear advantage of the proposed New HAL model is that it out-performed most models on each of the individual performance criteria. The ‘Hybrid model’ was the other model which performed well however it was assessed as an inferior model on the basis it would be almost impossible to implement in the short to medium run due to the need to streamline levy arrangements.

It is clear that moving to a grower-owned Research and Development Corporation (RDC) is the preferred model for New HAL to address the existing structure weaknesses which is contributing to poor performance and risks within HAL. However to be able to shift to this new model requires an implementation plan which requires a transition in order for the implementation to be able to managed successfully. The next chapter outlines the implementation and timelines for transition to grower-owned RDC is outlined in the next chapter.

6 Implementation and action plan

This chapter sets out some factors to be considered in implementing the recommendations. The report recognises that how implementation proceeds will crucially depend on the reaction from HAL and the Australian Government to the report's recommendations. The implementation questions will need to be addressed further following their consideration of the report.

6.1 Introduction

An important aspect to implementing recommendations successfully is to:

- engage stakeholders on the change
- identify risks to the successful implementation of the recommendations
- develop risk mitigation strategies to address identified risks.

This chapter outlines a possible implementation plan for transforming Horticulture Australia Limited (HAL) into a grower-owned rural Research and Development Corporation (RDC). It outlines the preferred option to transition and its strengths and weaknesses.

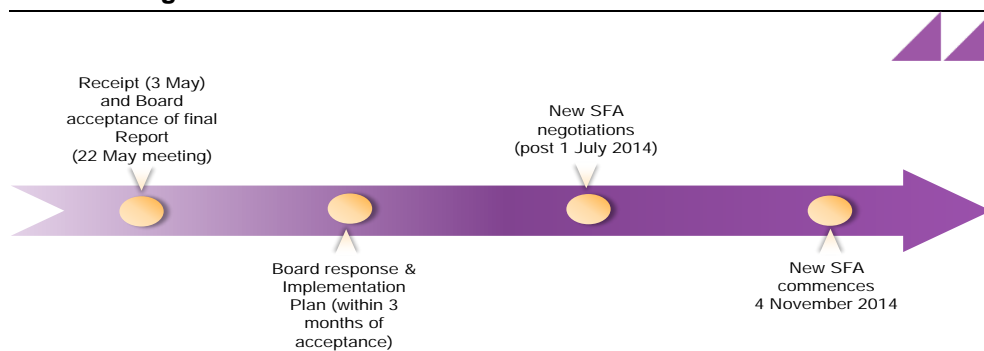
There are other potential transition options that could be considered, including creation of a totally new body outside of either government or HAL influence or a New HAL subsidiary; these are risky and liable to fail.

6.2 Transition framework

The transformation of HAL into a grower-owned rural RDC involves a series of stages to be implemented before being able to transition to a grower-owned RDC proposed by the Independent review. The following section outlines the different stages and timeline for transitioning to a grower-owned RDC.

Figure 14 summarises the timeline for HAL once this report is completed and until the completion of the existing Statutory Funding Agreement (SFA) and commencement of a new SFA with the Australian Government.

Figure 14 Overarching timeline for HAL and new Statutory Funding Agreement



Note: This overarching timeline highlights the provision of a draft Phase 3 report to the HAL Board for 8 April 2014 HAL Board meeting.

The timeline provides the basis for the indicative steps needed to prepare for and implement a grower-owned RDC. It is clear that there are three steps:

1. Acceptance of report — “Acceptance” under clause 15.2(d) of the SFA is taken to mean HAL’s acceptance of the Report as having been prepared and delivered in accordance with the requirements of the SFA and Terms of Reference. It is not taken to mean acceptance of the recommendations contained in the report
2. Acceptance of the Independent review’s recommendations by HAL Board and development of the Implementation Plan - this needs to occur within 3 months of 22 May 2014
3. Implementation of recommendations – this will occur upon acceptance of the Independent review’s recommendations by HAL Board.

Successful rollout of the recommendations will require detailed implementation planning and strong stakeholder engagement skills.

The implementation plan has two levels:

- actions directly related to establishing a grower-owned RDC
- actions needed to enhance transparency, establish performance benchmarks and improve performance of HAL.

6.3 Transition to New HAL

6.3.1 Why have a transition?

It is highly unlikely that the work required to establish a grower-owned company and transfer the operations of the current HAL to the New HAL could be completed by November 2014. Necessary steps include establishing a register of levy paying growers, and as noted in previous chapters this information is not currently available. To establish a register of levy paying growers requires:

- publicity and explanatory materials to be circulated widely
- selection (preferably via competitive tender) of an organisation to manage the register of the Members and assignment of voting rights.

The Independent review strongly favours creation of a transitional body to help manage the change. We would have recommended this even if there were a pre-existing list of growers. A transitional vehicle is a good way to deal with projects, contracts, staffing, property (including an especially important element of property in the case of HAL, its intellectual property in past projects). These need to be managed so as not to lose grower value.

It is also apparent, given the risks associated with the current model, that taxpayers’ interests in funding R&D would be better met if a new body at arms-length from perceived conflicts of interest could be created to negotiate and have carriage of the new statutory funding agreement.

6.3.2 Need for a rapid transition

In consultations with stakeholders there was a very strong consensus that if there were to be changes, these should be implemented as quickly as possible so as to minimise industry uncertainty.

Possible negative consequences of a lengthy transition period include:

- loss of key elements of HAL intellectual property
- loss of key staff
- lobbying and agitation to undermine the changes (any organisational change initiative faces this, and we would expect HAL to be no different)
- delays or disruptions to important R&D projects

While an immediate transition is not practical, it should be possible to make the necessary changes over the course of a year, possibly less, depending on the degree of support achieved among existing HAL Members.

6.3.3 How to make the transition

The *preferred option* for transitioning to New HAL involves creation of a Commonwealth owned company with directors chosen by the Minister for Agriculture following consultation with industry. This corporation (provisionally titled “New HAL”) could make use of the existing staff and infrastructure of HAL. Existing projects and programs would continue to be managed by HAL. This project has strengths and weaknesses, outlined in Table 19, but on balance is considered the option most likely to deliver a swift transition to a grower-owned rural RDC.

If a Commonwealth owned company could not be used as transitional vehicle, there is a range of other possible options. They might include the creation of a subsidiary of the present HAL as an independent body, charged with managing investments at arm’s length from PIBs. As indicated previously, this is not the recommended option as it entails significant risks which are likely to undermine the implementation of the overall reform – the move to a grower-owned RDC. It is also an option that is not favoured by the HAL Board. Others could include for example maintenance of the status quo until all the details required for a grower-owned body are complete, or the identification of a new body completely separate from HAL that might be charged with the management of the task. These are not considered viable options.

Table 19 **Strengths and weaknesses of Commonwealth owned company**

Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ Removes current embedded conflict of interest issues from ‘transitional’ industry services body which negotiates new SFA with Commonwealth ▪ Establishment of new company which will comply fully with Horticulture Marketing and Research and Development Services Act 2000 and other legislation relatively simple ▪ Signals Australian Government determination to assist new grower-owned company to come into being 	<ul style="list-style-type: none"> ▪ Likely to have some grower opposition among proponents of existing system ▪ Selection of directors could be difficult if there is strong opposition in some industries. Published guidance from the Commonwealth suggests it will only consider establishing or participating in a company in exceptional circumstances ▪ May set precedents for other rural industries, Government would need to consider these implications ▪ Could face delay if other urgent Government priorities intervene

Source: ACIL Allen Consulting, 2014

6.3.4 Funding the transition

Transition to a grower-owned RDC will require funding in order for transition activities required to be undertaken. There are two periods of funding the transition:

1. funding for pre- transitional New HAL period (funding of transition activities from when HAL Board accepts Independent review report until transfer of assets and liabilities to the New Hal (around November 2014))

2. funding for transitional New HAL period (funding of transition activities from when transitional New HAL is set up (1 July 2014) until transfer of ownership to growers (around October 2015))

Funding for transitional activities during the pre-transitional New HAL period should be funded by HAL, who should approach the Commonwealth Government for some funding support.

HAL should be responsible for funding the transitional activities (i.e. developing the New Constitution, grower register etc.). It should though be open to HAL to seek agreement from the Australian government to use Commonwealth matching funding to assist with this purpose, given it is in the interests of better long term delivery of rural R&D¹⁴

6.3.5 Steps to transition

To transition to New HAL via this way, the following steps will need to occur:

- HAL Board accepts the Independent review of Horticulture Australia Limited Report. **(This is to come into effect 'within 3 months of acceptance' (22 May 2014)).**
- Minister of Agriculture make declaration in writing that Horticulture Australia Limited (HAL) ceases to be the industry service body (section 10, clause 1) of *Horticulture Marketing and Research and Development Services Act 2000*. The Minister has grounds for making the declaration if:
 - (a) the body gives the Minister a written request that the declaration be made; or
 - (b) the Minister has reasonable grounds to believe that the body has engaged in actionable conduct; or
 - (c) the Minister has reasonable grounds to believe that:
 - (i) the body's constitution is no longer appropriate for a body performing the functions of the industry services body; or
 - (ii) the body has failed to comply with its constitution; or
 - (d) an administrator of the body is appointed; or
 - (e) the body commences to be wound up or ceases to carry on business; or
 - (f) a receiver, or a receiver and manager, of property of the body is appointed, whether by a court or otherwise; or
 - (g) the body enters into a compromise or arrangement with its creditors or a class of them; or
 - (h) the following circumstances exist:
 - (i) the Secretary gave the body a written notice requesting its consent to a proposed variation under section 13 of the deed of agreement in relation to the body;
 - (ii) the body did not give its written consent to the variation within the period of 3 months after the day the notice was given, or such longer period as was specified in the notice;
 - (iii) the Minister considers that without the proposed variation being made, it would not be appropriate for the body to perform the functions of the industry services body or the industry export control body.

Horticulture Marketing and Research and Development Services Act 2000, section 9, clause 2.

(This is to come into effect 1 July 2014).

- Minister of Agriculture sets up new Commonwealth owned corporation. Appoint directors. **(This is to come into effect 1 July 2014).**

¹⁴ Due to the current budget pressures, it is recognised by the Independent review that it is unlikely that the Commonwealth will have additional funds available to fund the activities required for the transition of HAL to a grower-owned RDC. Therefore, using a portion of the 'matched' Commonwealth funds the purposes of funding the transition is the preferred option.

- Minister of Agriculture make declaration in writing that Commonwealth owned corporation (New HAL) to be the industry service body (clause 9(1)) of *Horticulture Marketing and Research and Development Services Act 2000*. This must come into effect the day after HAL ceases to be the industry services body. **(This to come into effect 1 day after Minister of Agriculture declares cessation of HAL as industry services body for horticulture)**
- Minister of Agriculture make declaration the industry body's assets and liabilities (under regulations) to New HAL under section 11 of *Horticulture Marketing and Research and Development Services Act 2000*. **(This to come into effect following declaration and before 4 November 2014 (when new SFA commences))**.

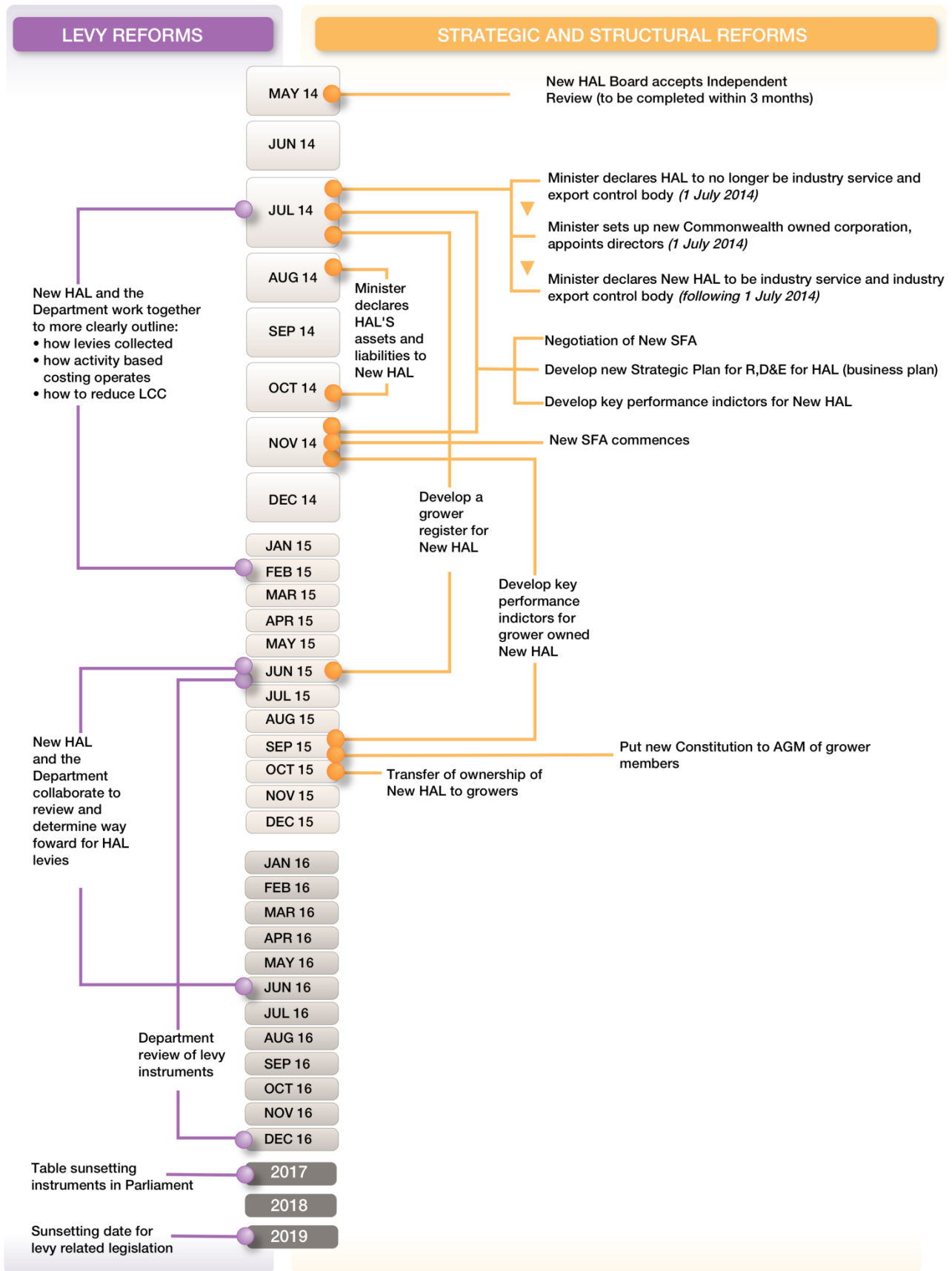
Regardless of the transition option selected, there are additional steps that are required to be completed the transition to the final grower-owned New HAL (a grower-owned RDC). Indicative completion dates have been given to highlight when tasks and steps need to be completed by in order to successfully transition to a grower-owned horticulture RDC. These steps include:

1. Develop new Strategic Plan for RD&E for HAL (business plan) for New HAL. **(This plan is to be complete by 4 November 2014)**.
2. Develop key performance indicators (KPIs) for New HAL. These KPIs will be created and measured against up until grower-owned RDC created **(Interim (implementation) KPIs to be developed by 4 November 2014 and reported against each 3 months)**.
3. Develop key performance indicators (KPIs) for grower-owned New HAL. These KPIs will be created on an annual basis and will come into effect once grower-owned RDC formed. These KPIs will be reported against each 3 months and after 12 months will be reviewed to determine whether revised KPIs need to be set given maturity of New HAL. **(Start developing 4 November 2014 and to be completed before grower-owned New HAL created)**.
4. Develop Constitution for grower-owned New HAL. **(Complete by 30 June 2015)**.
5. Develop a grower register for New HAL – The transition period is required because currently there is not a register of horticulture growers. Once the recommendations are accepted, development of a grower register needs to commence. This can be done either by the transitional or Department of Agriculture. **(Complete by 30 June 2015)**
6. Put new Constitution to AGM of grower Members **(September 2015)**.
7. Transfer ownership of New HAL to growers **(1 October 2015)**.

6.4 Implementation timetable

The timetable for implementing the reforms proposed by the Independent review are summarised in Figure 15. In some cases, the proposed timing is indicative as completion of the latter tasks requires the earlier tasks to be completed.

Figure 15 Reform timeline



Note:
Source: ACIL Allen Consulting, 2014.

6.5 Implementation issues

Our recommendations for New HAL will require the establishment of a registry of Members, a process for certifying that Members are levy paying growers and a records keeping and accounting process for reporting the amount of levy attributable to each grower annually.

A major challenge to be addressed in establishing a registry of levy paying growers lies in the fact that the levy is, in many cases, paid by a trader¹⁵ on behalf of the growers. The current arrangement has two consequences:

- it means that HAL currently does not necessarily know the identity of the growers on whose behalf it was established.
- other parties also interpose themselves between the growers and HAL so that the growers are not fully aware of their contribution nor encouraged to interact directly with HAL.

6.5.1 Current horticulture levy payment and records

The arrangements that apply to the payment of the various horticulture levies are complex and differ from one type of horticultural produce to another (see Box 4).

In general the levy is payable for horticultural produce where the producer either sells the product or uses it in the production of other goods. The legal obligation to pay most horticulture levies is upon the producer. However, in many cases, for convenience, other parties in the supply chain may collect a levy and pay it to the levy collection unit of the department.

There are a number of arrangements that currently apply. These arrangements are complex, varied and, according to our consultations, not well documented or understood by growers.

There appear to be broadly four different buyer seller relationships that also affect the way in which the levy is paid:

- grower/trader model where the grower also acts as a trader and sells direct to retail
 - the grower/trader pays the levy to the department
- grower/trader/exporter model
 - the grower/trader/exporter pays the levy to the department
- the grower to agent model
 - the agent pays the levy to the department
 - any intermediary/first purchaser that collects levy on behalf of growers is obliged to provide detail (in a recipient created tax invoice, for example) of the levy paid. When a compliance officer from the department does a record inspection, this is one of the first things that is checked
- the grower to merchant model
 - the merchant pays the levy to the department but the grower is not advised of the amount of levy paid on the grower's behalf

¹⁵ Traders are defined under the Trade Practices (Horticulture Code of Conduct) Regulations 2006 as an agent or a merchant.

- any intermediary/first purchaser that collects levy on behalf of growers is obliged to provide detail (in a recipient created tax invoice, for example) of the levy paid. When a compliance officer from the department does a record inspection, this is one of the first things that is checked

The last two models are governed by the Trade Practices (Horticulture) Code of Conduct Regulations) 2006 (the Horticultural Code). This is a code of conduct that is authorised by the Australian Competition and Consumer Commission (ACCC). The code is subject to periodic review by the ACCC.

Box 4 Horticulture levy payment and records

In practice the arrangements that apply to the payment of the various horticulture levies are complex and differ from one type of horticultural produce to another.

In general the levy is payable for horticultural produce where the producer either sells the product or uses it in the production of other goods. The legal obligation to pay most horticulture levies is upon the producer. However, in many cases, for convenience, other parties in the supply chain may collect a levy and pay it to the department.

In the case of vegetables the department notes:

1. If the producer sells their produce through an intermediary, such as a first purchaser, buying agent, selling agent, merchant or processor, the intermediary must pay levy and submit all return forms on behalf of the producer. The intermediary can recover from the producer the amount of levy paid, by offset or otherwise.
2. If the producer sells vegetables by retail sale—for example, direct to the consumer at roadside stalls or through shed or farm gate sales—they must pay levy and submit all return forms directly to the department.

It is likely that a considerable proportion of vegetable produce is transacted indirectly via an agent or other intermediary. Smaller growers are generally reliant on agents/merchants and/or the central markets. A significant portion of growers and levy payers are probably not keepers of direct levy records under current arrangements. Growers do obtain information about the quantity and value of produce sold by their agents and merchants.

In other horticultural industries, such as in nursery, strawberries and mushrooms, levies are collected by upstream producers. Thus, in the case of the nursery products levy, the manufacturers of pots and containers pay 5 per cent of the value of their sales to nurseries and pay the proceeds to the department. Nursery producers know that they pay the levy when they purchase containers, and the amount is included in the invoices for containers, but they themselves do not currently keep and maintain levy records for the department. Notably, in the case of the 'pot' levy, levy collectors are entitled to be reimbursed for 2.5 per cent of the levy funds that are collected.

At present, many if not most growers where levies are collected by upstream suppliers probably do not collect and maintain records of specific levy payments as this is a service performed by those that have agreed to collect the levy.

While there are many horticultural growers and levy payers that can and do seek and maintain levy payment records for many reasons, it is also likely that there are many that have been content to leave this to the upstream or first point of sale party that have accepted responsibility to do so.

Source: ACIL Allen Consulting, 2014

6.5.2 Suggested arrangements for a Members' registry

As indicated above, the arrangements by which growers sell produce into the retail and wholesale markets vary. The arrangements by which the levy is paid vary accordingly and, in most cases, the growers are not advised of the amount of levy paid on their behalf. In such cases, the department is also not aware of the identity of the grower who has generated a levy payment.

If the levy paying growers become the Members of New HAL this will need to change. It will require establishing a registry of growers in the same way as companies maintain registries of shareholders or co-operatives maintain registries of Members.

In order to register as a levy paying grower and Member of New HAL, all growers who pay levies would have to maintain levy records. Many growers would have to collect these records or obtain them from their agents and merchants where they have in the past been relieved of this burden.

Key features of proposed registry and membership arrangements

The key features of the registry and membership arrangements include the following features:

- levy paying growers will be Members of New HAL with voting rights broadly in proportion to the level of the levy paid
- voting rights will be determined each year by the Board on the basis of the levels of levy paid in the preceding twelve months
 - there may be a case for having a stepped arrangement that would provide a minimum voting right for smaller levy paying growers
- where growers sell through traders, the traders will be required to report to growers the amount of levy paid on their behalf consistent with reporting requirements specified under the Horticulture Code
 - the timing of the statements will be in accordance with the agreement entered into between the levy paying grower and the trade but the period between statements should not exceed 12 months.

Reporting arrangements

Growers that sell direct to retail or to export will know the levy they have paid on their production and their identity and the amounts they have paid will be known to the department. This category does not present a problem for the establishment of a registry. The major challenge for this endeavour is determining the identity of and the levy amounts paid by growers who sell through traders under the Horticulture Code.

The Horticulture Code identifies two classes of trader:

- an agent who sells produce on behalf of a grower under a horticultural produce agreement where ownership of the produce is not transferred from the grower to the agent
- a merchant who sells produce purchased from a grower for the purpose of resale
 - excluding a person who purchases produce for export
 - excluding a person who purchase produce for retail sale

Section 20 of the Horticulture Code specifies the items that must be reported by agents to growers in each statement including:

- the date or dates of the sale of the produce by the agent
- the type and quantity of the produce sold
- the price received for the produce sold
- details of each amount deducted by the agent from the sale price of the produce; and
- the time and date at which the produce was delivered to the agent
- details of any amounts of the produce received by the agent during the period and not sold by the agent during that period
- details of any amounts of the produce not sold during that period but destroyed by the agent and details of the costs incurred in destroying the produce

- details of any amounts of the produce not sold by the agent that is held by the agent at the end of that period and
- if produce that is delivered to the agent during the period is not sold by the end of the period, the reasons why the produce was not sold

Section 28 of the Horticultural Code specifies the items that must be reported by merchants to growers in each statement including:

- the quantity and quality of the produce bought by the merchant
- the date or dates of the purchases
- the price paid for the produce
- the time at which the produce was delivered to the merchant.

In theory it should be possible for a levy paying grower to request that a trader include advice on the amount of levy paid against the produce sold. These could be in the form of certificates of levy payment. It may be necessary to amend the Code if agreement cannot be reached with traders to undertake this reporting task. This matter should be the subject of legal advice and further consultation with the parties including the ACCC.

Growers who apply to become Members of HAL would be required to produce the report from the respective trader confirming the amount of levy that had been paid each year under their reporting requirements.

Audits

Production of certificates would need to be audited. This could be achieved as part of the normal auditing of traders business activities or under a separate arrangement. Legal and accounting advice would need to be sought on this matter.

Levy arrangements

The levy arrangements by horticultural commodity are listed in Table 12 of this report. Most levies are based on weight, some are ad valorem (vegetables and nursery), a smaller number are on the basis of boxes or cartons (some citrus, papaya, custard apple and passionfruit) and two others are on the basis of runners (strawberries) and square cm (turf).

Whatever the metric, the trader makes a calculation of the levy due in each case. The only additional step required is for the trader to include the levy amount along with the metric and the price paid to the grower in the grower statements. With contemporary information and technology (IT) systems, it should be possible to implement such a system in a cost effective way relatively painlessly.

There are likely to be IT set-up costs but once implemented, the marginal cost of adding levy information to the grower statement should be small.

6.5.3 Implementation

Potential complexities in obtaining levy payment records

The amount of levy paid is able to be inferred from the information that merchants and agents are required to give to growers about prices and quantities sold. It could also be inferred from invoices for those horticulture levies where upstream suppliers collect the levy. Such indirect information is not likely to be sufficient to verify levy payment status that is sufficient to establish membership of HAL. Given the importance of probity when dealing

with compulsory levies it would normally be expected that direct documentation of levy payment should be available.

The levy collection service in the department is not likely to be able to provide comprehensive information and records that could ease registration requirements. Given the market arrangements that apply in the horticulture markets, the department generally does not have information about the identity of growers and producers because it obtains funds from the first point of sale for most horticulture industries, which is often an intermediary such as an agent or merchant.

The agent or merchant is required to preserve records, but these relate mainly to sales and levy payment obligations. The levies that are collected by the department via 'upstream' producers are also not linked to growers/producers but to manufacturer's sales of the produce that is subject to the levy.

Growers could seek to obtain information and records about levies from their upstream suppliers and downstream agents and merchants. As noted above, some growers do obtain this information already.

It is possible that agents and merchants may be reluctant to provide levy information in addition to the information which they are required to provide under the mandatory code if this becomes a general requirement. Some agents and merchants have signalled their dissatisfaction with the current levy arrangements where they provide levy collection services and undertake the necessary record keeping without recompense or remuneration. The submission to the Independent review from the Australian Chamber of Fruit and Vegetable Industries, for example, noted that:

'The current system of collecting levies and the number of different levies is unwieldy and needs to be rationalised. Businesses acting as the "first point of sale" collect levies with no reimbursement for the costs they incur. Wholesalers have continually argued that they should be paid for the work they do, that there should be greater recognition of this work/role, that the levy system could be made simpler, or that levies should be collected in another way.'

It is possible that wholesalers and the central markets may object to the development of a widespread requirement that they provide and maintain levy payment details to growers in addition to the current requirements to maintain records for the department

Key solutions to registration qualification and documentation

The straightforward approach to the registration of levy paying growers would be to accept indirect information such as invoices and sales documentation as indications of levy payment on behalf of growers.

If more direct or substantive evidence is required growers could ask to obtain what is needed from their suppliers and agents/merchants. It could be viewed that payment of the levy is an obligation that growers have imposed on themselves (for the wider benefit of the industry) and that it is not unreasonable to expect growers to keep direct records of their levy contributions.

If horticulture agents and merchants and others are reluctant to provide widespread information about levies that have been paid they could be required to provide specific information about levies that have been paid on behalf of growers under the mandatory Code of Conduct that applies in the horticulture industry. This may require a change in the Code. The Code is not static and changes have been made regularly following its introduction as part of the bi-annual review process.

6.5.4 Conclusions

These arrangements will involve a radically different approach to recording and accounting for membership to that which currently applies. It will require accounting and legal advice to establish a certificate system that provides a robust audit trail and a secure reporting system for the levy paying grower, New HAL and the department.

In the initial phase it would be possible allocate responsibility for Member registration to levy paying growers. To do this, they would need to produce a certified copy of their levy statement in the same way that a shareholder must produce a share certificate. Contemporary registries have software for this purpose that could be adapted for this purpose.

The levy review in 2016 may offer the opportunity to review levy arrangements and simplify if necessary the certification process.

It may also be necessary to consider an amendment to the Horticulture Code to provide regulatory cover for the issue of levy certification. However this may not be necessary if the parties can reach agreement on the arrangements.

These implementation issues highlight some of the complexities however the Independent review does not consider them to be insurmountable. What the issues do highlight however is the need for New HAL and the department to work collaboratively and undertake more development work to ensure that the development of the registry and membership arrangements for the grower-owned New HAL can be undertaken in a timely, transparent and effective manner.

An important aspect to implementing recommendations successfully is to:

- engage stakeholders on the change
- identify risks to the successful implementation of the recommendations
- develop risk mitigation strategies to address identified risks.

It is clear to the review team that further work, beyond the scope of this review, will be required to develop a detailed implementation plan and strategy

Appendix A Terms of Reference

The terms of reference of the Independent Review of HAL are outlined below.

Standard review

The Performance Review shall cover:

1. The performance of HAL in meeting its obligations under the Deed as the Industry Services Body for the provision of marketing and research and development services to the industry
2. HAL's implementation of strategic, annual operational, risk management, fraud control and intellectual property plans and its effectiveness in meeting the priorities, targets and budgets set out in those plans
3. The efficiency with which HAL carried out those plans
4. The delivery of the benefits to the industry and the community in general as foreshadowed by those plans

Additional matters

In addition, the Performance Review shall cover:

5. The HAL model of industry service delivery and its underpinning in the Constitution against the benchmark of good governance practice under cl 4.1 of the Deed, including but not limited to:
 - a) HAL's membership whereby PIBs, rather than individual levy paying growers, are the Members as is the case with other industry-owned RDCs.
 - b) The regulation of PIBs and other industry representative bodies under the HAL model; the nature and transparency of their direct and indirect funding arrangements with HAL; and their accountability to their own Members and levy paying growers for their performance in consulting with levy paying growers and in spending industry and Government funds, including the delivery of planned outcomes.
 - c) The operation of the IACs, including independence from the PIB/IRB and the extent and effectiveness of control by the HAL Board.
 - d) The influence of PIBs/IRBs on decision-making by HAL's Board, management and the IACs.
 - e) The capacity of the HAL model to deliver services in an efficient, effective and transparent manner to provide value for money to levy paying growers and corporate Members.
 - f) Identifying alternative models to increase the effectiveness and efficiency of HAL's service delivery, transparency and accountability in HAL's funding arrangements.
6. The efficiency of the levy structure for the horticulture sector (in which many individual commodities maintain separate independent levy rates and collection mechanisms) and the processes, by which levies are conceived, implemented, collected and expensed.

Appendix B Letter from Minister for Agriculture, Fisheries and Forestry Letter to the Chairman of Horticulture Australia Limited



THE HON JOEL FITZGIBBON MP

Minister for Agriculture, Fisheries and Forestry

REF: MNMC2013-04133

Mr Selwyn Snell
Chairman
Horticulture Australia Limited
Level 7, 179 Elizabeth Street
SYDNEY NSW 2000

Dear Mr Snell

Thank you for your letter of 1 July 2013 congratulating me on my appointment as the new Minister for Agriculture, Fisheries and Forestry and seeking an early meeting to brief me on the operations of HAL and its current issues.

I look forward to meeting you in the near future and my office will be in touch to find a suitable time.

I am keen to continue the work being done to improve HAL's governance arrangements as discussed recently between yourself and my predecessor, Senator the Hon. Joe Ludwig. As Senator Ludwig foreshadowed, I ask that you commence the next Performance Review required under Clause 15 of the Deed of Agreement 2010-14 (Statutory Funding Agreement – SFA) with the Commonwealth and, further, I require it to include a comprehensive review of Horticulture Australia Limited's (HAL) governance framework and the structure of horticultural industry levies.

HAL plays a key role in the Australian Government's efforts to maintain the competitiveness of Australia's horticultural industries, positioning them to confront their challenges and to develop and capitalise on emerging opportunities. It is important to both industry and the government that HAL has the capacity to deliver on this role to best effect.

There has been significant change to the operating environment for horticulture industries and HAL since its formation in 2000. There are pressing challenges, such as securing a skilled workforce, responding to the need to expand horticultural exports, applying emerging technologies to increase industry productivity, adapting to climate change, and dealing with emerging new pest and disease pressures. There has also been a significant change in the mix of service providers, with horticulture peak industry bodies having a greater role in providing services than in the past, when such services were commonly provided by state government departments.

Over the last 18 months the Department of Agriculture, Fisheries and Forestry and HAL have worked together on a wide range of reforms to improve HAL's governance processes for managing and spending industry and government funds. I appreciate the leadership shown by you and HAL's Board and staff in reforming the citrus and avocado industry advisory committee membership in particular, and in developing and implementing other useful reforms. I understand that HAL is implementing:

1. Mandatory 'de-confliction' (less than 50 per cent Peak Industry Body (PIB) representation) of all Industry Advisory Committees (IACs) with annual levy expenditure greater than \$250 000, to be undertaken by 31 December 2013. For IACs with expenditure between \$250 000 and \$750 000, the HAL Board may, in exceptional circumstances, approve a higher percentage of PIB representation.
2. Appointment by HAL of an Independent Officer to each IAC to assist with governance, manage the implementation of procurement guidelines and improve risk management. The Independent Officers will report to HAL's Company Secretary and the Board. I understand that HAL intends to appoint six officers to five IACs each, rotating every two years or so and that some initial appointments have been made.
3. The introduction of HAL procurement guidelines. I understand that internal implementation guides will be prepared after the initial round of IAC meetings, taking into account feedback from the Independent Officers and other stakeholders about the process.

However, I share my predecessor's concern that these changes do not go far enough to address the unclear lines of accountability that are built into HAL's governance 'model' and that, as a result, HAL's ability to prepare its member industries for strategic future risks or opportunities may be compromised. Together with the status given to HAL's peak industry body members in HAL's Company Constitution—whereby its members decide appointments to the IACs that advise the HAL Board on the allocation of industry levy funds—I am concerned there is still the potential for conflicts of interest to occur in fund allocation processes. Despite best efforts, I believe these potential conflicts of interest cannot be fully mitigated within the terms of the Constitution.

The SFA requires a Performance Review to be completed six-months before the agreement expires, that is, by 3 May 2014. Past performance review reports have reported to the effect that HAL is not currently structured to enable it to report in a meaningful way on its investment performance. While I appreciate that attempts have been made to address this by the HAL Board, structural issues which impeded the sort of transparency the government requires, and fetters the board's ability to respond, persist.

Under Clause 1 of the SFA, the definition of the Performance Review includes that I may specify other matters required to be covered and, under Clause 15.2(a) of the SFA, I must agree on the Performance Review terms of reference. Therefore, in addition to the terms of reference set out in Clause 15 of the SFA, I wish the terms of reference to include a review of:

1. The HAL model of industry service delivery and its underpinning in the Company Constitution against the benchmark of good governance practice, including but not limited to:
 - a) HAL's membership whereby PIBs, rather than individual levy payers, are the members as is the case with other industry-owned RDCs.
 - b) The regulation of PIBs and other industry representative bodies under the HAL model; the nature and transparency of their direct and indirect funding arrangements with HAL; and their accountability to their own members and levy payers for their performance in consulting with levy payers and in spending industry and government funds, including the delivery of planned outcomes.
 - c) The operation of the IACs, including independence from the PIB/Industry Representative Body (IRB) and the extent and effectiveness of control by the HAL Board.
 - d) The influence of PIB's/IRBs on decision-making by HAL's Board, management and the IACs.

- e) – The capacity of the HAL model to deliver services in an efficient, effective and transparent manner to provide value for money to levy payers and corporate members.
 - f) Identifying alternative models to increase the effectiveness and efficiency of HAL's service delivery, transparency and accountability in HAL's funding arrangements.
2. The efficiency of the levy structure for the horticulture sector (in which many individual commodities maintain separate independent levy rates and collection mechanisms) and the process by which levies are conceived, implemented, collected and expensed.

It is appropriate to include the structure of levies applying to industries within the horticulture sector as part of the review, for three reasons:

1. The legislative instruments that enable the imposition and collection of horticultural levies are scheduled for review as part of the sunset provisions in the *Legislative Instruments Act 2003*.
2. The recent transition to full cost-recovery and actual cost-allocation, which has been managed by the department, has revealed that some levies are inefficient to collect, with a high percentage of the levy collected being absorbed by collection costs.
3. The process to change levy rates is becoming administratively burdensome, increasing the costs for industry to effect change and increasing the resources required to be allocated by government.

My broad expectations are that a future HAL service delivery model should have:

- No material conflict-of-interest within the HAL operational model and its constitution;
- A more efficient industry consultation model as it applies to the application of R&D and marketing funds.
- A more efficient horticultural levy mechanism and structure that reduces collection and administration costs and provides greater equity across all of horticulture.
- A capacity to effectively address critical national all-of-industry issues in a timely manner.
- An appropriate mechanism by which levy payers, particularly large industry contributors, may directly participate in the horticulture research and development corporation model.

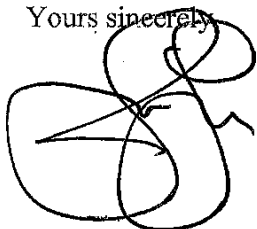
I consider it appropriate that a steering committee be appointed by HAL to guide the 'independent organisation' conducting the review under Clause 15.2(a) and that this committee be chaired by an independent and appropriately skilled and experienced person and include a representative of the department. I would appreciate being consulted on the appointment of the independent chair.

It is normal practice for such reviews to be funded by the organisation. However, in the event that HAL is unable to find adequate funding from its operational budget to fund the review, I would support extra funds being withdrawn from HAL's reserve fund. The use of reserve funds for this purpose would be eligible R&D expenditure for the receipt of Commonwealth matching payments, subject to the overall cap on such payments of 0.5 per cent of the gross value of production for the horticulture industry in a financial year.

I look forward to receiving the proposed terms of reference for the Performance Review, including the terms I have identified, together with your advice of the arrangements for conducting the review and your proposed independent chair. I trust that the review will begin soon so that it can be completed by 3 May 2014.

If you have any queries about this matter, please contact Mr Matt Koval, A/g First Assistant Secretary, Agricultural Productivity Division on 02 6272 5014 or by email at matthew.koval@daff.gov.au.

Yours sincerely

A handwritten signature in black ink, appearing to be 'JF', written over the words 'Yours sincerely'.

Joel Fitzgibbon MP

17 July 2013

Attachment 1

PHASE 1: Performance Review of HAL

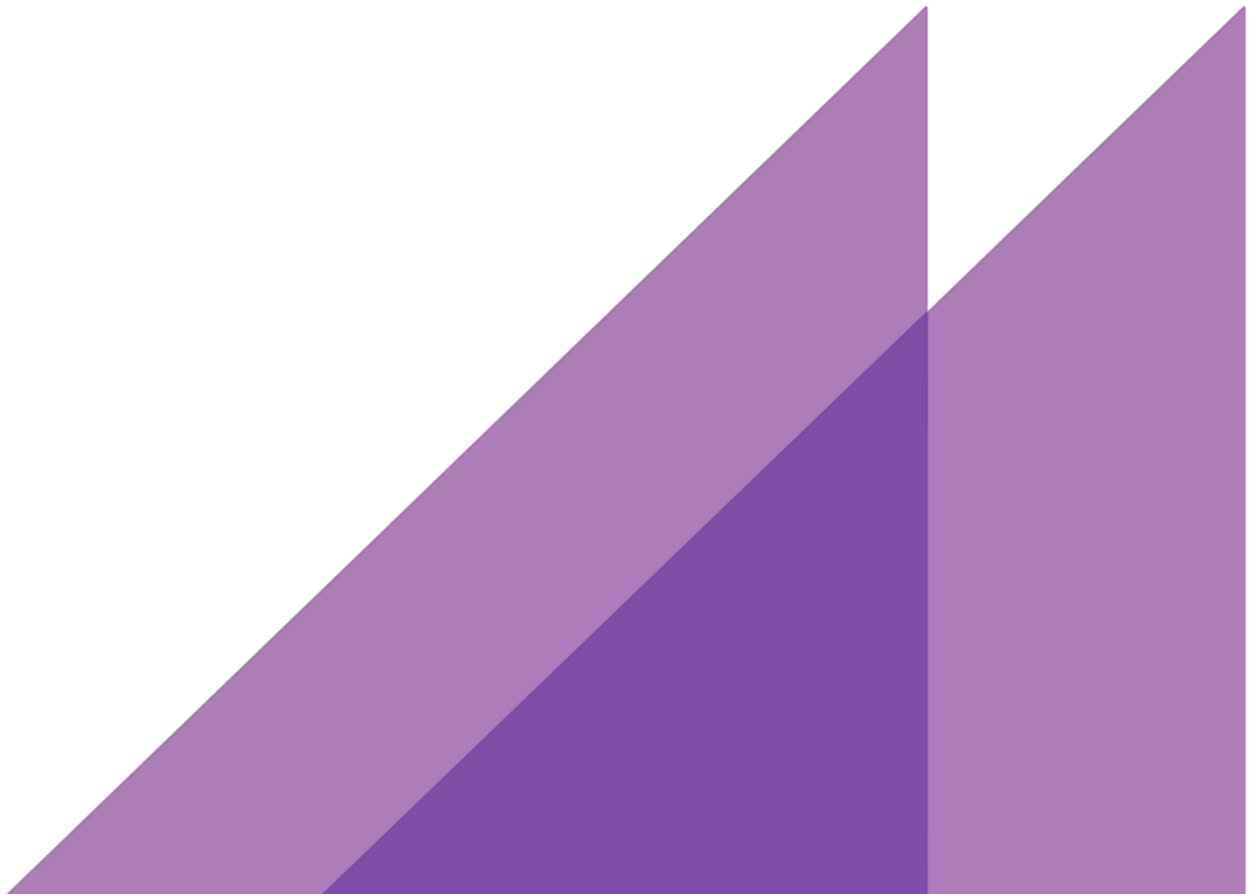
REPORT TO
HORTICULTURE AUSTRALIA LIMITED

DECEMBER 2013

PERFORMANCE REVIEW OF HAL



INDEPENDENT REVIEW OF
HAL AND HORTICULTURE
LEVY SYSTEM





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1 Summary

The Independent Review of Horticulture Australia Limited (HAL) views that HAL:

- provides industry representatives with a considerable say as to where the levy funds are invested through a multiple tier planning structure involving the HAL Board and many Industry Advisory Committee (IACs)
- selects, commissions and manages a significant proportion of the Horticulture industry's research, development and marketing activities each year through a large number of projects funded by industry levies, voluntary contributions from industry and contributions from the Australian Government
- functions in partnership with Peak Industry Bodies (PIBs) who are HAL's members and with accountabilities to the Government
- manages its operations within budget each year.

In addition, the Review team has found that HAL has recently embarked on a number of activities to improve the transparency of HAL's operations, accountabilities and effectiveness. Specifically, HAL has:

- taken a number of steps to improve clarity in the roles and responsibilities between itself, its members/industry partners and the IACs
- commenced more consistent system-wide processes and internal auditing processes of project performance
- improved the assessment and reporting of project outcomes and the benefits to industry: HAL has implemented ex-ante BCAs for all R&D projects requiring more than \$500,000 in lifetime funds and undertakes a random sample of BCA's on an ex-poste project basis
- evolved its strategy setting and planning processes to sharpen R&D and marketing investments
- improved its governance standards and practices. HAL's audit and risk management has been strengthened; Board nomination processes have improved with the inclusion of the Board Chair on the Director selection committee and measures taken to address perceived conflict of interests affecting the IACs.

Nevertheless the Review team has found that there are significant gaps in HAL's performance which include:

- gaps in accountability to growers and levy payers (who are distinct from Peak Industry Bodies (PIBs))
- poor information about the industry-wide impact of HAL. This is exacerbated by the lack of a top-down planning and focus and an insufficient sample of ex-poste BCAs being undertaken
- relatively high overheads (which means there is less funds to invest into R&D and investment)
- complex and burdensome compliance controls which do not fully address existing potential and actual conflict of interest issues within HAL. Specifically:
 - conflict of interests still remain in some outstanding IACs

- the appointment of IAC members by PIBs ensure the conflict of interest issue is still evident
- the inability to identify and manage key risks within HAL due to the lack of a consistent and systematic processes within the business (eg, contract management, procurement processes etc.)
- gaps in ensuring that high return projects are translated into adoption and farm gate practice
- inadequate sampling of BCAs undertaken across the R&D investment portfolio. The Review team finds that increasing the sample to the 5 per cent sample, as required by the CRRDC, will better identify with certainty those benefits which R&D and marketing investments are providing to industry and growers
- limited planning from the top-down. Corporate priorities and industry priorities are not guided by an industry-wide framework or assessment. Most of HAL's funds are allocated to address industry-by-industry issues with little scope to identify and address cross-industry or like industry coincidental interests.

The Independent review team notes that many gaps in HAL's governance, planning and performance reflect fundamental constraints in the business model under which HAL was established and in particular the lack of separation between the PIBs as Members of HAL and increasingly as service providers to HAL. These governance arrangements have embedded potential and actual conflict of interest issues into the organisation which cannot be fully addressed by incremental organisation and compliance measures.

The trend towards the PIBs increasingly providing HAL funded services to industry will increase the demand for improved transparency and compliance. However without reform of the existing governance arrangements, any incremental changes to the operations of HAL or the model of HAL will fail to fully address these issues.

The need for reform will be explored with key stakeholders in the next phase of this review (phase 2). Phase 3 will bring together the evidence and insights from this phase (phase 1) and phase 2 to identify recommendations on how to improve HAL's industry service model and levy arrangements.

Key findings which are identified in further chapters of the review are listed in the table that follows.

Table 1 Key findings

Number	Finding
1.	HAL has adapted and strengthened its governance arrangements over the review period. Good corporate governance practice is applied for the most part, especially in relation to the operations of the Board, and recent changes have improved both internal audit and risk management. Some governance arrangements could however be strengthened further.
2.	Key strategic issues that remain in regard to HAL's governance arrangements are that: <ul style="list-style-type: none"> ▪ HALs structure and governance framework supports a multiplicity of objectives; ▪ the governance framework and structure requires a significant investment in accountability requirements and other controls which imposes a significant burden on the organisation; ▪ the structure and governance framework introduces some distance between HAL and levy payers.
3.	The Independent review of HAL's strategic, annual operational, risk management, fraud control and intellectual property plans and its effectiveness in meeting the priorities, targets and budgets set out in those plans shows that in general: <ul style="list-style-type: none"> ▪ HALs strategy setting and planning processes have evolved reflecting the need to sharpen and improve planning to get the most from R&D and marketing investments ▪ the current strategic plan streamlines previous priorities.
4.	The industry strategies that were reviewed reflect a fragmented industry-by-industry approach. The priorities of each of the various industries reviewed follow the general lead of the HAL corporate priorities and add their own variations. The many industry priorities are typically stated at a high level of generality. Very few industry strategic priorities address the Across Industry Priorities.
5.	The Independent review notes that there is no template for the many industries preparing Strategic Plans and that the standard of plans varies considerably between industries. There is a lack of a consistent framework to enable assessment of priorities in advance as well as assessment of what has been achieved in the past from previous programs and projects.
6.	The Independent review has identified that there is no strategic plan for the Across Industry Program. While the Across Industry Program does produce annual investment plans, it is not clear that the Across Industry Program provides sufficient scope and scale to address industry-wide issues substantively.
7.	The Independent Review notes with considerable concern that corporate priorities and Industry priorities are not guided by a whole of industry framework or assessment of the business case of the sort provided by the previous <i>Future Focus</i> program jointly developed by HAL, supply chain partners and the Commonwealth Government.
8.	The Independent Review considers that industry Annual Investment Plans have improved over the review period and generally link investments to identified priorities. The Review notes that the focus of industry AIPs is on each industry demonstrating its expenditure of available funding rather than proof that the best investment has been made or that the expected benefits will exceed the costs.
9.	The Industry Annual Reports use a case study style of reporting which generally does not involve measures of performance and impacts. The material made available to the Independent review team suggests that industries and HAL at large meet the annual budgets. The effectiveness of implementation in meeting annual industry plans, including providing benefits to industry is not readily apparent with the data that HAL collects and reports annually.
10.	The Independent Review views that risk management and fraud control has improved over the review period, however some key risks have increased their risk level and the risk management processes have not kept pace. The risks arising from the potential for conflicts of interest given the role that industry IACs and PIBs play in recommending investments and providing services and acting as members/owners are rated as having increased to 'severe' by the HAL Board. Measures have been taken to mitigate some of these risks, but many other of the risks identified in the 2011 Fraud Control Plan have not been fully addressed.

Number	Finding
11.	<p>The review of costs and efficiency in HAL leads to the following general findings:</p> <ul style="list-style-type: none"> ▪ HAL's industry-by-industry partnership model results in a large number of small programs and projects which are likely to constrain the overall effectiveness of investments ▪ it is not clear that the increasing role being played by PIBs as service providers displacing traditional R&D service providers such as specialist research organisations is increasing or decreasing efficiency ▪ increases in overheads are being driven by resources being dedicated to planning and reporting in response to demands for transparency, rigor and accountability in the current HAL business model ▪ the effort required for consultation and planning varies across industries, which along with levy collection costs reduces the funds available for investment.
12	<p>There is very limited information available about the industry-wide impact of HAL. The information that is available indicates that:</p> <ul style="list-style-type: none"> ▪ most performance information is available about industry by industry programs and projects and the information is mostly qualitative in nature. This generally illustrates substantive and successful investment activities ▪ the results from the ex-ante and ex-post benefit cost analysis (BCAs) that have been performed indicate the expectation or achievement of reasonable to high returns for industry on R&D investments ▪ there is however a shortfall in the percentage of R&D investment which is currently assessed via the ex-post BCAs. Increasing the sample of projects covered by BCAs would provide HAL and industry with: <ul style="list-style-type: none"> ◆ more certainty in terms of the evaluations (in terms of project clusters evaluated) ◆ greater confidence in the BCA estimates ▪ there is also currently a gap in terms of how the high return investments are translated into R&D adoption and extension. A clearer governance structure with clearer responsibilities and accountability defined for HAL and the PIBs would assist with addressing this gap. <p>Meeting these gaps in performance would ensure that HAL and the IACs have better information about returns on investment which would improve the ability of decision makers to make decisions that improve or raise the benefits to industry.</p>
13.	<p>The existing levy arrangements for horticulture are complex. This is due to the use of a vast number of different levies which is evident from:</p> <ul style="list-style-type: none"> ▪ levies being applied to 9 different units (i.e. cents/kg, \$/tonne, cents/box, cents/std tray, ad valorem, cents/carton, 1,000 runners and cents per metre-square) ▪ in excess of 40 different active rates being applied.
14.	<p>The complexity inherent in having a large number of different levies is, in part, a function of the number of PIBs/members of HAL making decisions about the levies. The number of HAL Members has grown over the years and this has increased the diversity and complexity in levies.</p>
15.	<p>Complexity in the levy arrangements is also partly attributable to the administrative process by which levies are conceived, implemented and collected. The process to amend levy rates is administratively burdensome, increasing the costs for industry to make changes and increasing the resources required by government to administer levies.</p>
16.	<p>The levy collection costs for HAL-related levies are high relative to other agricultural commodity levies. These relatively high costs are a function of the Department of Agriculture having to administer so many different types of levies for horticulture.</p>
17.	<p>The recent shift to an activity-based full cost recovery cost allocation by Department of Agriculture has revealed that the levy collection costs by specific horticultural commodities vary significantly. In particular, the new costing method has highlighted the inefficiency of some horticulture sectors' levies, with a high percentage of levy proceeds being absorbed by collection costs.</p>

2 Introduction

2.1 Independent Review of Horticulture Australia Limited

ACIL Allen Consulting (ACIL Allen) has been commissioned to conduct an Independent Review of Horticulture Australia Limited (HAL) and the horticulture levy system. The review is being informed by inputs from a high level steering committee with an independent chair. The review's terms of reference are given in Appendix A.

Independent reviews are conducted regularly under the Deed of Agreement between HAL and the Australian Government to inform stakeholders on HAL's performance. This is the third review since HAL was formed in 2001.

The performance review also includes an examination of the HAL service delivery model and the efficiency of the levy arrangements. Levy arrangements are the basis for HAL's ownership and revenues.

The review is being conducted in three phases:

- Phase 1: Review of past performance and HAL's industry services model and levy arrangements (October 2013 to November 2013)
- Phase 2: Engaging HAL's stakeholders on phase 1 findings and consulting with them about the need for change (December 2013 to February 2014)
- Phase 3: Recommendations to improve HAL's industry service model and levy arrangements (March to April 2014).

This report relates to phase 1 of the Independent Review.

2.2 Timeliness of review

HAL was created in 2001. The model adopted reflected the needs and circumstances of industry at the time.

Much has changed over the last 12 years. In particular the commercial environment in which HAL operates has changed enormously. The industry has grown, diversified, and become more sophisticated and outward looking.

The challenges faced by the horticulture sector have intensified. They include the appreciation of the Australian dollar and associated increased import competition, climate change impacts, consolidation of the agricultural industry and changing consumer preferences. Some challenges, such as biosecurity risks and the need for productivity growth, remain a constant for all agricultural industries.

The horticulture industry is dealing with these challenges while also operating in an increasingly globally competitive sector. Free trade agreements — currently being negotiated with a number of Asian countries — will provide both opportunities and challenges for Australian horticulture. Competition for scarce resources is becoming more of an issue and increased productivity is vitally important to drive sustainable growth.

Australian governance practices have also evolved in all sectors. The Australian Stock Exchange (ASX) Corporate Governance Council has taken a leading role in improving the governance of organisations. Its corporate governance principles and advice were first published in 2003 — two years after HAL began — and have been updated since. Thinking in Australia about how organisations can be governed to deliver value is very different today relative to what it was in 2001.

Reforms in the structure and governance of rural Research and Development Corporations (RDCs) have occurred. Although the joint industry and government funding model remains a key element in the success of Australia's R&D in agriculture, the way in which R&D is managed is evolving. This review provides an opportunity to reassess the HAL model and its governance arrangements and test if they meet the contemporary and future needs and contribute to a sustainable, efficient and growing horticulture sector. Government has also highlighted the crucial role to be played by levy payers in determining how RDCs invest and it is timely to review how HAL's distinctive model meets this aim.

2.3 Our approach

In undertaking this review of HAL's performance, ACIL Allen Consulting have:

- analysed HAL-related documents (i.e. annual reports (HAL and Peak Industry Bodies (PIBs), selected industry plans,¹ strategic plan/s, Board papers and other papers))
- examined HAL financial data for the past five years (which includes financial accounts and project data)
- reviewed documents and literature relevant to HAL and other RDCs (i.e. the Productivity Commission, newspaper articles, correspondence between government and HAL)
- undertaken preliminary consultations with key stakeholders (including HAL staff, Board members, industry groups and the Department of Agriculture(the department)).

2.4 This report

The remaining chapters of this report provide the following:

- *Chapter 2* reviews the governance arrangements that establish HAL and define who it is accountable to and how. The chapter also reviews the performance of HAL in meeting its obligations under the Deed as the Industry Services Body for the provision of marketing and research and development services to the industry
- *Chapter 3* reviews HAL's implementation of strategic, annual operational, risk management, fraud control and intellectual property plans and its effectiveness in meeting the priorities, targets and budgets set out in those plans
- *Chapter 4* reviews the efficiency with which HAL has carried out its strategic and investment plans and the benefits delivered to the industry and the community in general
- *Chapter 5* examines the efficiency of the levy system for the horticulture sector (in which many individual commodities maintain separate independent levy rates and collection mechanisms) and the process by which levies are conceived, implemented, collected and expensed
- *Chapter 6* summarises the Independent review team's key findings from phase 1 of the review, and draws links to the next phases of the review.

¹ Plans and reports were reviewed for 10 industries and the Across Industry Committee to represent the range of approaches taken used for different industries. The industries selected were avocados, apple and pears, citrus, lychees, macadamias, mushrooms, nursery and gardens, processing tomatos, pyrethrum and vegetables.

3 Governance arrangements

This chapter reviews the governance arrangements that establish HAL and define who it is accountable to and how. The chapter also reports on the performance of HAL in meeting its obligations under the Deed as the Industry Services Body for the provision of marketing and research and development services to the industry.

3.1 Governance framework

HAL is a not for profit company limited by guarantee. HAL is the declared industry services body and export control body for the horticulture industry under the *Horticulture Marketing and Research and Development Services Act 2000*.

HAL's 43 Members are the Peak Industry Bodies (PIBs) for 43 horticulture industries. Of these, 28 are "A" Class Members, prescribed by the Minister under *the Act* for the purposes of managing and implementing statutory levies. The remaining 15 are "B" Class Members, which manage the collection of voluntary contributions from industry for investment by HAL. Under its Constitution, HAL's Members have proportional voting rights based on their class of membership and value of levy payments. HAL's Members are recipients of HAL funding as service providers for a variety of projects.

HAL has two key documents that determine how it is governed:

- its Constitution; and
- a Deed of Agreement with the Commonwealth of Australia.

The Deed is required because the Commonwealth collects compulsory levies from growers and provides matching funds for research and development to HAL as the nominated industry services body.

Under the Deed, HAL is to "adopt good governance practice...drawing on the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations...as appropriate".

The objects of HAL as set out in its Constitution are to:

- provide the Industry leadership on the provision of marketing and research and development services to the Industry
- harness the Industry's collective knowledge of issues that affect the Industry value and supply chains
- use and build on the advantages to the Industry of existing structures external to the Company, and provide participants in the Industry opportunities to advise the Company on improvements to enhance the performance of the Company
- generate streamlined, flexible and focussed marketing and research and development programs for Industry
 - using a bottom up approach that realises synergies between marketing and research and development; and
 - which deliver effective and relevant benefits to Industry in a cost effective manner

- generate marketing and research and development programs for Industry which
 - promote innovation at the farm business level that complements the activities of producers
 - enhance the domestic and international competitiveness of the Industry throughout the Industry's value and supply chains; and
 - promote the environmental sustainability of Australian horticultural production
- develop a culture in the Company of service delivery and the achievement of effective marketing and research and development outcomes
- deliver accountability and good corporate governance of the Company to the Members
- deliver upon the accountability requirements of the Commonwealth for the access and use by the Company of Commonwealth Funds and Authorities
- administer Commonwealth Funds and Authorities faithfully in accordance with the requirements of the Commonwealth, whilst always acting in the best interests of the Members of the Company
- facilitate the dissemination, adoption and commercialisation of the benefits and developments forming part of, or resulting from, the implementation of the Company's activities and endeavours; and
- do all other lawful things as are incidental or conducive to the attainment of these objects or any of them or which may be calculated to advance directly or indirectly the interests of the Company.

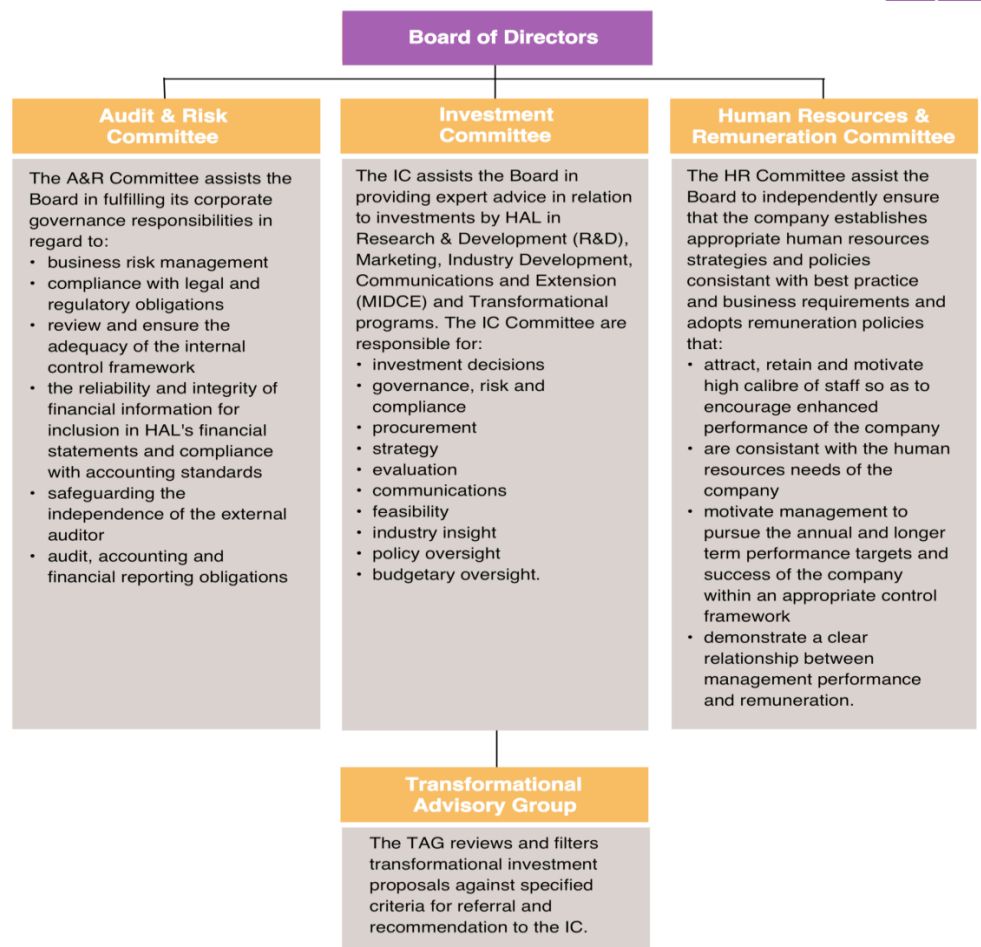
HAL seeks to achieve its constitutional objects by:

- investing and administering funds in a collaborative manner while progressing the best interests of both levy payers and Members; and
- ensuring suitable R&D and marketing plans are created and implemented for the benefits of levy payers and Members.

The HAL Board is responsible for HAL's overall governance, strategy and planning. The Board has three sub-committees, audit and risk, investment, human resources and remuneration (Figure 1).

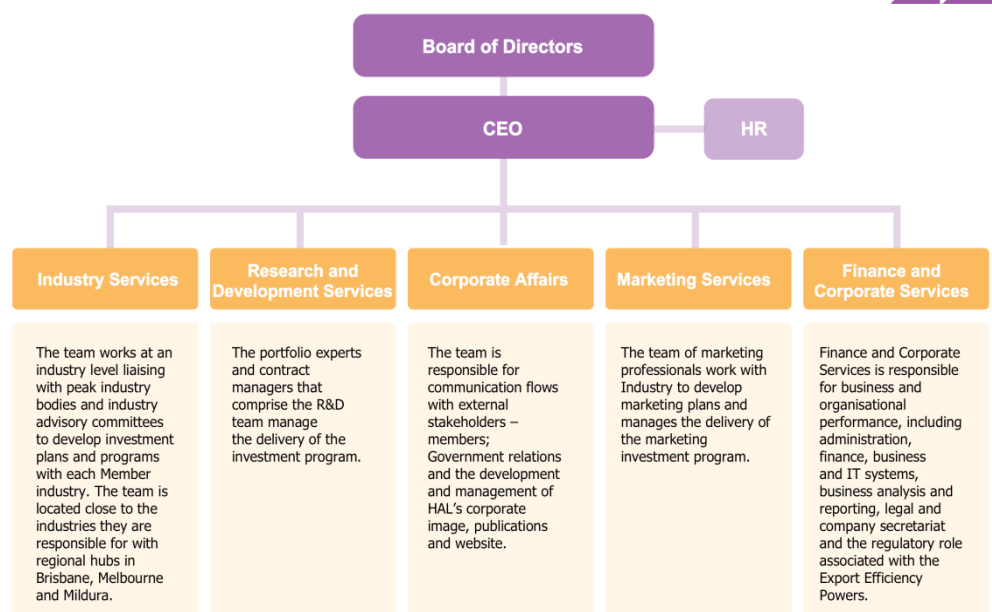
Within HAL itself, the organisation is structured into five functional divisions reporting to the CEO and Board (Figure 2). The R&D Services team is responsible for the Annual Call for the submission of R&D proposals that are in response to Government and industry R&D priorities. The team examines all lodged proposals and submits their assessments to appropriate IACs and the HAL Board for their review and provides recommendations on those that should be approved. Projects that are successful are contracted while project progress is supervised by the R&D Services team. The team is further responsible for preparing project updates for all current R&D projects for the consideration of the relevant IAC.

Figure 1 Internal governance



Source: Horticulture Australia Limited, Annual Report 2012-13.

Figure 2 Organisational structure



Source: Horticulture Australia Limited, Annual Report 2013.

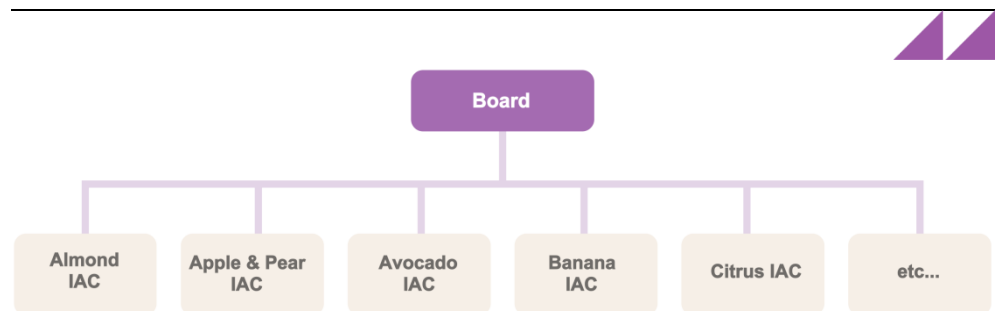
External governance

Unlike many other RDCs, HAL does not have direct engagement with levy payers. Under the Deed of Agreement, HAL must ensure that there is effective consultation with levy payers and that their priorities are reflected in industry strategic plans. To achieve this, HAL engages its Members to provide industry consultation services under Consultation Funding Agreements.

In addition, HAL has established industry advisory committees (IACs) to oversee program design and development, facilitate the preparation of industry strategic and annual investment plans, and prepare industry annual reports.

The IACs provide guidance and investment recommendations to the HAL Board — see Figure 3.

Figure 3 External governance of HAL – Industry Advisory Committees

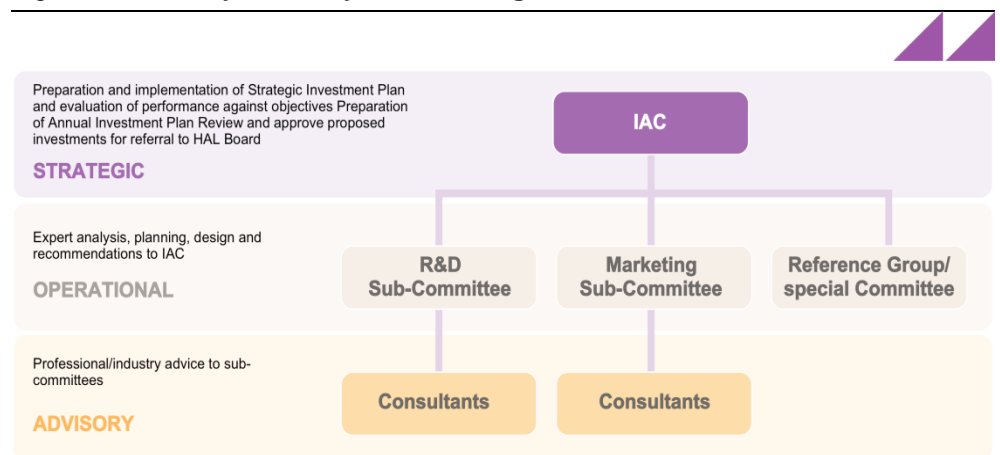


Source: Horticulture Australia Limited, Annual Report 2013.

Many IACs, but not all, have sub-committees and/or reference and advisory groups.

Figure 4 provides an overview of the governance of the IACs.

Figure 4 Industry Advisory Committee governance of HAL



Note: This is an example structure only. Not all IACs have Sub-committees and/or reference groups.

Source: Horticulture Australia Limited, Annual Report 2013.

In addition to the IACs, the HAL Board has established an Across Industry Committee (AIC) to recommend investments in all-of-industry or across-industry projects. The AIC comprises representatives of Members.

Other governance practices

In addition to the frameworks, HAL has in place various corporate governance practices during the year to guide the decision-making process of HAL and ultimately the outcomes achieved by HAL. Practices in place include, amongst others:

- board development and review of performance
- board policies
- code of conduct for Directors
- process to deal with conflict of interests
- a sub-Committee structure which involves in each committee meetings outlined functions (for example, the audit and risk committee assists the HAL Board with business risk management, reviewing and ensuring adequacy of internal control framework and financial information, safeguarding independence of external auditor and audit, accounting and financial report obligations.

These practices are also reinforced through the development of principles designed to guide the day-to-day operations of HAL, and to ensure that HAL's operational decision making processes and decisions occur within a 'good' governance framework and achieve the desired outcomes.

3.2 Observations about HAL governance practices

Multiplicity of objectives

The most noticeable difference between HAL and other RDCs in terms of governance is the multiplicity of different stakeholders, with diverse types of products and business models. The views of stakeholders on governance as determined during the course of consultations for this review were equally diverse. While the arrangements for most rural R&D corporations are complex and controversial, it is striking how much more complex HAL's service delivery and levy arrangements are relative to other RDCs.

HAL's membership and the role of industry advisory bodies ensure that a range of views are taken into account in its decision making. In many ways HAL functions as an industry federation, given the role of the IACs and 'tagged' funding for investment in specific industries. This is a practical example of the application of the subsidiarity principle where decisions are being handled by the smallest, lowest, or least centralised authority capable of addressing that matter effectively. This, however, results in an organisation that is extremely complex with a large number of decision-makers and processes and a large number of relatively small projects.

Similarly to other R&D entities, HAL receives funding via industry levies which are matched by the Commonwealth government, up to a threshold of gross value of production. However, HAL's funding from statutory levies is unique in that:

- there are a large number of different levy arrangements, which is largely a result of the diverse and high number of membership groups
- there are several different levy arrangements (for example, the R&D levy, the combined R&D and statutory marketing levy, and a voluntary contribution investment program) by membership group
- there are quite a few levy arrangements which collect small amounts of funding for HAL; and

— there is a degree of separation between HAL and the actual levy payers, with the IACs actually making the decision as to what the levies are expended on.

These unique characteristics have raised issues in relation to:

- the costs of collection (due to the diverse number of levy arrangements and collection systems)
- the different timetables of the levy collection arrangements and programs
- the complexity resulting from having so many different levy arrangements and the limited accountability in the funding mechanisms due to the different arrangements.

The complexity of the organisation, including its large number and diverse membership, extremely diverse funding arrangements and processes makes the governance of the organisation inherently difficult.

While there is no single definition of good governance, there is a body of work on organisational or corporate governance that strongly suggests it has a role in determining how the objectives of the company are set and achieved, how risk is monitored and assessed, and how outcomes are achieved. Good governance will ensure that decision making is transparent and the actions and decisions are linked to outcomes. This is based upon the assumption that where there is a lack of transparency, there is a greater likelihood of mismanagement and failure to achieve the desired outcomes.

However in the case of HAL there is clear evidence from the consultations for the review that there is no consensus among important stakeholders — including Board members, industry members and key staff — about desirable outcomes. At a high level, there is a consensus that there HAL should spend money wisely and deliver good R&D and marketing, but there were different interpretations of what this meant. For some stakeholders, it involved spending more on initiatives that crossed over industry boundaries and benefited the whole of horticulture; others took an opposite view, arguing that effective spending meant ensuring funds derived from the levy payers represented by a particular HAL member should only be spent for the benefit of those constituents.

Conflicts of interest

HAL has a governance framework that results in it having three primary groups to satisfy:

- *members* – who are HAL’s primary stakeholder and legal owner
- *growers* – who are the key beneficiaries of industry and government funds invested; and
- *the Australian Government* – which has reporting and governance arrangements that HAL must satisfy for the funds it receives from Government.

As noted above the first object in the HAL constitution is to provide industry leadership. The consultations for the first stage of the review suggest that HAL is led by the Peak Industry Bodies (PIBs) — that is, its Members — rather than providing leadership to them.

At present some PIBs exercise far more power in the governance of HAL than individual shareholders in most other companies would normally exercise. Some of the bodies consulted suggested that this was desirable. If that is the case, the Constitution should be amended. There appears to be an inconsistency between what happens in practice and what is set out in the documents specifying HAL governance.

A particular feature of HAL is the extensive and formal use of a two tier planning structure involving the HAL Board and Industry Advisory Committees (IACs). IACs oversee program design and development and facilitate the preparation of specific industry strategic and annual investment plans to provide guidance and investment recommendations to the HAL

Board. While IACs are intended to be committees of the Board, and report to the Board, in practice their membership does not consist of Board members and it is difficult for the Board to have much influence over their workings.

During consultations for this review the Independent review team were told that it was rare for the Board to overturn IAC recommendations.

This gives rise to a source of potential conflict of interest in cases where:

- Members' directors and officers are members of IACs; and
- HAL funds those same Members to provide R&D and marketing services based on IAC recommendations.

What constitutes agri-political funding?

HAL's constitution specifically prohibits it from assisting any agri-political activities. The Deed also specifically prohibits HAL from making payments to its members to conduct or support agri-political activities. Other objects in the Constitution include generation of marketing and research programs using a bottom-up approach, especially consultation with industry, promoting innovation, enhancing competitiveness and environmental sustainability. The activities of HAL are meant to be geared around these.

Reflecting a fundamental shift in HAL's operations, HAL funding to projects and programs provided by its own members (the PIBs) is increasing. Funding to PIBs often include the provision of salaries and office equipment for PIB staff. Some PIBs have indicated to the Independent review team that HAL funding supports a significant portion of their staff.

Some stakeholders consulted to date have raised concerns that the substantial increase in PIB/HAL member funding raises the possibility that some of the funding may be perceived — rightly or wrongly — as being directed towards agri-political purposes.

Governance complaints

The Australian Government has received representations from within the citrus industry and avocado industry complaining that poor governance was affecting the operation of Horticulture Australia Limited's (HAL) citrus and avocado industry advisory committees (IACs).

In summary, the complaints were that:

- some peak industry bodies (PIBs) have increasingly taken on roles as development, extension and marketing service providers, funded with industry levies through HAL. As a result, those IACs that are largely composed of PIB directors have a greater potential for conflict-of-interest when advising HAL on the allocation of levy funding
- the advice offered by some IACs to HAL is influenced by industry agri-politics; and
- some IACs lack members with adequate scientific or board directorship skills, and as a result are poorly positioned to advise HAL on the allocation of funding.

HAL investigated the claims about the operation of the citrus and avocado IACs and reported its findings to the the department in 2012. HAL's investigation reported that many of the members of HAL IACs were also board members of the relevant and there were then few independent members of the IACs. In some cases a large proportion of available levy funds have been allocated by IACs to related PIBs and this funding was not contestable (e.g. subject to competing offers in the way that calls are for other research priorities).

Recent changes in Governance arrangements

Over the period covered by this review of past performance, 2010-2013, HAL has recognised and attempted to deal with governance issues and specific governance complaints through a range of measures. This included reducing the proportion of Member representation to less than 50 per cent of IAC members, promulgating meeting protocols for IACs and introducing independent officers. However not all IACs have had independent officers appointed, and there was considerable uncertainty expressed during consultations about the exact role and responsibilities of the independent officers.

HAL has reviewed poor record-keeping practices by various IAC secretariats, which had impeded HAL's analysis of the IAC's actions and decisions. It has also conducted reviews of funding arrangements with PIBs who receive project funding.

3.3 Governance obligations under the Deed

Under the Deed of Agreement with the Commonwealth government, HAL

Should adopt good corporate governance and practice in managing and investing the Funds drawing on the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations, Second Edition, August 2007* as appropriate. (s.4.1)

HAL complies with many of the aspects of the eight ASX principles of corporate governance but has weaknesses in relation to:

Principle 2 – structure the Board to add value. Until recently the director appointment process did not involve the Board chairman; his inclusion in the director selection committee is a step forward. Nevertheless the process for director selection is dominated by a few key PIBs. Skill sets are taken into account by the selection committee, but the evidence from interviews from phase 1 suggested that director selection was influenced by perceptions of how well candidates would represent their industries. This 'representational' element is not considered desirable governance practice.

Principle 3 – promote ethical and responsible decision making. HAL has a significant under-representation of women in the board and senior management. It does publish a set of values, however the present structure greatly increases the possibilities of conflicts of interest especially in relation to allocation of funding to PIBs.

Principle 4 – safeguard integrity in financial reporting. HAL has only recently introduced internal auditing processes in relation to project performance, and there is evidence of adverse audit findings especially in relation to programs and payments provided to some PIB service providers. This raises issues about the governance and financial reporting requirements that should apply in HALs members and the level of accountability that is appropriate in related party transactions.

Principle 6 – respect the rights of shareholders. Some of the smaller HAL Members expressed the view that the larger members dominated the governance of the body. There is uncertainty about the value of establishing industry representative bodies as the shareholders or owners of HAL as opposed to allowing growers and levy payers to represent themselves as the members as practiced in other RDCs such as Dairy Australia.

Principle 7 – recognise and manage risk. Although HAL has a risk management planning framework, it faces stakeholder and political risks — particularly in relation to conflicts of interest arising from provision of monies by HAL to and through PIBs — that are built into its structure.

Other observations made by the Independent review team on governance that were heard during consultations for phase 1 included:

- Compliance and controls are complex and burdensome
- There is a disagreement among stakeholders about whether HAL best meets the needs of the Industry by meeting individual members' needs, or whether it should take a stronger role in coordination of effort across industries
- There is no substantive overarching strategy for the whole of horticulture (although there were also views that no such strategy was possible or necessary).

The table below provides a summary of HAL's governance practices against the ASX principles.

Table 2 HAL's governance practices against the ASX principles

Principle	Comment	HAL
Lay solid foundations for management and oversight	The CGC recommends a company establish the functions reserved to the board and those for management. The commentary suggests a formal statement or board charter. Good practice is that these are published. Appointment letters, induction.	HAL does not publish a board charter. There are different opinions among board members about what their role involves.
Structure the board to add value	Majority of board should be independent. Chair should be independent. Companies should disclose their process for board evaluation. Board should establish a nomination committee.	Board appointments process influenced by representational interests. Nominations not exclusively a board recommendation. Chair is independent.
Promote ethical and responsible decision making	Code of conduct and practices. Diversity policy. Disclosure on proportion of women in the organisation.	HAL values are published. Lack of diversity, significant under representation of women on the board.
Safeguard integrity in financial reporting	Audit committee, with clearly defined role and independence.	HAL has good financial audit processes. Internal audit process starting. Some evidence of audit results not being followed up.
Make timely and balanced disclosure	Compliance with listing rules, continuous disclosure.	Listing rules not applicable. Disclosure to members seems effective.
Respect the rights of shareholders	Communicate with shareholders, encourage attendance at meetings, use electronic communication effectively.	Smaller members feel the larger industries dominate. Emails and other electronic means of communication are used.
Recognise and manage risk	Policies for risk management and internal control.	HAL has good financial risk management. Less evidence of attention to stakeholder, environment and political risks.
Remunerate fairly and responsibly	Board should have a remuneration committee. Distinguish executive from non-executive remuneration.	HAL remunerates responsibly.

Source: ACIL Allen Consulting 2013.

It should be noted that the above review of the consistency of HALs Governance with the ASX principles does not extend to recipients of HAL funding or to HALs member PIBs.

Through the conduct of the phase 1 review concerns were put to the Independent review team that there was a wide range of Governance performance within member PIBs and that it was likely that not all would meet or comply with the ASX principles. The Governance arrangements that apply in member PIBs is outside of the scope of HAL's responsibilities. It is notable, however, that the existing ownership structure may impede full accountability of all of the institutions involved in making decisions about the allocation and use of levy funds and matching government contributions when members are becoming a larger recipient of HAL funds.

3.4 Distance between HAL and levy payers

There is a high degree of separation between HAL and the actual growers who pay the levy. This introduces another level of complexity into HAL which makes its service delivery, levy arrangements and decision-making process less transparent relative to other equivalent RDCs.

Addressing this separation between HAL and the levy payers results in the IACs having a significant role in guiding R&D investment decisions. This, in itself, has led to questions concerning the governance framework and processes of the IACs, transparency of the decision-making process of the IACs and whether they are linked to the outcomes seeking to be achieved. There is some evidence, to date, that some IAC's have not been transparent in their decision-making processes which has been reinforced by HAL's heavy reliance on them for guidance.

To ensure the link between good governance, transparent decision-making processes and outcomes requires governance which addresses a lack of performance. Where there is the underperformance by the IACs in terms of independence, performance measurement and transparency of decision making processes, it is not clear that there are currently consequences for underperformance by the IACs. There are no mechanisms for levy payers to directly influence the IACs, because the IACs are committees of the HAL Board which in turn is appointed by members – that is, PIBs – rather than directly by levy payers.

3.5 Past review (2008) and recommendations

In 2008 an external review of HAL was undertaken to assess its performance against its strategic and annual operating plans, and the value for money it provides levy payers for the period. Included in this review was a list of recommendations. The recommendations in relation to governance are outlined in the table below.

Table 3 2008 Recommendations to HAL

Recommendations from 2008 review of HAL

To improve transparency and governance, it is recommended that the HAL Board, as a matter of priority:

1. Comprehensively review the terms of reference of sub-committees of the Board and the Director Selection Committee to ensure that the purpose and responsibilities of these committees are transparent and understood.
2. Ensure that the Company Register is maintained at all times.
3. Review, consolidate and update the company's Fraud and Risk Management Plan and Intellectual Property Management Plan to ensure that they are current and relevant and that roles and responsibilities are clearly identified and understood.
4. Ensure governance is best practice.

Source: Hassall & Associates 2008, *Horticulture Australia Limited: 3-Year Company Review*, prepared for HAL, pp. 61 – 62.

HAL's submission to the Productivity Commission (2010) (pg. 53) stated that:

"The performance review required under the Statutory Funding Agreement identified areas of focus for improvement, and the Company has considered and explored each of these recommendations. Board practices, providing improved guidance and support to industry planning activities, and governance arrangements for the relationship between HAL and Peak Industry Bodies are examples of these."

Since the previous review there has been improvement in HAL governance standards and practice. HAL's audit and risk management has been strengthened; Board nomination processes have improved with the inclusion of the Board Chair on the Director selection committee, and measures taken to address the perceived conflict of interests affecting the IACs.

The HAL model has been successful in attracting industries to join. Membership has increases over the period since the last review. There are now 43 PIBs and industries involved in HAL.

The issues identified earlier in this chapter remain to be resolved.

3.6 Key findings

KEY FINDING 1

HAL has adapted and strengthened its governance arrangements over the review period. Good corporate governance practice is applied for the most part, especially in relation to the operations of the Board, and recent changes have improved both internal audit and risk management. Some governance arrangements could however be strengthened further.

KEY FINDING 2

Key strategic issues that remain in regard to HALs Governance arrangements are that:

- HALs structure and governance framework supports a multiplicity of objectives
- the governance framework and structure requires a significant investment in accountability requirements and other controls which imposes a significant burden on the organisation
- the structure and governance framework introduces some distance between HAL and levy payers
- the involvement of PIBs as members of HAL and providers of services to HAL has raised complaints about conflicts of interest and recent governance changes reduce the potential for conflicts of interest they do not eliminate the risk of future conflicts.

Other issues with HALs Governance framework, particularly the role that it gives to industry representative bodies shapes how it plans and performs and how horticulture levies are set, will be explored in further chapters of the phase 1 report.

4 Strategy and planning

This chapter reports the initial review of HAL's implementation of strategic, annual operational, risk management, fraud control and intellectual property plans and its effectiveness in meeting the priorities, targets and budgets set out in those plans

4.1 Overview of HAL's strategy and reporting

HAL plans, selects and manages investments in research and development (R&D) and marketing for Australia's horticulture industries in collaboration with its Industry Advisory Committees (IACs) and Peak Industry Bodies (PIBs).

HAL's strategic planning processes work at two levels relating to:

- HAL as a corporate entity and
- each of the industry partners.

At the corporate level HAL prepares:

- a Strategic Plan (spanning 5 years)
- an Annual Operating Plan and
- an Annual Report.

In addition each of the 32 IACs (and PIBs) prepare in partnership with HAL:

- a Strategic Investment Plan (SIP) (3-5 years). This establishes the strategic direction for HAL's investment of R&D and marketing funds for the industry including communication to levy payers
- an Annual Investment Plan (AIP) (1 year) for submission to HAL. This plan determines the annual expenditure required to achieve the outcomes identified in the SIP. This includes the industry development and communication activities required for industry uptake of R&D and marketing program outputs
- an Industry Annual Report which is presented at the Annual Levy Payers Meeting and distributed broadly to levy payers. This report details the outcomes achieved from the expenditure outlined in the AIP.

Additional tiers to investment and planning activities in HAL include:

- the across industry program which invests in R&D projects that benefit many or all horticulture industries
- the strategic and transformational across industry investment plan that is designed to invest in the critical issues that affect all horticulture industries and that have a 10 to 15 year time span.

These plans and reports reflect a considerable commitment to planning and consultation. The need to prepare such a large number and variety of planning and strategy documents reflects the complexity in consulting with, and planning for, many diverse industry partners.

4.2 Setting strategic priorities

The statement of priorities reveals much about the way that an organisation functions. In this case, it is necessary to look at HAL's strategic priorities and those of the individual partner industries.

HAL's Strategic Priorities

HAL's strategic priorities are set out in the Strategic Plan. The current plan is for the 2012-15 period and is the third that HAL has produced.

In HAL's first Strategic Plan, priorities were focussed on industry issues with the aim of developing a culture driven by delivering value to levy payers. In the second plan, the focus shifted adding priorities which delivered efficient services to industry. The current plan includes three industry wide priorities and one corporate priority. These priorities streamline previous plans focusing on R&D, marketing, skills development and corporate governance. The priorities in each Strategic Plan are summarised in Table 4.

Table 4 Summary of Priorities by HAL Strategic Plan

2000–2005	2010–2015	2012-2015
Meeting needs of consumers and key customers. Break down trade barriers and develop new markets. Enhance efficiency, responsiveness and product integrity in the supply chain. Improve production efficiency and sustainability in response to market needs. Provide quality, value for services.	Consistently meet the requirements of consumers and key customers. Break down trade barriers for horticultural produce in export markets. Ensure consumers appreciate the health-giving properties of consuming fruit and vegetables. Enhance efficiency, responsiveness and product integrity in the supply chain. Improve industry's access to water and efficient utilisation of this resource. Improve industry's access to skilled resources.	Deliver new information and knowledge. Build consumer demand (domestically and internationally). Enhance industry skills and capability. Deliver operational excellence.

Source: Horticulture Australia Limited, Strategic Plans

The 2008 review of HAL noted that HAL had applied considerable effort to the development of the Horticulture Industry Strategic Plan, *Future Focus*. Key roles to be played by *Future Focus* were to identify directions for the Horticulture industry at large and to improve the quality of the business case that underpins industry strategies.

At present the investment in *Future Focus* appears to have lapsed and no apparent use is being made of a replacement industry wide framework to guide plans or objectives for the industry at large as well as for each of the component industries.

Industry-wide matters are dealt with within the additional planning processes involved in the Across Industry Program and within transformational investments.

Industry priorities

Specific industry priorities are identified in the various Industry SIPs.

The priorities identified in plans prepared for the 11 industries that were reviewed in phase 1 of the review are summarised in Table 5 along with the HAL priorities and the Across Industry Priorities. Note that only the most recent industry priorities have been summarised.

Most of the industries reviewed have four priorities with all industries including at least one priority that focuses on building consumer demand which corresponds with the second HAL priority. All industries also include a priority designed to improve the productivity of the industry which addresses HAL's first priority of delivering new information and knowledge. It also addresses HAL's priority of enhancing skills and capability of industry. Only four of the industries included a corporate priority aimed at industry leadership or management.

Additional observations from the review of industry priority setting are summarised below:

- most industries identified the same priorities over several years. The exception is the Nursery industry which identified different priorities in each year. In 2012-13, its priorities exactly match the Across Industry Priorities which indicates that it does not have its own industry priorities in this year
- some priorities were very high level, e.g.: "We will improve productivity" whilst others were very prescriptive, e.g.: "Increase the proportion of Lychee consumers with Australian background from 36 – 46 per cent and increase their average frequency of consumption from 4.6 to 5 occasions" or "we will improve market intelligence"
- all industries included priorities that supported HAL's industry priorities although the information and knowledge priority and skills and capability of industry priority was implicitly addressed
- very few priorities addressed the Across Industry Priorities, however each industry must report projects against AIP in their annual reports suggesting that whilst industry priorities differed, strategies and projects were consistent with AIP.

Table 5 HAL Priorities and Industry priorities

HAL	Across Industry	Apple and Pear	Avocado	Citrus	Lychee	Macadamia	Mushroom	Nursery	Processing Tomato	Pyrethrum	Vegetables
2012–2015	2009-10 to 2012-13	2010-11 to 2012-13	2011-12 to 2012-13	2011-12 to 2012-13	2009-10 to 2012-13	2009-10 to 2012-13	2011-12 to 2012-13	2012-13	2010-11 to 2012-13	2009-10, 2011-12 and 2012-13	2011-12 to 2012-13
Deliver new information and knowledge	To enhance the efficiency, transparency, responsiveness and integrity of the supply chain	Stimulate domestic demand by 5% through product quality and innovation	To build a sustainable and competitive supply of Australian avocados to meet consumer needs	Increase consumer demand of Australian Citrus	To improve Lychee production practices across all growing regions to increase orchard productivity and environmental sustainability	Understanding markets and customers	Marketing and market development - To ensure demand closely matches estimated production levels by maintaining and developing existing markets and exploiting new market opportunities.	To enhance the efficiency, transparency, responsiveness and integrity of the supply chain for the total Industry to provide clear market signals	We will meet consumer needs and increase demand	Increase profitability of production - Immediate. Become the largest and most cost effective supplier of natural pyrethrum in the world	Delivering to changing consumer preferences and increasing demand
Build consumer demand (domestically and internationally)	Maximise the health benefits of horticultural products	Expand apple and pear export markets to 10 per cent of marketable product exported by 2015	To increase demand for Australian avocados	Improve Industry competitiveness	Increase the proportion of Lychee consumers with Australian background from 36% to 46 % and increase their average frequency of consumption from 4.6 to 5 occasions per season	Meeting market and customer demand through the value chain	Industry Risk Management - To protect the industry's reputation, production and assets through management of risks, production support and promotion of the industry's interests.	Maximise the health benefits of horticultural products in the eyes of consumers, influencers and government	We will improve productivity	Maintain and increase sales by new product and market development and product registration and stewardship - Immediate	Market recognition for Australian quality, safety, reliable supply and innovation in products and services

HAL	Across Industry	Apple and Pear	Avocado	Citrus	Lychee	Macadamia	Mushroom	Nursery	Processing Tomato	Pyrethrum	Vegetables
2012–2015	2009-10 to 2012-13	2010-11 to 2012-13	2011-12 to 2012-13	2011-12 to 2012-13	2009-10 to 2012-13	2009-10 to 2012-13	2011-12 to 2012-13	2012-13	2010-11 to 2012-13	2009-10, 2011-12 and 2012-13	2011-12 to 2012-13
Enhance industry skills and capability	Position horticulture to compete in a globalised environment	Ensure Industry has the resources and capability to achieve primary Objectives	To ensure appropriate organisation, resourcing and management of the affairs of the Australian avocado Industry to support the development of the Industry on an ongoing basis	Improve Industry communication and information systems	Objective 3 - To increase the sale of Australian Lychees in a range of export markets to 22% of total production (i.e. at least 900 tonnes) by 2012	Building grower productivity, profitability and sustainability	Industry capacity and development - Manage information, resources (financial, physical and human), and alliances and relationships, to develop the industry and build capacity	Position horticulture to compete in a globalised environment	We will improve market intelligence	Secure the long term viability and sustainability of the pyrethrum industry in Tasmania - Medium to long term	Internationally competitive Australian vegetable supply chains
Deliver operational excellence	Achieve long term viability and sustainability for Australian horticulture			Enhance the capability of Industry and leadership	To improve the operations and perceived relevance of the ALGA; and build membership to 60% of all growers or growers representing 80% of production, by 2010	Building Industry leadership, capacity and confidence		Achieve long term viability and sustainability for Australian Horticulture	We will pursue the efficient use of Industry resources		Advanced industry data and information systems to meet future needs
					Create the best possible protection for the Australian Lychee Industry, through the establishment, by 2010 of an Industry Biosecurity Plan						Visionary leadership and managing change

Source: Horticulture Australia Limited. Industry strategic plans and industry plans, HAL strategic plan

4.3 Industry strategic planning, investment plans, and annual reports

ACIL Allen has assessed the plans and reports for 11 horticulture industries. This analysis is presented in the following sections.

Review of Industry Strategic Investment Plans (SIPs)

SIPs were available for review for 7 of the 11 focus industries in phase 1 of the Independent Review. The exceptions are the Processing Tomato, Pyrethrum, Lychee industries and Across Industry. Note that while the Lychee industry has completed an Export Development Plan this does not form a strategic plan.

Each of the remaining SIPs was reviewed against a set of criteria. That review is summarised in Table 6. The criteria for the review are:

- whether the strategic plan identified industry priorities
- were these matched against HAL's priorities or the Government's Rural R&D priorities?
- was there evidence of the use of a template?
- was there evidence that the plan was developed in consultation with industry?

From this review, the following summary findings were identified:

- all industries undertook consultation to develop their plans
- the approach to strategic planning varied amongst identified industries with some undertaken by third party consultancies and others collated by industry bodies
- no template seems to be in use for strategic reporting with limited commonality between industries particularly in relation to presentation and approach
- very few plans identified HAL priorities or Government Rural R&D priorities. Some mentioned them but did not go on to identify how their strategies complemented these priorities.

Table 6 Summary of reporting in Strategic Plans

	Year	Industry priorities	HAL Priorities	Govt Rural R&D Priority	Evidence of template used	Evidence of consultation
Apples and Pears	2010-15	Yes	No	No	No	Yes
Vegetables	2012-17	Yes	No	No	No	Yes
Avocados	2011-15	Yes	No	No	No	Yes
Citrus	2011-16	Yes	No	Yes	No	Yes
Macadamias	2009-14	Yes	No	Yes	No	Yes
Mushrooms	2011-16	Yes	No	Yes	No	Yes
Nursery	2012-16	Yes	Yes	Yes	No	Yes

Source: Industry Strategic Plans.

Industry Annual Investment Plans (AIPs)

Table 7 provides a summary of each of the 10 individual industries focused on in phase 1 of the Independent Review and whether they reported against a set of criteria in their AIPs. These criteria are:

- has the industry reported its priorities for the coming year?
- have strategies to achieve those priorities been identified?
- have projects to achieve strategies and/or priorities been allocated?
- was there evidence of template used to develop the Investment Plan?
- is there evidence that consultation was undertaken to develop the Plan?
- has spending by industry objective been identified?
- has spending by HAL Priority been identified?
- has spending by Government Rural R&D Priority been identified?

Investment plans for each of the industries reviewed were completed for the years 2009-10, 2010-11, 2011-12 and 2012-13. In summary, the Independent Review found that:

- there was a marked trend in reporting with reports in 2009-10 of a low standard particularly in the Vegetable, Processing Tomato and Pyrethrum industries. All of the reports in 2010-11 were generally of a poor standard (the exceptions being the Avocado and Citrus industries). The standard of reporting was much higher in subsequent years however the Processing Tomato and Pyrethrum industries had a lower standard of reporting than other industries
- all Investment Plans identified industry priorities in all years
- reporting of strategies and projects to achieve priorities has improved over the reporting years
- IACs do not formally consult with industry in framing their AIPs. Industry consultation is largely dependent upon the activities of each PIB for each industry. The extent of industry consultation apparent in framing the AIPs differs by Industry
- there was no reporting of spending against industry, HAL and Government Rural R&D priorities until 2011-12. In 2011-12 there were two industries that did not report against all HAL priorities.

Table 7 Summary of reporting in Annual Investment Plans (number of industries)

	2009-10	2010-11	2011-12	2012-13
Report Priorities	10	10	10	10
Strategies to achieve priorities	5	5	10	9
Projects to achieve strategies	10	2	10	10
Evidence of template used	10	8	10	10
Evidence of consultation	6	6	2	9
Spending by objective	0	0	10	10
Spending by HAL Priority	0	0	8	10
Spending by Govt Rural R&D Priority	0	0	10	10

Source: Industry Investment Plans.

Industry Annual Reports

Table 8 provides a summary of each of the 10 industries and whether they reported against a set of criteria in their Annual Reports. Note however that an Annual Report was not available from the Processing Tomato and Pyrethrum industries for any of the years in the review. The criteria used in this analysis are:

- has the industry report by Objective/Goal identified in the Investment Plan?
- have projects by Across Industry Objective been reported?
- have projects by Industry Objective been reported?
- have projects Australian Government's Rural Research and Development Priorities been reported?
- is there an investment summary included?
- is there evidence that a template was used to compile the report?
- is there evidence of year to date spending by project?
- is there evidence that consultation was undertaken throughout the reporting period?

Annual Reports for each of the remaining eight identified industries were completed for the years 2009-10, 2010-11, 2011-12 and 2012-13. Overall, reporting was of a very high standard with all industries following a template in all years. Note that only five industries had completed Annual Reports for the 2012-13 financial year when reviewed.

In summary:

- all Annual Reports use a case study style of reporting projects which describe the project in terms of its aims and objectives. The reports also include a summary table of these project names and contact details. There is no progress against project milestones identified in this reporting until 2012-13 when reporting of projects funds to date are included in the summary table only
- the Mushroom and Nursery industries did not report against their identified objectives in the 2009-10 Annual Report
- the Mushroom industry reported against a set of objectives in the 2010-11 Annual Report however these objectives were not identified in the corresponding Investment Plan or Strategic Plan
- reporting of funds by project and year to date spending of funds by project did not commence until the 2012-13 reporting period.

Table 8 Summary of reporting in Annual Reports (number of industries)

	2009-10	2010-11	2011-12	2012-13
Report by Objective/Goal	6	7	8	5
Projects by Across Industry Objective	8	8	8	5
Projects by Industry Objective	8	8	8	5
Australian Government's Rural Research and Development Priorities	8	8	8	5
Investment Summary	8	8	8	5
Evidence of template used	8	8	8	5
Evidence of year to date spending by project	0	0	0	5
Evidence of consultation	8	8	8	5

Source: Horticulture Australia Limited 2013. Industry Annual Reports

4.4 Risk management and fraud control

HAL is required, as part of its Deed with the Commonwealth, to develop and implement a Risk Management Plan and a Fraud Control Plan. The risk management plan must cover all material risks associated with the management and expenditure of funds.

HAL executives maintain a risk register which is reviewed by the Audit and Risk Committee of the Board and the HAL Board.

The December 2011 Assessment of the Risk Framework found that:

- the risk assessment criteria in the risk register did not provide sufficient guidance to facilitate consistent risk assessment and application
- the risk register did not identify the desired risk rating for each of the risks identified which inhibits the efficient prioritisation of risks and the development of effective mitigation plans
- the controls identified in the risk register are not specific actionable and/or measurable controls
- there is no formal process to evaluate the effectiveness of mitigating controls.

The December 2011 review viewed that there were opportunities for improvement, particularly in terms of ensuring that key components of the risk management framework are embedded within the organisation.

In the Fraud Control Plan implemented in February 2012 it was noted that HAL's operating environment is characterised by the following features that give rise to risk:

- the receipt and management of significant government funds
- potential conflicts of interest among PIB and IAC representatives
- significant outsourcing of key R&D and marketing work, much of which is carried out in remote locations and where outcomes and value for money are difficult to measure
- a large number of R&D and marketing projects on foot or under consideration at any one time
- a relatively small core of permanent staff, which has the potential to limit HAL's ability to monitor the performance of service providers
- pressure by levy payers and the Commonwealth to maximise value for money and control corporate overheads.

The Fraud Control Plan of February 2012 notes that while HAL faces a number of inherent fraud risks, none of these risks were residually rated as "High" in accordance with HAL's risk rating criteria.

Additional risk management actions factored into the February 2012 Fraud Control Plan include:

- designation of a part-time Fraud Control Officer
- development of an entity-wide code of conduct and a related awareness program
- development of an entity-wide whistleblowing policy and a related awareness program
- review of HALO and other business databases to determine what data analytics and data mining capabilities can be exploited
- review of HAL's training programs for staff, directors and IAC members
- completion of a fraud risk assessment at least every two years and at a minimum, when a significant change is made to a business process.

The HAL Risk Register viewed by the Board that was available at the time of the Independent Review phase 1 includes a reassessment of risk factors that raises the risk level faced by HAL. In this assessment:

- 1 risk type is rated as having a 'Severe' risk level – undisclosed or mismanaged conflicts of interest/governance within and between the IACs and PIBs
- 6 risk types are rated as having a 'High' risk level – including 'Failure to demonstrate return on investment for R&D' and 'Non-Strategic management of VC' (that is Voluntary Contributions).

The HAL Board has applied several changes to its governance and HAL's distinctive industry partnership arrangements to address the risk posed by potential conflicts of interest in the IACs and PIBs. This includes the following actions:

- IACs required to update and maintain a Conflicts of Interest Register
- every IAC member is required to complete and sign a Confidentiality and Conflicts of Interest Disclosure Form
- as agreed with DAFF, PIBs with greater than \$250k annual levy expenditure are required to "de-conflict" (to less than 50 per cent PIB representation) by the end of 2013
- specific training for IAC Chairs on conflict of interest (which commenced November 2012)
- specific training and guidelines for the HAL Industry Support team on conflicts of interest (2 of their team meetings last year)
- introduction of the Independent Office role to IACs, providing assistance to IAC Chair with governance issues (applied to 5 IACs)
- an update of the IAC guidelines and the preparation and circulation of a Good Governance document for the use of IACs.

Management of other risks also relate to HAL's distinctive partnership arrangements. The risks posed by non-strategic management of Voluntary Contributions (VC) capital are compounded where forecast VC expenditure is not included in industry SIPs or AIPs. Risks are compounded where there is an internal perception that industry "owns" the VC program, raising risks that these are less subject to the review of the HAL Board and HAL management.

The Review team was advised by HAL that no incidents of fraud had been reported during the review period.

Some risks have been identified through the conduct of HAL's recently commenced in-house audits. In-house review of payments made to PIBs, who are also major service providers, point to issues with acquittals and provision of performance information. These issues highlight the need for PIB service providers to apply governance and accountability controls that are as comprehensive as those that apply to HAL itself when the PIB/service provider are handling funds disbursed by HAL. They also highlight some difficulties in HAL applying controls and reviewing performance and acquittal requirements to bodies that in addition to being service providers are essentially the 'owners' of HAL.

It is not clear to the Independent Review that HAL's risk management and fraud management activities have been updated and enhanced to address the increase in risk and fraud in circumstances where the PIBs/Members are providing an increasing proportion of HAL services. The Deed requires specific accounting for payments to PIBs in the Annual Operating Plan because of the increased risk that such payments may reflect conflicts of interest and provide support to the agri-political activities of PIBs. In the February 2012 Fraud Control Plan there are action items stating 'HAL to consider a policy for projects

conducted by a PIB or related party, which requires additional peer or management review of proposals submitted, or projects completed, by PIBs' and 'HAL to consider introducing additional rigour in the selection process where a PIB or related party has submitted a proposal'.

4.5 Intellectual property management

HAL generates between 0.1 per cent and 0.2 per cent of its total income from royalties. However, to safeguard against loss of intellectual property HAL maintains a separate Intellectual Property Management Plan and includes enforceable intellectual property rights clauses in its standard funding agreements.

HAL's IP Management Plan articulates the goals and principles for the company's management of IP.

The IP and Commercialisation Manager is responsible for IP management within the company. The IP and Commercialisation Manager focuses on the project management of primarily large projects of higher risk to the company. This activity is reported to the Board at each meeting.

HAL's IP Register includes patents, patents pending, licence agreements, trademarks and other agreements. HAL's standard contract contains appropriate provisions to manage IP. HAL also uses an 'Equity Share Calculator' spreadsheet tool to establish the royalty shares for HAL, the service provider and the commercialising third party. HAL seeks to establish this early in the project well prior to actual commercialisation.

4.6 Key findings

KEY FINDING 3

The Independent Review of HAL's strategic, annual operational, risk management, fraud control and intellectual property plans and its effectiveness in meeting the priorities, targets and budgets set out in those plans shows that in general:

- HALs strategy setting and planning processes have evolved reflecting the need to sharpen and improve planning to get the most from R&D and marketing investments
- the current strategic plan streamlines previous priorities.

KEY FINDING 4

The industry strategies that were reviewed reflect a fragmented industry-by-industry approach. The priorities of each of the various industries reviewed follow the general lead of the HAL corporate priorities and add their own variations. The many industry priorities are typically stated at a high level of generality. Very few industry strategic priorities address the Across Industry Priorities.

KEY FINDING 5

The Review notes that there is no template for the many industries preparing Strategic Plans and that the standard of plans varies considerably between industries. There is a lack of a consistent framework to enable assessment of priorities in advance as well as assessment of what has been achieved in the past from previous programs and projects.

KEY FINDING 6

The review has identified that there is no strategic plan for the Across Industry Program. While the Across Industry Program does produce annual investment plans, it is not clear that the Across Industry Program provides sufficient scope to address industry wide issues substantively.

KEY FINDING 7

The Independent Review notes with considerable concern that corporate priorities and Industry priorities are not guided by a whole of industry framework or assessment of the business case of the sort provided by the previous *Future Focus* program jointly developed by HAL, supply chain partners and the Commonwealth Government.

KEY FINDING 8

The Independent Review considers that industry Annual Investment Plans have improved over the review period and generally link investments to identified priorities. The Review notes that the focus of industry AIPs is on each industry demonstrating its expenditure of available funding rather than proof that the best investment has been made or that the expected benefits will exceed the costs.

KEY FINDING 9

The Industry Annual Reports use a case study style of reporting which generally does not involve measures of performance and impacts. The material made available to the Independent Review suggests that industries and HAL at large meet the annual budgets. The effectiveness of implementation in meeting annual industry plans, including providing benefits to industry is not readily apparent with the data that HAL collects and reports annually.

KEY FINDING 10

The Independent Review views that risk management and fraud control has improved over the review period, however some key risks have increased their risk level and the risk management processes have not kept pace. The risks arising from the potential for conflicts of interest given the role that industry IACs and PIBs play in recommending investments and providing services and acting as members/owners are rated as having increased to 'Severe' by the HAL Board. Measures have been taken to mitigate some of these risks, but many other of the risks identified in the 2011 Fraud Control Plan have not been fully addressed.

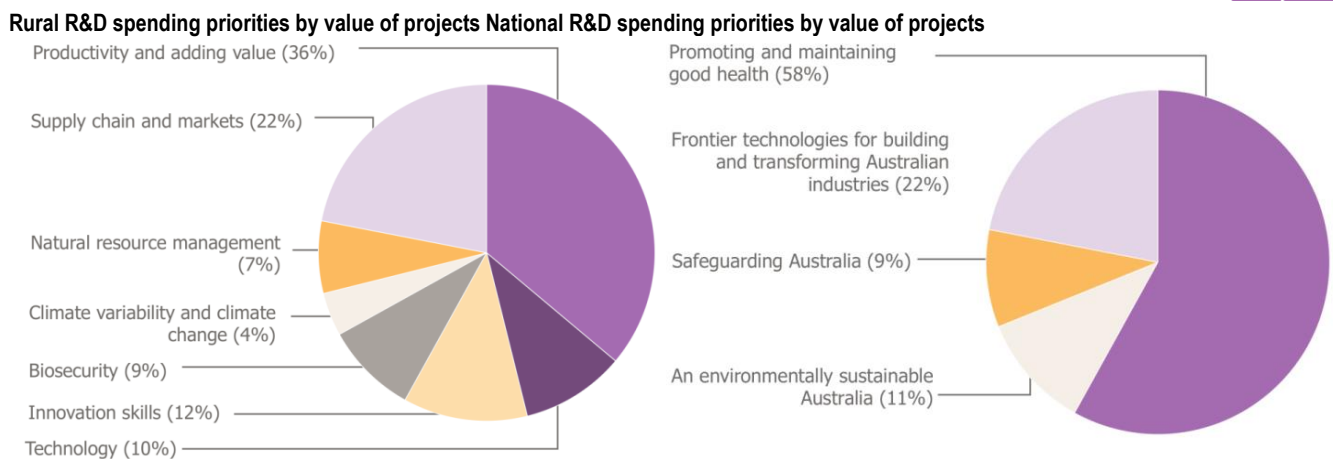
5 Efficiency and benefits to industry

This chapter reports on the review of the efficiency with which HAL has carried out its strategic and investment plans. The chapter also reviews the delivery of the benefits to the industry and the community in general.

5.1 Investment activity

HAL invests around \$100 million annually in programs aligned with the investment priorities of Australia's horticulture industries and the Australian Government's Rural Research and Development Priorities. The share of spending on these priorities is reflected in Figure 5.

Figure 5 Investment and spending across HAL's strategic priorities



Source: Horticulture Australia Limited, 2013 Annual Report.

The number of R&D projects and the maximum, average and median spend per R&D project is presented in Table 9. A key feature of the investment portfolio is that it comprises many small projects. This trend towards completing many smaller-sized projects is emphasised by the estimated median expenditure on R&D projects of \$35,000 and \$45,000 between 2008 and 2013.

Table 9 HAL investment portfolio for R&D projects

	2008-09	2009-10	2010-11	2011-12	2012-13
Number of R&D projects	1,026	993	975	897	855
Average \$ per R&D project	\$72,591	\$72,035	\$74,132	\$85,306	\$87,987
Median \$ per R&D project	\$37,951	\$40,000	\$35,000	\$41,155	\$45,000
Maximum \$ on R&D project	\$2,648,583	\$2,648,583	\$3,504,975	\$3,963,440	\$2,642,293

Note: The R&D and marketing portfolios of the horticulture sector were examined using the financial account information from Horticulture Australia Limited. The financial accounts information record the level of expenditure by project as specified in the financial accounts. The data identified projects on an accounting project number basis. ACIL Allen Consulting sorted the data in order to remove projects with zero or negative numbers as they were reflecting individual financial accounting adjustments as opposed to individual projects. The total number of project over the 5 years is not the sum of the reported annual number of projects due to some projects continuing over multiple years.

Source: Horticulture Australia Limited 2014. ACIL Allen Consulting analysis.

This trend towards completing many small projects is also emphasised by the estimated median expenditure on marketing projects of between \$17,000 and \$25,000 over the 2008 and 2013 period – see Table 10.

Table 10 HAL investment portfolio for marketing projects

	2008-09	2009-10	2010-11	2011-12	2012-13
Expenditure on marketing projects	\$12,412,462	\$14,436,856	\$12,362,409	\$16,523,773	\$15,565,438
Number of marketing projects	735	700	698	715	757
Average \$ per marketing project	\$54,203	\$69,076	\$56,708	\$77,576	\$75,560
Median \$ per marketing project	\$17,672	\$25,357	\$19,784	\$24,992	\$20,758
Maximum \$ on marketing project	\$1,500,000	\$1,869,110	\$1,968,000	\$2,120,000	\$2,000,002

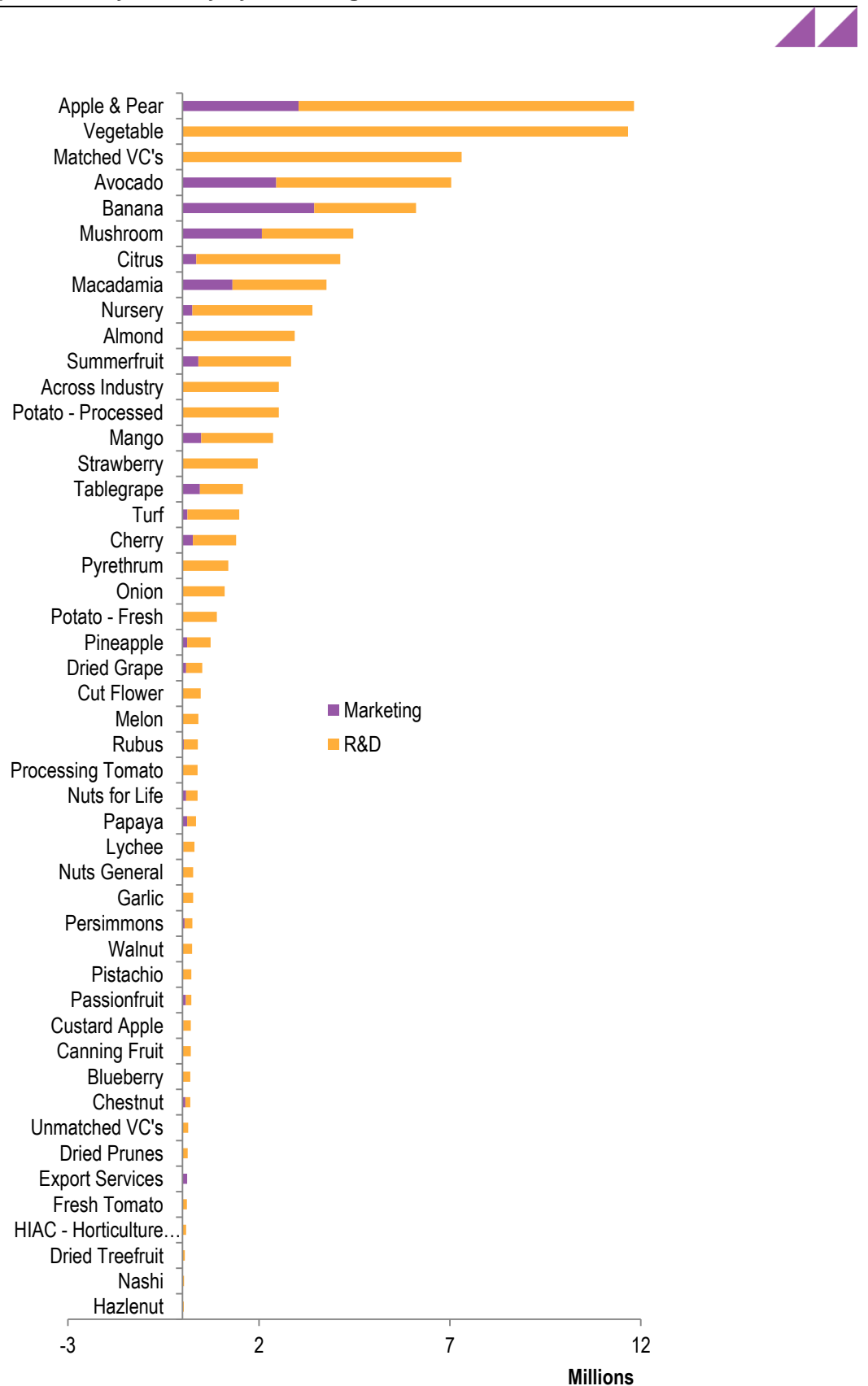
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Source: Horticulture Australia Limited 2014. ACIL Allen Consulting analysis.

The average, median and maximum expenditure on R&D and marketing was also examined for 11 industries: Across industry, Apples and Pears, Avocados, Citrus, Lychees, Macadmias, Mushrooms, Nursery, Pyrethrum, Tomato processing and Vegetables. These sectors reflect a cross-section of the horticulture portfolio in terms of small, medium and larger-sized sectors. The detailed findings are presented in Appendix B. The results reflected in the previous tables are supported by the industry break-down analysis.

Total R&D and marketing expenditure by industry is presented in Figure 6. Clearly, a small number of HAL industries invest a relatively large amount and a large number make relatively small investments each year.

Figure 6 2012-13 expenditure by industry by marketing and R&D

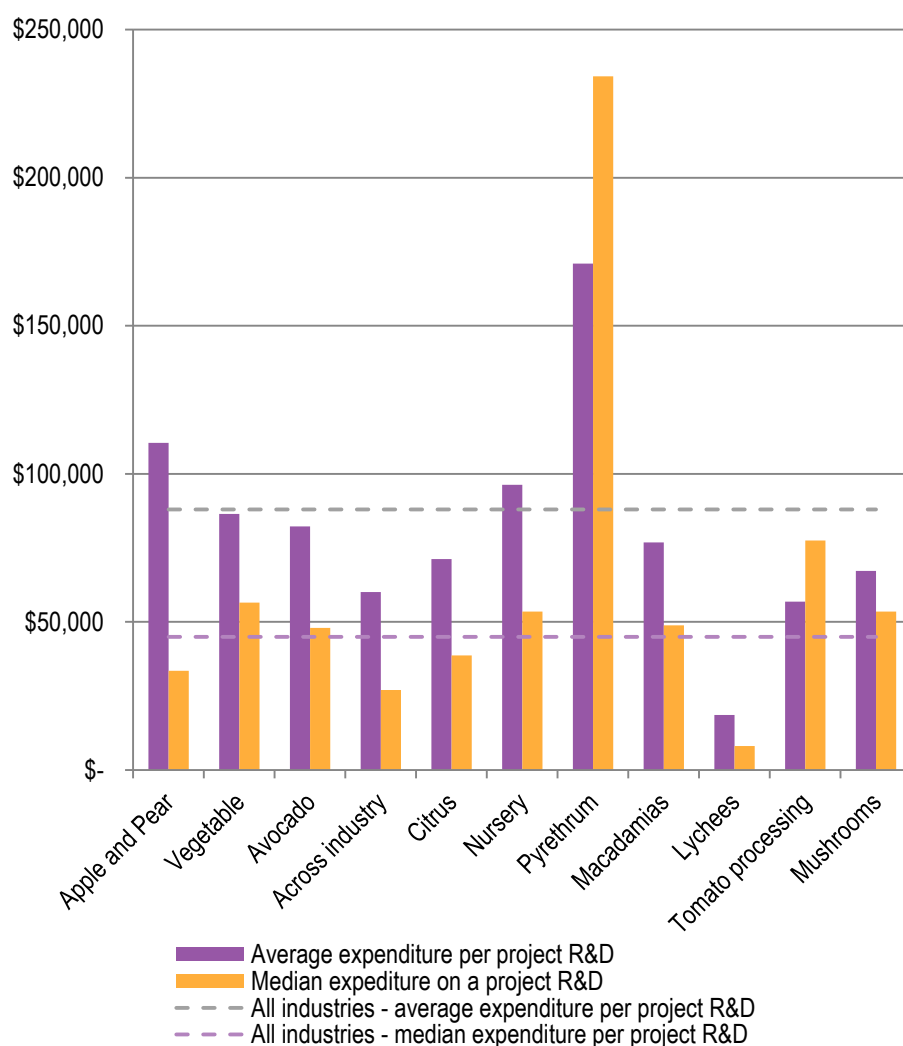


Note: includes consultation funding.

Source: Horticulture Australia Limited 2014. ACIL Allen Consulting analysis.

The industry break-down of horticulture supports the finding that the respective R&D and marketing portfolios comprise many smaller-sized projects. All industries, apart from Pyrethrum which invests voluntary contributions into R&D, exhibit median expenditure per projects which is less than the average. See Figure 7.

Figure 7 **Average and median R&D project expenditure (2012-13)**



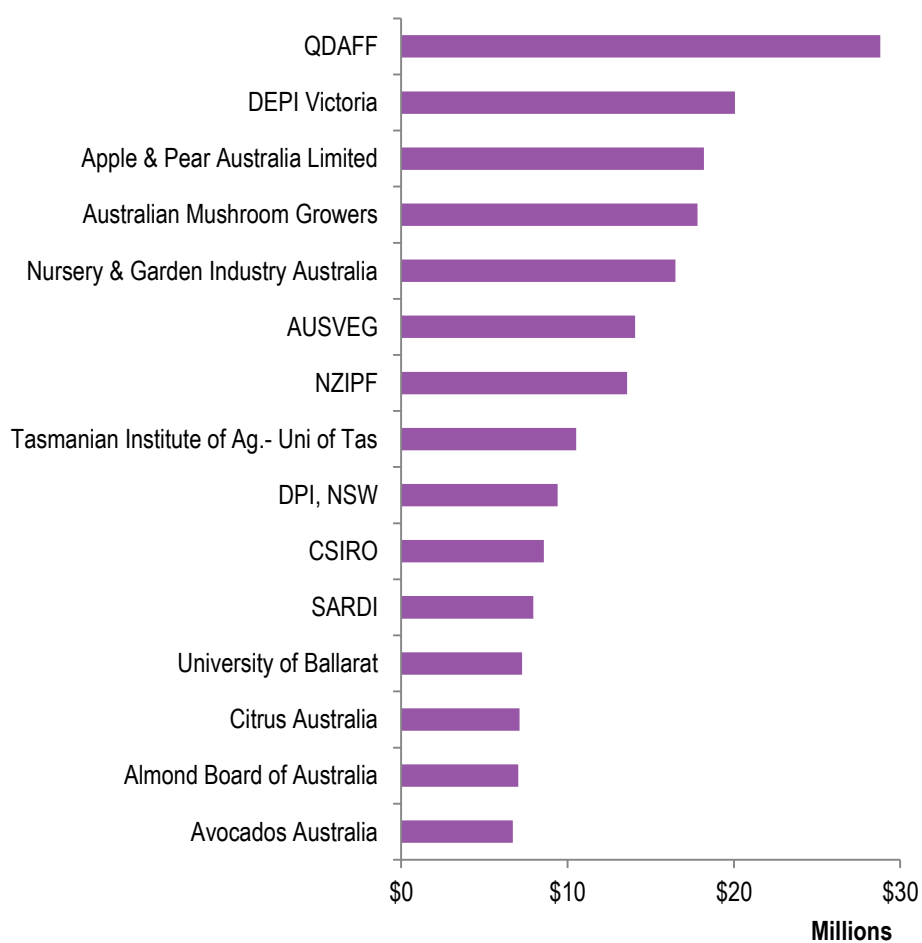
Source: Horticulture Australia Limited 2013. ACIL Allen Consulting analysis 2014.

In addition, all median expenditure on R&D projects for 2012-13, with the exception of Pyrethrum, were significantly less than \$100,000. Median expenditure on R&D projects in 2012-13 for Pyrethrum was around \$230,000 compared to the HAL median of \$45,000.

Experience of R&D in general indicates that there are economies of scale in R&D and small investments are vulnerable and exposed to risk and uncertainty that punishes achievement of substantive benefits.

A further feature of HAL's investment portfolio is that the industry partners, the various PIBs, are becoming the largest providers of R&D and marketing services (Figure 8). Last year HAL payments to 7 PIBs placed them in the list of the 15 largest service providers by value, eclipsing specialist service providers such as the CSIRO, SARDI and others.

Figure 8 HAL's largest service providers by value



Source: Horticulture Australia Limited 2013. ACIL Allen Consulting analysis 2014.

Payments to HAL PIBs have been growing rapidly over recent years. They rose from around a quarter of all project expenditure to 34 per cent in 2012-13. The increase has been most marked in R&D projects (Table 11).

Table 11 Project expenditure to HAL PIBs

Percentage of project expenditure with PIBs	2008-09	2009-10	2010-11	2011-12	2012-13
R&D	24%	30%	29%	33%	37%
Marketing	23%	21%	28%	9%	21%
Total	24%	28%	29%	29%	34%

Source: Horticulture Australia Limited 2013. ACIL Allen Consulting analysis 2014.

5.2 Efficiency in HAL as a corporate entity

Key indicators about HALs operations and efficiency are provided in Table 12.

HAL's program expenditure grew by 0.89 per cent per annum over the review period. This reflects the growth rate in horticultural GVP and a significant increase in marketing.

It seems that HAL's distinctive industry-by-industry partnership model involves significant overheads. In addition to HAL's own management costs, HAL's model involves costs of collecting industry levies (which is discussed in more detail later) and the costs of forming industry-by-industry partnerships and consultation for each industry group. Total overheads have grown slightly faster than program expenditure over the review period growing at 1.1 per cent per annum.

Rising levy collection costs and consultation costs rather than HAL corporate costs have caused the increase in overheads. Indeed HAL's corporate overheads actually fell by 0.39 per cent per annum. Program expenditure per full time equivalent (FTE) is \$1.319 million per annum.

Table 12 HAL operations and financial statistics

Item	2008-09	2012-13	CAGR
Horticultural GVP	\$8.4 billion	\$8.6 billion	0.62%
HAL members (no.)	37	42	3.83%
HAL staff (FTE)	tbp	64.94	-
Revenue			
Levy proceeds	\$35.471 million	\$41.198 million	3.81%
Voluntary contributions	\$20.642 million	\$18.580 million	-2.60%
Commonwealth matched funding	\$39.803 million	\$41.376 million	0.97%
Other income	\$2.405 million	\$2.295 million	-1.16%
Total revenues	\$98.320 million	\$103.450 million	1.28%
Expenditure			
Net programs	\$82.680 million	\$85.666 million	0.89%
♦ <i>Net R&D program</i>	<i>\$70.774 million</i>	<i>\$71.041 million</i>	<i>0.10%</i>
♦ <i>Net marketing program</i>	<i>\$11.940 million</i>	<i>\$14.625 million</i>	<i>5.21%</i>
Total overheads	\$16.526 million	\$17.270 million	1.1%
Total expenditure	\$99.206 million	\$102.935 million	0.93%

Source: Horticulture Australia 2013. ACIL Allen Consulting analysis of HAL financial year accounts for year ending June 2013.

The Independent review team estimates that some 28 per cent of the HAL industry levy contributions are absorbed in overhead activities (where consultation funding is classified as an overhead). Thus, over 1 dollar in every 4 dollars collected from the levies is used to support the administration of HAL. This is a conservative estimate of the overhead burden as significant overheads and administration costs are embedded within much program expenditure, especially expenditures made on programs provided by PIBs. Details of the shares of expenditure are reported in the table overleaf.

Table 13 HAL overheads

	2008-09	2012-13
HAL corporate overheads	\$11.958 million	\$11.772 million
Levy collection costs	\$1.320 million	\$1.557 million
Consultation funding	\$3.247 million	\$3.939 million
Total overheads	\$16.526 million	\$17.270 million
% of total revenues	16.81%	16.69%
% of total revenues (without Commonwealth matched funding)	28.24%	27.82%

Source: Horticulture Australia Limited 2013. ACIL Allen Consulting analysis of HAL financial year accounts for year ending June 2013.

5.3 Efficiency by industry

It is also useful to assess efficiency in investment activities within each of the HAL industries.

Financial statistics for the selected HAL industries and across industry are reported in Table 14. This shows that the move to cost based recovery for levy collections has lowered costs for five and increased costs for three of the selected industries they apply to.

With respect to consultation costs, while they have increased overall, the trend is not uniform across the selected industries. Rather consultation costs have increased for five but reduced for three industries. More detailed analysis of the 10 industries and Across Industry is in Appendix B.

This reflects the considerable flexibility and freedom PIBs have to allocate resources for engaging levy payers and supporting the greater levy of planning, rigour, transparency and accountability required.

Table 14 Selected HAL industry financial statistics (\$million per annum)

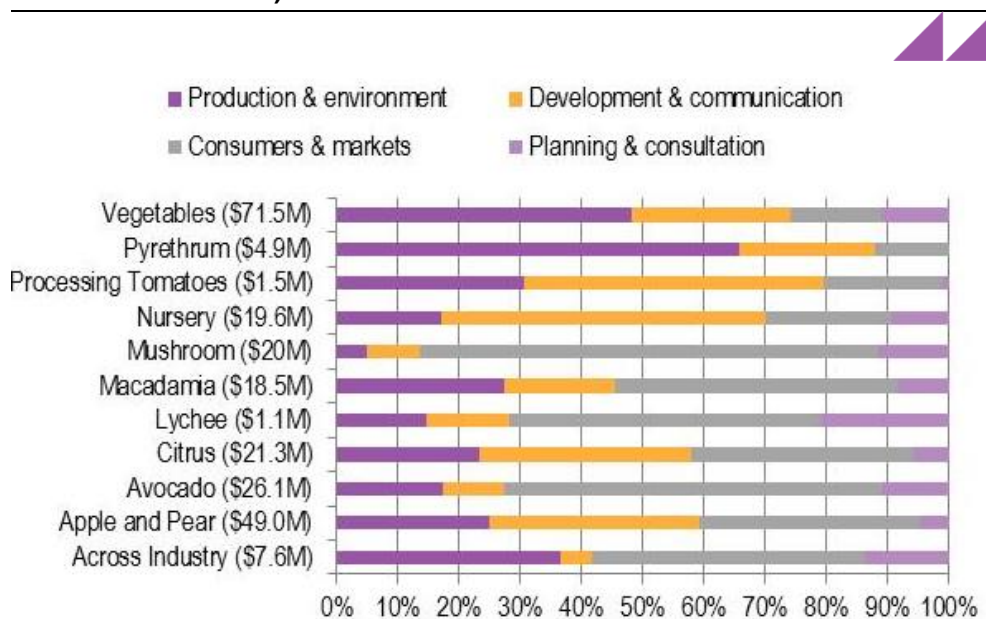
		Total revenues	Total net programs	HAL corporate	Levy collection	Consultation
Across Industry	2008-09	\$0.64	\$1.12	\$0.15	\$0.00	\$0.00
	2012-13	\$1.44	\$2.52	\$0.32	\$0.00	\$0.00
	CAGR	22.5%	22.5%	20.2%	-	-
Apple & Pear	2008-09	\$8.57	\$6.53	\$0.90	\$0.15	\$0.26
	2012-13	\$13.09	\$11.34	\$1.60	\$0.12	\$0.48
	CAGR	11.2%	14.8%	15.4%	-4.6%	16.3%
Avocado	2008-09	\$5.63	\$4.42	\$0.64	\$0.07	\$0.29
	2012-13	\$7.00	\$6.71	\$0.89	\$0.04	\$0.32
	CAGR	5.6%	11.0%	8.7%	-15.4%	2.4%
Citrus	2008-09	\$4.61	\$3.71	\$0.52	\$0.11	\$0.18
	2012-13	\$4.87	\$3.97	\$0.54	\$0.10	\$0.16
	CAGR	1.4%	1.7%	0.8%	-3.2%	-3.6%
Lychee	2008-09	\$0.27	\$0.22	\$0.03	\$0.02	\$0.03
	2012-13	\$0.30	\$0.28	\$0.04	\$0.02	\$0.04
	CAGR	3.4%	5.5%	3.4%	1.4%	10.3%
Macadamia	2008-09	\$4.51	\$3.90	\$0.54	\$0.03	\$0.09
	2012-13	\$4.54	\$3.59	\$0.49	\$0.03	\$0.17
	CAGR	0.2%	-2.0%	-2.4%	3.4%	17.7%
Mushroom	2008-09	\$3.82	\$3.75	\$0.39	\$0.02	\$0.18
	2012-13	\$4.82	\$4.35	\$0.45	\$0.01	\$0.12
	CAGR	6.0%	3.7%	3.5%	-28.7%	-10.1%
Nursery	2008-09	\$4.82	\$4.05	\$0.60	\$0.12	\$0.34
	2012-13	\$4.53	\$3.13	\$0.42	\$0.09	\$0.27
	CAGR	-1.5%	-6.2%	-8.4%	-5.9%	-6.1%
Processing Tomato	2008-09	\$0.18	\$0.16	\$0.02	\$0.00	\$0.00
	2012-13	\$0.50	\$0.40	\$0.05	\$0.00	\$0.00
	CAGR	28.1%	24.9%	26.1%	-	-
Pyrethrum	2008-09	\$0.53	\$0.57	\$0.06	\$0.00	\$0.00
	2012-13	\$1.37	\$1.20	\$0.16	\$0.00	\$0.00
	CAGR	26.8%	20.2%	27.9%	-	-
Vegetables	2008-09	\$22.02	\$19.41	\$2.87	\$0.27	\$0.52
	2012-13	\$15.82	\$10.94	\$1.48	\$0.35	\$0.73
	\$0	-7.9%	-13.4%	-15.2%	7.5%	8.7%

Source: Horticulture Australia 2013. ACIL Allen Consulting analysis of HAL financial year accounts for year ending June 2013.

The impact of planning and consultation on the level of investment funds available varies considerably by industry. So while the average across all industries is 7.8 per cent (of expenditure based on HAL's portfolio records), it ranges from 0 per cent (Pyrethrum) to 21 per cent (Lychees) across the selected industries (Figure 9).

The net result of HAL's industry by industry partnership is an approach that incurs considerable overheads, particularly where individual industries lack economies of scale or require significant consultation and/or levy collection costs.

Figure 9 **Proportional portfolio expenditure for selected industries (2008-09 to 2012-13)**



Source: Horticulture Australia 2013. ACIL Allen Consulting analysis of HAL financial year accounts for year ending June 2013.

5.4 Delivering benefits to industry and the community

An Annual Report is produced each year for HAL and each industry it services. They provide a detailed account of expenditure against industry, corporate and government strategic priorities and projects completed/in-progress. These along with the associated plans provide an important tool for communicating the benefits being sought from HAL's investments.

Table 15 lists two projects reported to have significant benefits for each of the selected industries analysed as part of the review.

While HAL does invest in projects that benefit industry and the community, the Annual Reports are limited in their ability to communicate these benefits effectively. The 2011-12 Annual Report for all industries was more than 900 pages in length, focusing on project summaries and expenditure rather than presenting KPIs or validated benefits.

Table 15 Project and achievement profiles

Industry	Project (code)	Description and achievements
Apple and Pears	Asian Export Market Development (AP11023)	Achievements of the program included developing industry export capabilities; developing collaborative exporting; and greater trade and market access
	PIPS Orchard Productivity Program (AP09031)	The model of integrated research and collaboration with various agencies across geographical boundaries was regarded as efficient and was positively viewed by all interviewees
Vegetables	Development of a test to quantify irradiation damage in fruit flies (VG09160)	Results of the study have potential as the foundation for assays for detection and quantification of prior IR exposure in pest fruit flies
	Importance of high vegetable consumption in controlling weight studies (VG09037)	Results from the year-long dietary trial showed that participants were not hungry on a high vegetable diet and appeared to continue the healthy eating plan with ease
Avocado	National avocado quality and information management system (AV09001)	Funds from this project maintained systems that provided businesses with accurate production, sales and productivity information to base future R&D, marketing and promotion decisions
	Evaluating sustainable and cost-effective orchard management practices (AV08020)	Results of this project demonstrated enhancements to tree growth, yield and fruit quality
Citrus	Citrus export market access and maintenance (CT10023)	During the course of this project, four improvements to export markets were achieved: access for grapefruit into Japan in 2010; and in-transit cold disinfestation for India shipments in 2011, Indonesia shipments in 2011 and Philippines shipments in 2013
	2011-12 citrus domestic marketing campaign (CT11500)	The campaign was regarded as successful and highlighted the message that organs contain energy and gave them a distinct and memorable personality
Nursery	Nursery industry environmental and technical RD&E 2012-2013 (NY12001)	This project provided the Australian nursery industry with the capacity to address various environmental and technical R&D issues
	Evaluation of Water conservation products and technologies for the Australian Horticultural market (NY12007)	This project updated and disseminated baseline water efficiency research and industry guidelines in addition to identifying and certifying water efficient technologies and practices for the Australian horticultural market
Macadamias	Disease management in macadamias (MC07003)	This project resulted in several benefits and science-based outcomes for the Australian Macadamia Industry such as effective management strategies for two major macadamia diseases
	6 th International Macadamia Symposium (MC11702)	The symposium assisted with information transfer, provided networking opportunities and to encourage communication between all industry participants at the national and international level
Lychees	Industry adoption of new lychee packaging (LY12003)	A new packaging box was introduced to provide benefits to growers through enhanced on-shelf fruit quality increased willingness for retailers to sell lychees
	Promoting lychee market access in China (LY12700)	Attendance at the trade fair was deemed successful as the Australian product was well received
Mushrooms	Evaluation of Vitamin-D rich Button Mushrooms in a mouse model of Alzheimer's Disease (MU10019)	This project helped to determine that Vitamin D2-enriched white button mushrooms could be used in order to develop pathologies and symptoms associated with Alzheimer's Disease (AD)
	Protective effects of white button mushroom (<i>Agaricus bisporus</i>) against non-alcoholic fatty liver disease (MU10004)	The results of the project showed that white button mushrooms are indeed protective against fatty liver in a model of postmenopausal women, ovariectomized (OVX) mice
Pyrethrum	Improving the efficiency and sustainability of pyrethrum production in Tasmania (PY09002)	This project funded ongoing agronomic research to quantify the role of a range of biotic and abiotic productivity factors and assessed the relative contribution of pyrethrum to greenhouse gas emission compared to other production options offered to growers
Processing Tomato	Lycopene levels in Australian processing tomatoes (TM09005)	This study has highlighted the impact that variety selection and timing of harvest has upon lycopene levels. Both of these variables could be manipulated in the future by processing factories in an attempt to increase and maximise lycopene content in final product
	Undertaking a usage and attitudes study for processing tomatoes (TM12005)	This study highlights the threats and opportunities for the processed tomato products (PTP) market in Australia. It found that overall, there is an opportunity to expand and grow the PTP category

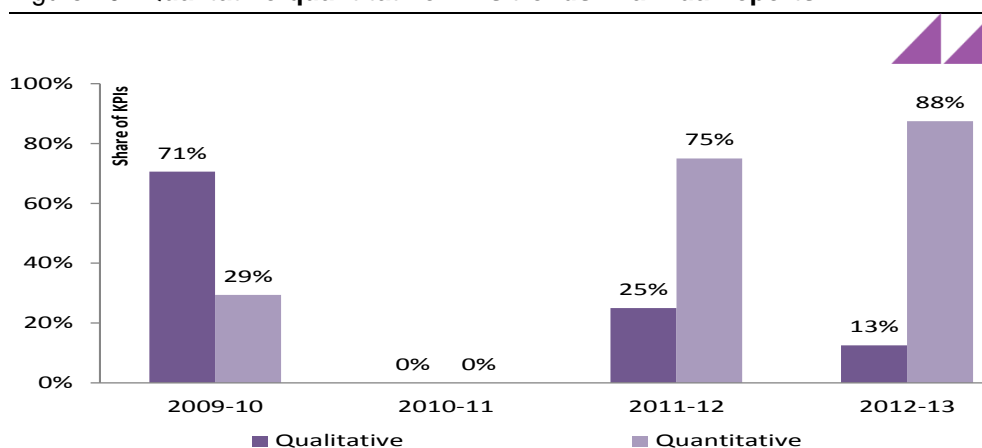
Source: HAL Industry Annual Reports 2012-13 and Final Project Reports

Table 16 2009-10 to 2012-13 Annual Reports: Goals / KPIs and Measures

Goal	2009-10	2010-2011	2011-12	2012-13
A culture and organisational structure aligned with core business functions	Clearly articulated mission statement and strategic goals. An internal structure that reflects HAL's role as an industry services body. All staff clearly understands their role and what is expected of them.	No measures identified	Publish AOP and accounts to ensure transparency around operating costs Review investment systems and structures to ensure [continued] value for money Increase start participation and ownership of cultural change in the workplace and an action plan to address HAL culture survey issues	Publish AOP and accounts to ensure transparency around operating costs Review investment systems and structures to ensure [continued] value for money
System and processes that deliver core business activities efficiently and effectively	Planning cycle that meets industry and HAL needs. Simplification of project management process in key identified areas. User friendly web application process. Satisfactory information flow on project progress/changes to IAC's/Service Providers/Others/PIB's. Systems designed to embrace opportunities for knowledge sharing.	No measures identified	Publish ROI criteria to IAC's and co-investors and develop BCA for R&D All Industries have completed and published satisfactory strategic R&D Investment plans Develop relevant productivity measures/proxies for all industries	Publish ROI criteria to IAC's and co-investors and develop BCA for R&D All Industries have completed and published satisfactory strategic R&D Investment plans Develop relevant productivity measures/proxies for all industries
Working collaboratively with stakeholders to deliver core business outcomes	A clearly articulated understanding in HAL of the roles of key stakeholders and the value they contribute. Shared efficiencies with other RDCs. Agreed communication and engagement plan with members re: three to five year HAL Strategic Plan. Platforms/opportunities created for knowledge sharing between stakeholders.	No measures identified.	Review and enhance advisory networks for effectiveness, efficiency and skills mix Ongoing and key role in promoting and implementing the RD&E framework and NHRN within the horticulture sector including annual plan of activities Improve the operation, effectiveness and governance of IACs collaboratively and in alignment with government and industry expectations	Review and enhance advisory networks for effectiveness, efficiency and skills mix
A targeted approach to creating productive relationships with stakeholders	A new three to five year strategic plan for HAL. A transparent set of reporting and accountability standards that are consistently and equitably applied. Communications plan with members. Transparency with members regarding HAL's operations and business planning. Strong, positive relationships exist between HAL and its members.	No measures identified	A HAL (Board) plan to invest strategically on all of across horticulture issues Develop a plan to optimise co-investment opportunities Continue to work collaboratively with other RDCs on shared service opportunities and to find opportunities for collaborative R&D	A HAL (Board) plan to invest strategically on all of across horticulture issues Develop a plan to optimise co-investment opportunities

Source: (Horticulture Australia Limited, 2010, p. 48) (Horticulture Australia Limited, 2011, p. 11) (Horticulture Australia Limited, 2012, p. 17) (Horticulture Australia Limited, 2013, p. 17)

Figure 10 Qualitative-quantitative KPIs trends in annual reports



Source: (Horticulture Australia Limited, 2010, p. 48) (Horticulture Australia Limited, 2011, p. 11) (Horticulture Australia Limited, 2012, p. 17) (Horticulture Australia Limited, 2013, p. 17)

At a corporate level, HAL sets KPIs for “delivering operational excellence” strategic priority which it is responsible for, rather than industry and community benefits per se. These KPIs are activity centred and included in HAL’s corporate plans and Annual Reports (Table 16) with a discernible trend of greater use of quantitative indicators (Figure 10).

The outcomes of the R&D and marketing project investments are the tangible benefits delivered to industry and growers from HAL and the horticulture levy arrangements. Measurement of the net benefits of the projects is undertaken by HAL. HAL commissions both ex-ante and ex-post Benefit-Cost analyses (BCAs) of project clusters. These evaluations are invaluable as they are used as inputs into industry strategic plans.

Since 2006, HAL has introduced a policy where all projects requiring greater than \$500,000 lifetime funding are required to have an ex-ante BCA of the investment prior to obtaining approval. The Review team regards this development as a positive as it will encourage more transparency and accountability in relation to investment outcomes over time.

Since 2009 a rolling series of 18 evaluations suggest that some investments across industries and portfolios are providing significant returns Table 17.

Table 17 Benefit cost analyses of HAL projects

Industry	BCR range	Year	Number of clusters	Name of clusters & number of projects in each	Present value of costs for all projects evaluated
Apple & Pear	\$2.10 - \$5.20 benefits per \$1 of costs	2013	5	Breeding & Biotechnology (21), Crop Production & Environment (10), Plant Health (12), Biosecurity & Market Access (41), Market Development (21)	\$74.81 million (2011-12 dollar terms)
Mango	\$9.00 benefits per \$1 of costs	2013	One project	n/a	\$1.11 million (2011-12 dollar terms)
Strawberry	\$4.05 benefits per \$1 of costs	2013	1	Breeding & Biotechnology (17)	\$19.19 million (2011-12 dollar terms)
Banana	\$1.90 - \$9.10 benefits per \$1 of costs	2012	4	Breeding & Biotechnology (4), Crop Production & Environment (7), Postharvest, Quality assurance & Food Safety (6) Biosecurity & Market Access (7)	\$14.59 million (2010-11 dollar terms)
Lychee	\$4.30 benefits per \$1 of costs	2012	1	Plant Health (10)	\$1.6 million (2010-11 dollar terms)

Industry	BCR range	Year	Number of clusters	Name of clusters & number of projects in each	Present value of costs for all projects evaluated
Custard Apple	\$11.80 of benefits per \$1 of costs	2012	One project	n/a	\$0.33 million (2010-11 dollar terms)
Chestnut	\$8.84 of benefits per \$1 of costs	2012	One project	n/a	\$0.10 million (2010-11 dollar terms)
Passionfruit	\$5.26 of benefits per \$1 of costs	2012	One project	n/a	\$0.89 million (2010-11 dollar terms)
Papaya	\$2.58 of benefits per \$1 of costs	2012	One project	n/a	\$0.51 million (2010-11 dollar terms)
Persimmon	\$15.07 of benefits per \$1 of costs	2012	One project	n/a	\$0.12 million (2010-11 dollar terms)
Pineapple	\$10.92 of benefits per \$1 of costs	2012	One project	n/a	\$0.49 million (2010-11 dollar terms)
Almond	\$8.65 - \$11.48 per \$1 of costs	2011	3	Biosecurity & Market Access (14), Environment (4), Industry & Development (13)	\$5.47 million (2009-10 dollar terms)
Macadamia	\$1.85 - \$4.60 per \$1 of costs	2011	5	Varietal Improvement (8), Technology (7), Crop Protection (9), Handling & Quality (7), Market Research (5)	\$20.11 million (2009-10 dollar terms)
Mushroom	\$7.20 - \$12.60 per \$1 of costs	2011	3	Human Health & Nutrition (12), Communication & Extension (21), Mushroom Health (11)	\$10.92 million (2010-11 dollar terms)
Summerfruit	\$2.07 - \$9.18 benefits per \$1 of costs	2011	4	Breeding & Biotechnology (6), Post Harvest & Quality Assurance (11), Plant Health (9), Industry Development (9)	\$19.86 million (2010-11 dollar terms)
Citrus	\$2.40 - \$4.30 benefits per \$1 of costs	2010	5	Biosecurity & Market Access (27), Breeding & Biotechnology (12), Crop Production (8), Plant Health (23), Postharvest & Quality (9)	\$52.3 million (2009-10 dollar terms)
Cherry	\$8.80 benefits per \$1 of costs	2010	1	Quality, Market Development & Workplace Safety (11)	\$0.49 million (2009-10 dollar terms)
Dried Fruit (Grape, Prune, Tree-fruits)	\$3.10 - \$6.70 benefits per \$1 of costs	2010	3	Breeding & Biotechnology (13), Crop Production (10), Industry Development (8)	\$15.44 million (2009-10 dollar terms)
Table Grape	\$2.40 - \$9.00 per \$1 of costs	2010	4	Consumer Research & Market Analysis (5), Biosecurity & market Access (11), Industry Development Services (7), Plant Health (5)	\$5.81 million (2009-10 dollar terms)
Onion	\$3.40 - \$12.10 per \$1 of costs	2010	2	Market & Supply Chain (8), Extension & Communication (6)	\$1.4 million (2008-09 dollar terms)
Avocado	\$2.90 - \$14.60 per \$1 of costs	2009	4	Plant protection (10), Post Harvest and Fruit Quality (8), Supply Chain (9), Market & Consumer Research (6)	\$5.58 million (2008-09 dollar terms)
Nursery	\$1.70 - \$5.60 per \$1 of costs	2009	4	Business Improvement (14), Industry Development (6), Market Information (6), Environment (14)	\$10.3 million (2008-09 dollar terms)
Processed & Fresh Potato	\$3.50 - \$10.00 per \$1 of costs	2009	6	Seed Production & Seed Quality (13), Processor- disease- soil amendments (1), Processor-DNA monitoring tools (1), Agronomy & Production Management (16), Environment & Health (4), Extension (8)	\$11.4 million (2008-09 dollar terms)

Source: ACIL Allen Consulting analysis of Benefit Cost Analyses completed.

The BCAs are completed by independent BCA economic consultants who specialise in undertaking such analyses. The BCA's are reviewed by HAL internally and also by the relevant IAC to confirm that the assumptions made are both relevant and reasonable. The importance of obtaining feedback from the IAC due to their specific industry expertise highlights the importance of HAL's IAC being independent and industry experts and highlights the need to ensure the separation of the PIBs from the assessments, particularly where they are increasingly service providers.

Where the BCAs are considered not to be reasonable or relevant, revisions are made to the BCA. The Review team considers that of the sample of BCAs undertaken they do highlight the long-term value of HAL and its partners deliver to levy payers.

The sample of BCAs is random and in proportion to the dollars which industry is willing to invest in these BCAs. HAL indicated to the review team that it seeks to undertake a sample of BCAs equivalent to 5 per cent of R&D investment (as required by CRRDC) however HAL has tended to fall short and undertaken BCAs on only 0.15 per cent of R&D investment on project evaluations (although the level of investment on evaluation has fluctuated from year to year and it has varied from industry to industry). It was, however, indicated to the review team during the review that going forward HAL management will request the HAL Board to allow the use of HAL corporate funds for evaluations in order for the 0.5 per cent sample to be regularly met. The review team considers the shortfall in the percentage of projects evaluated is a current gap in the performance of HAL. The indication that HAL will fill this gap in the future by proposing to use corporate funds to meet the 0.5 per cent requirement is positive and will provide HAL and industry with:

- more certainty in terms of the evaluations (in terms of project clusters evaluated)
- greater confidence in the BCA estimates
- a data base to support analysis for future priority setting.

The review team explored the likely adoption of growers at the farm gate from research outcomes with high BCA returns. HAL currently does organise workshops showcasing successful projects (in and outside horticulture) however there is a current gap in HAL's performance in terms of ensuring that projects with high returns are translated into adoption and extension. The review team considers that this gap in performance is because:

- HAL considers this to be the responsibility of the PIBs
- the PIBs consider this to be the responsibility of HAL.

Undertaking project evaluations across 0.5 per cent of R&D investment will highlight with more certainty those high return projects which are more likely to translate into 'more' demonstration projects. The review team suggests that HAL should also work in conjunction with the PIBs to show-case more demonstration projects in order to increase R&D adoption and extension over time to the benefit of industry and growers.

5.5 Key finding

KEY FINDING 11

The review of costs and efficiency in HAL leads to the following general findings:

- HAL's industry-by-industry partnership model results in a large number of small programs and projects which are likely to constrain the overall effectiveness of investments
- it is not clear that the increasing role being played by PIBs as service providers displacing traditional R&D service providers such as specialist research organisations is increasing or decreasing efficiency
- increases in overheads are being driven by resources being dedicated to planning and reporting in response to demands for transparency, rigor and accountability in the current HAL business model
- the effort required for consultation and planning varies across industries, which along with levy collection costs reduces the funds available for investment.

KEY FINDING 12

There is very limited information available about the industry-wide impact of HAL. The information that is available indicates that:

- most performance information is available about industry by industry programs and projects and the information is mostly qualitative in nature. This generally illustrates substantive and successful investment activities
- the results from the ex-ante and ex-post benefit cost analysis (BCAs) that have been performed indicate the expectation or achievement of reasonable to high returns for industry on R&D investments
- there is however a shortfall in the percentage of R&D investment which is currently assessed via the ex-post BCAs. Increasing the sample of projects covered by BCAs would provide HAL and industry with:
 - more certainty in terms of the evaluations (in terms of project clusters evaluated)
 - greater confidence in the BCA estimates.
- there is also currently a gap in terms of how the high return investments are translated into R&D adoption and extension. A clearer governance structure with clearer responsibilities and accountability defined for HAL and the PIBs would assist with addressing this gap
- meeting these gaps in performance would ensure that HAL and the IACs have better information about returns on investment which would improve the ability of decision makers to make decisions that improve or raise the benefits to industry.

6 Levy arrangements

The Independent review team has examined the efficiency of the levy structure for the horticulture sector (in which many individual commodities maintain separate independent levy rates and collection mechanisms) and the process by which levies are conceived, implemented, collected and expensed.

6.1 Importance of efficiency of levy arrangements to HAL

An assessment of the efficiency of the levy structure for the horticulture sector is relevant in that the cost of the arrangements reduce the benefits obtained by the sector from the lower level of levies available to invest in research and development (R&D) and marketing programs. This is exacerbated in the case of HAL because the levy collection costs must also be deducted from the levy proceeds. This means in the case of R&D proceeds that less net levy proceeds are available to invest in programs which will be matched by the Commonwealth in terms of R&D investments.

6.2 Levy arrangements

The agriculture industry and the Australian Government acknowledge the importance of production efficiency, product quality, innovation and the ability to supply and respond to market demands. Accordingly, it is integral for effective coordination to ensure that these results benefit both Australians and the industry as a whole.

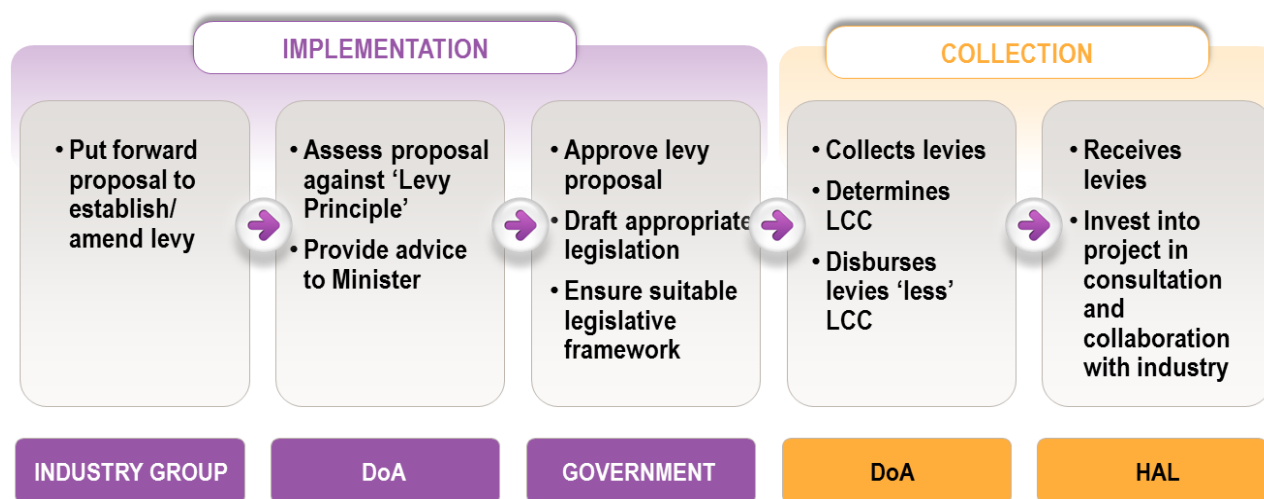
Industries can collaborate to find solutions to major challenges by pooling their efforts and resources. Efficient use of primary industry levies and charges have the potential to significantly assist producers. Australia's traditional primary industries have historically demonstrated strong support for the levy system and its role in R&D, promotion and marketing and other activities.

The levy system enables established industries to sustain their standing in increasingly competitive global markets. Similarly, emerging industries also value the benefits involved with industry cooperation and resource sharing. Through the department, the Government's role is to collaborate with industries that desire a levy system and to introduce an efficient collection system at minimum cost².

The process by which agricultural levies are conceived, implemented, collected and expensed is depicted in Figure 11.

² Department of Agriculture 2013, *Levies Explained*, http://www.daff.gov.au/agriculture-food/levies/publications/levies_explained

Figure 11 Levy arrangements process



Note: LCC refers to Levy Collection Cost

Source: ACIL Allen Consulting

As summarised by Figure 11:

- the need for a levy or change is normally identified by a specific industry group for the purposes of responding to a challenge or opportunity to benefit its industry
- the development of a levy by an industry groups needs to be discussed and voted on by its members
- for the successful implementation of a levy, an industry group is required to submit a proposal to establish or amend a levy to organisations that will receive, or currently receive, levy monies
- the Department of Agriculture is responsible for assessing the proposal against the 'Levy Principles and Guidelines' and providing advice to the Minister
- Government is responsible for approving (or not) the proposed levy.

The process of developing and amending a levy is a complex and lengthy process, which removed from individual growers. The administrative requirements are burdensome and a barrier to existing levies being amended.

Of HAL's existing members, currently;

- 10 have a statutory R&D levy alone (including Nashi pears, currently at a zero rate)
- 20 have both a statutory R&D and marketing levy
- 13 have a voluntary contribution investment program.

The department currently collects 70 types of agricultural levies across 9,000 levy payers. Just over 50 of these are different HAL-related levies. There is a large number of different HAL-related levies, they vary by:

- measurement unit (cents per kilo, \$ per tonne, cents per box, cents per standard tray, ad valorem, cents per carton, per 1,000 runners and per metre squared); and
- active rate (there are more than 40 different active rates).

Table 18 lists the existing levy arrangements by horticulture commodity.

Table 18 Levy rates and units by horticulture commodity

Commodity	Industry levy rate
Almonds	In shell 1c/kg (R&D) Shelled 2c/kg (R&D) Nonpareil in shells 1.5 c/kg (R&D)
Apple & Pear	Domestic / export apples 1.845c/kg (0.72c R&D / 1.03c Mkt / 0.02c PHA / 0.075c NRS) Domestic / export pears 2.099c/kg (0.775c R&D / 1.249c Mkt / 0.075c NRS) Juicing apples \$2.75/tonne (\$0.65 R&D / \$2.00 Mkt / \$0.10 NRS) Juicing pear \$2.95/tonne (\$0.60 R&D / \$2.25 Mkt / \$0.10 NRS) Processing apples \$5.50/tonne (\$1.30 R&D / \$4.00 Mkt / \$0.20 NRS) Processing pears \$5.90/tonne (\$1.20 R&D / \$4.50 Mkt / \$0.20 NRS)
Avocado	Domestic and export fresh 7.5c/kg (3c R&D / 4.5c Mkt) Processing 1c/kg (1c R&D)
Banana	1.7c/kg (0.54c R&D / 1.1497c Mkt / 0.0103c EPPR)
Canning fruit	No levy
Cherry	Domestic / export 7c/kg (3.97c R&D / 3c Mkt / 0.03c PHA)
Chestnut	\$100.00/tonne (\$45.00 R&D / \$50.00 Mkt / \$5.00 PHA)
Citrus	Oranges in bulk \$2.75/tonne (\$1.97 R&D / \$0.75 Mkt / \$0.03 PHA) Oranges not in bulk 5.5 cents/box (3.94c R&D / 1.5c Mkt / 0.06c PHA) Other citrus in bulk \$2.00/tonne (\$1.97 R&D / \$0.03 PHA) Other citrus not in bulk 4c/box (3.94c R&D / 0.06c PHA)
Custard apple	Package 40c/standard tray or standard box (27c R&D / 13c Mkt) Bulk \$50.00/tonne (\$34.00 R&D / \$16.00 Mkt)
Dried grape	Dried vine fruits \$11.00/tonne (R&D)
Dried prunes	Dried plums (prunes) \$13.00/tonne (R&D)
Dried tree fruits	Dried tree fruits (other than prunes) \$32.00/tonne (R&D)
Lychee	Domestic & export fresh 8c/kg (5.5c R&D / 2.5c Mkt) Processing 1c/kg (R&D)
Macadamia	Dried kernel 25.21c/kg (8.57c R&D / 16.01c Mkt / 0.63c NRS)
Mango	Domestic and export 1.75c/kg (0.75c R&D / 1c Mkt)
Melon	No levy
Mushroom	Domestic \$2.16/kg of spawn (\$0.54 R&D / \$1.62 Mkt)
Nashi	No levy
Nursery	5% ad valorem of the sale price/landed cost per container (2.75% R&D / 2% Mkt / 0.25% PHA)
Nuts/ANIC	No levy (zero rate)
Olives	\$3.10/tonne (\$3.00 R&D / \$0.10 PHA)
Onion	Domestic/export \$2.00/tonne (\$1.60 R&D / \$0.40 NRS)
Papaya	Fresh - domestic/export fresh 2c/kg (1c R&D / 1c Mkt) Processing 0.25c/kg (R&D)
Passionfruit	Packed in cartons 40c/carton (20c R&D / 20c Mkt) Not packed in cartons 40c/8kg (20c R&D / 20c Mkt) Processing 3c/kg (1.5c R&D / 1.5c Mkt)
Persimmons	Domestic/export 6.25c/kg (3.75c R&D / 2.5c Mkt)
Pineapple	Domestic fresh & export \$5.00/tonne (\$2.90 R&D / \$2.00 Mkt / \$0.10 PHA) Processing \$2.00/tonne (\$1.90 R&D / \$0.10 PHA)
Potato	Domestic & export unprocessed 50c/tonne (48c R&D / 2c PHA) Processed 50c/tonne (49c R&D / 1c PHA)
Processing tomato	No levy
Rubus	Domestic/export 12c/kg (10c R&D / 2c Mkt)
Stone Fruit	Domestic/export 1c/kg (0.539c R&D / 0.441c Mkt / 0.02 PHA)
Strawberries	Domestic \$8.00/1000 runners (\$7.87 R&D / \$0.13 PHA)
Table Grapes	Domestic/export 1c/kg (0.5c R&D / 0.5c Mkt)
Turf	Domestic/export 1.5c/m ² (1.2c R&D / 0.3c Mkt)
Vegetable	Domestic/export 0.5% ad valorem (0.485% R&D / 0.015% PHA)

Note: Active rate is the combined rate taking into account the R&D and marketing levy where they are imposed separately on the sector.
Source: Department of Agriculture 2013.

The Independent review team considers that the large number of horticulture levies and their complexity is related to the large number of industry representative bodies involved in horticulture and HAL.

6.3 Efficiency of the horticulture levy arrangements

In 2012-13, around \$41.2 million was raised from HAL-related levies. Levy collection costs in 2012-13 were \$1.6 million. The level of costs is important because they are deducted from total levy proceeds. Matching Australian Government R&D funds available to the horticulture sector are net of levy collection costs. Table 19 summarises levy proceeds and collection costs over the past five years.

Table 19 Levies proceeds and levy collection costs

	2008-09	2012-13	CAGR (per cent per annum)
R&D levy proceeds (\$ million)	\$20.35	\$23.81	12.0%
Marketing levy proceeds (\$ million)	\$15.12	\$17.38	-3.9%
Total levy proceeds (\$ million)	\$35.47	\$41.20	3.8%
Levy collection costs (\$ million)	\$1.32	\$1.56 (*)	
LCC as a percentage of total levy proceeds	3.72%	3.78%	

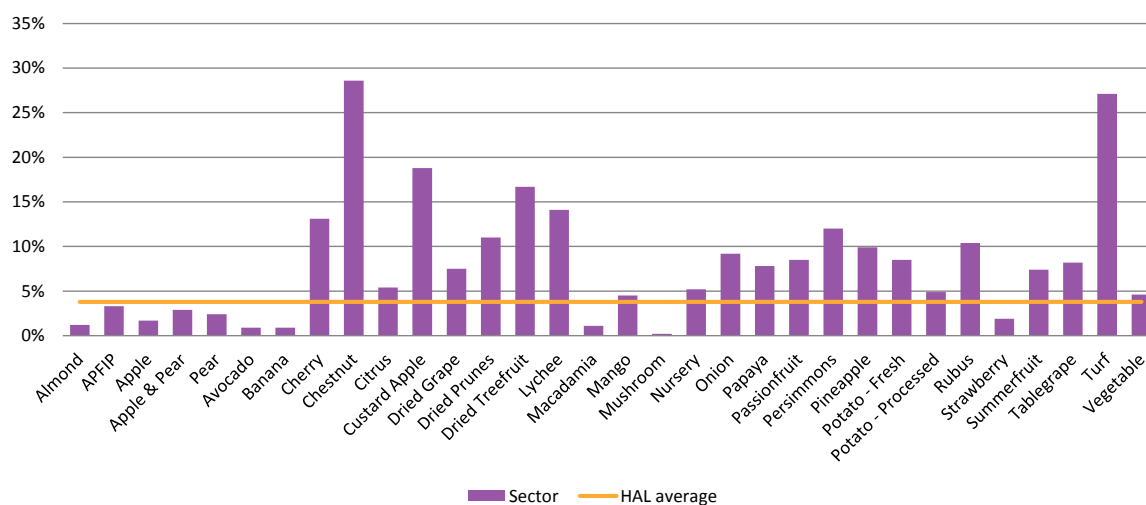
Note: Totals may not add due to rounding. (*) The levy collection costs were obtained from HAL's financial year accounts. Costs reflect figures reflected in HAL's financial statements in the annual report. LCC reported by HAL differ from final LCC reported by Department of Agriculture for 2012-13 as adjusted after the end of the financial year (August 2013). The costs will be adjusted in HAL's accounts in the 2013-14 financial year accounts.

Source: Horticulture Australia Limited, 2013. ACIL Allen Consulting analysis of HAL financial statements year ending 2013.

The LCC for specific horticulture commodities are estimated by the department using a newly introduced activity-based cost method. Under this system, LCC by horticulture commodity reflect the time and effort spent by LRS collecting levies. The Independent review team views that this new activity-based mechanism for determining LCC is an improvement as it increases the transparency of the cost of levy arrangements. In doing so, it has also revealed that some individual levies are inefficient to collect, with a high percentage of the levy collected being absorbed by collection costs.

Figure 12 summarises levy collection costs as a percentage of total levy proceeds for 2012-13 by horticulture commodity. On average, levy collection costs accounted for 3.8 per cent of total levy proceeds collected across Australia's horticultural sector in 2012-13. Across the horticulture sector, levy collection costs for specific horticulture commodities varied significantly in 2012-13. Levy collection costs were as high as 28 per cent of total levy proceeds collected for one industry to as low as 0.8 per cent for others.

Figure 12 Levy collection costs as a percentage of total levy proceeds: 2012-13



Note: LCC as a proportion of total levy proceeds was estimated for 2012-13 only because of the new activity based system introduced. The LCC as a proportion of total levy proceeds by horticulture commodity differs significantly in years prior to 2012-13 due to previous cost allocation method. The previous cost allocation method was not based upon the time and effort spent to collect levies on a commodity basis. Source: Levy collection costs as determined from financial accounts of Horticulture Australia Limited (2013).

Horticulture levy collection costs as a percentage of total levies collected are higher than many other agricultural levies (see Table 20).

Table 20 Levies collected and collection costs

Industry body	Total levies collected	Levy collection costs	LCC (% total levies collected)
Australian Wool Innovation	\$43.7 million	\$494,061	1.13%
Meat and Livestock Australia	\$93.8 million	\$727,478	0.78%
Australian Pork Limited	\$12.3 million	\$40,048	0.33%
Horticulture Australia Limited	\$41.2 million	\$1.6 million	3.78%

Source: Horticulture Australia Limited, Australian Wool Innovation, Meat & Livestock Australia (MLA), Australian Pork Limited

The variable and comparatively high levy collection costs:

- limit matching Australian Government R&D funds available to industries with inefficient levies because they are net of collection costs
- creates opportunities for industries with efficient collections to attract additional matching funds through higher R&D voluntary contribution because the Australian Government cap of 0.5 per cent applies to all of horticulture.

6.4 Key findings

KEY FINDING 12

The existing levy arrangements for horticulture are complex. This is due to the use of a vast number of different levies which is evident from:

- levies being applied to 9 different units (i.e. cents/kg, \$/tonne, cents/box, cents/std tray, ad valorem, cents/carton, 1,000 runners and cents per metre-square)
- in excess of 40 different active rates being applied.

KEY FINDING 13

The complexity inherent in having a large number of different levies is, in part, a function of the number of PIBs/members of HAL making decisions about the levies. The number of HAL Members has grown over the years and this has increased the diversity and complexity in levies.

KEY FINDING 14

Complexity in the levy arrangements is also partly attributable to the administrative process by which levies are conceived, implemented and collected. The process to amend levy rates is administratively burdensome, increasing the costs for industry to make changes and increasing the resources required by government to administer levies.

KEY FINDING 15

The levy collection costs for HAL-related levies are high relative to other agricultural levies. These relatively high costs are a function of the department having to administer so many different types of levies for horticulture.

KEY FINDING 16

The recent shift to an activity-based full cost recovery cost allocation by the department has revealed that the levy collection costs by specific horticultural commodities vary significantly. In particular, the new costing method has highlighted the inefficiency of some levies, with a high percentage of levy proceeds being absorbed by collection costs.

7 Next Steps

The purpose of the phase 1 report is to review HALs performance, its service delivery model and the horticulture industry levy arrangements. Recommendations for change are not proposed in this phase of the Independent Review. Phase 1 of the review is connected to the remainder of the review by largely identifying issues that are to be addressed in further phases, especially the consultations that are planned as part of *Phase 2: Engagement*.

Key findings about each of the key areas examined in phase 1 have been provided in each of the previous chapters. This final chapter draws out the major underlying points that will be the subject of analysis in later phases.

Governance issues

The review of HAL's governance arrangements point to the saliency of the role played by Peak Industry Bodies (PIBs) as the members of HAL. As the members of HAL the PIBs are involved in selecting the HAL Board and determining the composition of the various IACs. The PIBs also provide the major channel for consultations with industry about the services to be provided.

The phase 1 review suggests that the role of PIBs in HAL also contributes to issues about the multiplicity of objectives. Importantly, the objective of HAL providing industry leadership may be misaligned with the parallel objective of developing programs using a 'bottom up approach' reflecting the views of industries.

While PIBs are not-for-profit entities, they are generally established to pursue agri-political activities, giving rise to potential conflicts of interest when they are also involved in shaping HAL's investment decisions and in providing services procured by HAL.

HAL investment planning and strategies

In general, efforts to pursue industry wide priorities and plans have been diluted and the emphasis in HAL is on separate industry-by-industry priorities and plans. It is not clear that HAL, as currently structured and empowered, is able to actually band together like industries, and align investment resources and share information, to assist horticulture industries to achieve productivity gains, grow and adapt to inevitable change. It is also not clear that the across industry and transformational arrangements are sufficient to enable HAL to identify and capture synergies that exist across different industry sectors and build industry expertise.

The phase 1 findings suggest that it is also not clear that current planning and reporting arrangements and risk management approaches fully address the increasing risks and potential conflicts of interest where HAL PIBs and members are increasingly becoming major service providers.

Performance

HAL's industry-by-industry partnership model results in a large number of small programs and projects which may constrain the overall effectiveness of investments. A key question is whether or not the limited and precious resources of the horticulture industry have been fragmented by the industry-by-industry approach used by HAL.

It is not clear that the increasing role being played by PIBs as service providers displacing traditional R&D service providers such as specialist research organisations is increasing or decreasing efficiency.

Increases in overheads are being driven by greater resources being dedicated to planning and reporting in response to greater demands for transparency, rigor and accountability in the HAL business model.

A key phase 1 finding is that there is very limited information available about the industry wide impact of HAL. Most performance information is available about industry by industry programs and projects and the information is mostly qualitative in nature. This generally illustrates substantive and successful investment activities.

There is some benefit cost analyses about a small proportion of HAL and industry investments which shows quite large returns on investment for the selected analysis.

There is very limited information about areas where low or no returns are being obtained. The Independent Review is concerned that there is insufficient information available to the IACs and HAL about returns on investment in advance of making investments and that this probably poses a serious constraint on the ability of decision makers to make decisions that improve or raise the benefits to industry.

Levy arrangements

Findings from phase 1 indicate that the existing levy arrangements for horticulture are complex and inefficient.

In view of the independent Review, much complexity arises from having a large number of different levies that apply in horticulture which in turn is a function of the large number of PIBs/members of HAL that make decisions about levies.

Complexity in the levy arrangements is also attributable to the administrative process by which levies are conceived, implemented and collected. The process to amend levy rates is administratively burdensome, increasing the costs for industry to make changes and increasing the resources required by government to administer levies.

The levy collection costs for HAL-related levies are high relative to other agricultural levies. These relatively high costs are a function of the department having to administer so many different types of levies for horticulture.

Change and recommendations

The issues identified above will be raised in consultations with industry and other stakeholders scheduled as part of phase 2 of the Independent Review.

The consultations will assist the Independent Review in weighing the veracity of the issues and their materiality. They will also assist in identification of additional issues.

Importantly, the consultation phase will assist with the identification of potential options for change to address the identified issues and identify the degree of support for change.

Appendix A What is the review about?

The terms of reference of the Independent Review of HAL are outlined below.

Standard review

The Performance Review shall cover:

1. The performance of HAL in meeting its obligations under the Deed as the Industry Services Body for the provision of marketing and research and development services to the industry
2. HAL's implementation of strategic, annual operational, risk management, fraud control and intellectual property plans and its effectiveness in meeting the priorities, targets and budgets set out in those plans
3. The efficiency with which HAL carried out those plans
4. The delivery of the benefits to the industry and the community in general as foreshadowed by those plans.

Additional matters

In addition, the Performance Review shall cover:

5. The HAL model of industry service delivery and its underpinning in the Constitution against the benchmark of good governance practice under cl 4.1 of the Deed, including but not limited to:
 - a) HAL's membership whereby PIBs, rather than individual levy payers, are the members as is the case with other industry-owned RDCs.
 - b) The regulation of PIBs and other industry representative bodies under the HAL model; the nature and transparency of their direct and indirect funding arrangements with HAL; and their accountability to their own members and levy payers for their performance in consulting with levy payers and in spending industry and government funds, including the delivery of planned outcomes.
 - c) The operation of the IACs, including independence from the PIB/IRB and the extent and effectiveness of control by the HAL Board.
 - d) The influence of PIBs/IRBs on decision-making by HAL's Board, management and the IACs.
 - e) The capacity of the HAL model to deliver services in an efficient, effective and transparent manner to provide value for money to levy payers and corporate members.
 - f) Identifying alternative models to increase the effectiveness and efficiency of HAL's service delivery, transparency and accountability in HAL's funding arrangements.
6. The efficiency of the levy structure for the horticulture sector (in which many individual commodities maintain separate independent levy rates and collection mechanisms) and the processes by which levies are conceived, implemented, collected and expensed.

Appendix B Industry case studies

B.1 Overview

This appendix analyses 11 horticulture sub-sectors: Across industry, apple and pears, avocados, citrus, lychees, macadamias, mushrooms, nursery, pyrethrum, tomato processing and vegetables. These sectors were selected as they represent a cross-section of the horticulture sector in terms of different characteristics: size, concentration of growers and performance. Examining these sub-sectors has provided the Independent review team with the ability to identify different performance from the 'average' of horticulture and to highlight reasons for different performance.

Table B1 below details whether each sector had an Annual Investment Plan for each of the years 2009-10 to 2012-13, the name of each sector's strategic research and development plan, and whether each sector has an annual operational plan.

Table B1 Existence of annual investment

Sector	Annual Investment plans	Annual Investment plans	Annual Investment plans	Annual Investment plans	Strategic R&D plans	Annual operational plan
	2009-10	2010-11	2011-12	2012-13		
Across industry	Y	Y	Y	Y		
Apple and pears	Y	Y	Y	Y	Apple & Pear Industry Research, Development & Extension Investment Plan 2010-2015	?
Avocados	Y	Y	Y	Y	Australian Avocado Industry Strategic Plan 2011-2015	?
Citrus	Y	Y	Y	Y	Australian Citrus Strategic R&D Plan 2012-17	?
Lychees	Y	Y	Y	Y	HAL Export Development Plan 2013-2017	?
Macadamias	Y	Y	Y	Y	Australian Macadamias 2009-2014 Strategic Plan and Action Plan for the Australian Macadamia Industry	?
Mushrooms	Y	Y	Y	Y	Australian Mushroom Industry Strategic plan 2011-2016	?
Nursery	Y	Y	Y	Y	Nursery and Garden Industry Strategic Investment Plan 2012-2016	?
Pyrethrum	Y	Y	Y	Y	Could not be found	?
Tomato processing	Y	Y	Y	Y	(See vegetables strategic plan)	?
Vegetables	Y	Y	Y	Y	Australian vegetable industry Strategic Investment Plan 2012-2017	?

Source: Horticulture Australia Limited 2013.

B.2 Case study — apple and pears

B.2.1 Sector products

The following products comprise the apple and pears sector: apple and pears. Note: Nashi pears were not included in this sector unless specified in reported numbers.

B.2.2 Farmgate Gross Value of Production

— The farmgate gross value of production (GVP) of the apple and pear sector in 2011-12 was estimated by industry to be \$477 million.

— The ABS stated that the GVP of the apple and pear sector was:³

- \$476.7 million in 2009-10
- \$770.2 million in 2010-11
- \$566.8 million in 2011-12.

B.2.3 Number of businesses in sector

There were 1,432 apple and pear (including Nashi pears) grower businesses in Australia in 2011-12.⁴

B.2.4 Levies

Purpose

The Australian Government Department of Agriculture published the following statement relating to the purpose of the levy:⁵

Levy or export charge is payable on apples and pears (excluding Nashi) for promotion, research and development (R&D) programs carried out via Horticulture Australia Limited (HAL) and to provide funding for residue testing performed by the National Residue Survey (NRS), and plant health programs carried out by Plant Health Australia (PHA). DAFF-Levies receives these funds and forwards them to HAL, NRS and PHA, in addition to distributing the Australian Government's matching research and development (R&D) contributions. Levies and export charges are introduced and administered by the Australian Government at the request of Industry.

There are no levies relating to the growing, export, juicing or production of Nashi pears.

What is the levy payable on?

The levy is payable as follows:⁶

- Levy is payable on apples and pears (excluding nashi) that are produced in Australia and either sold by the producer or used by the producer in the production of other goods.
- Export charge is payable on apples and pears (excluding nashi) produced in and exported from Australia.
- No export charge is payable if domestic levy has been paid on the product to be exported.

³ APAL 2013, <http://apal.org.au/statistics/>

⁴ ABS 2013, *7121.0 - Agricultural Commodities, Australia, 2011-12*, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/7121.02011-12?OpenDocument>

⁵ Department of Agriculture, Fisheries and Forestry 2012, *Information on apple & pears (excluding Nashi) levy & export charge*, http://www.daff.gov.au/__data/assets/pdf_file/0008/183347/apple-pear.pdf

⁶ Department of Agriculture, Fisheries and Forestry 2012, *Information on apple & pears (excluding Nashi) levy & export charge*, http://www.daff.gov.au/__data/assets/pdf_file/0008/183347/apple-pear.pdf

Quantum

The quantum of the levy is as follows.

Table B2 Apples and pears — levies

Commodity	Active Rate	Unit	Marketing	Marketing Body	R&D	R&D Body	AHA	PHA	NRS
Domestic apples	1.845	cents/kg	1.03	HAL	0.72	HAL		0.02	0.075
Domestic pears	2.099	cents/kg	1.249	HAL	0.775	HAL			0.075
Export apples	1.845	cents/kg	1.03	HAL	0.72	HAL		0.02	0.075
Export pears	2.099	cents/kg	1.249	HAL	0.775	HAL			0.075
Juicing apples	\$2.75	\$/tonne	\$2.00	HAL	\$0.65	HAL			\$0.10
Juicing pears	\$2.95	\$/tonne	\$2.25	HAL	\$0.60	HAL			\$0.10
Processing apples	\$5.50	\$/tonne	\$4.00	HAL	\$1.30	HAL			\$0.20
Processing pears	\$5.90	\$/tonne	\$4.50	HAL	\$1.20	HAL			\$0.20

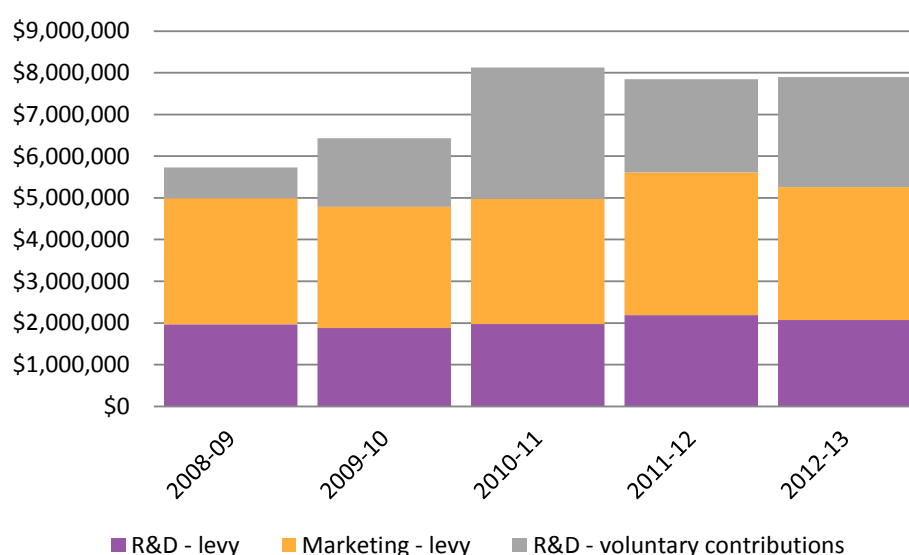
Source: Document summarising characteristics of horticulture levies provided by Horticulture Australia Limited 2013.

B.2.5 Levies and voluntary contributions

The combined annual levies for research and development and marketing have totalled approximately \$5 million for each of the financial years 2008-09 to 2012-13 as shown in Figure B1. This figure also indicates that there was a large increase in voluntary contributions for research and development between 2008-09 and 2012-13. There were no voluntary contributions for marketing over this time period.

Total levy proceeds for Apples and Pears have grown at an average compound rate of 1.3 per cent per annum between 2008-09 and 2012-13.

Figure B1 Apples and Pears – levies and voluntary contributions 2008-09 to 2012-13



Note: Data relating to Apples, Pears, Apples and Pears and APFIP is combined.

Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.2.6 Projects and project expenditure

The number of Apple and Pears marketing projects is summarised in Table B3.

Table B3 **Apples and Pears — number of projects 2008-09 to 2012-13**

Type of project	2008-09	2009-10	2010-11	2011-12	2012-13
R&D	73	52	74	63	59
Marketing	39	33	36	34	38
Total	307				

Note: Data relating to Apples, Pears, Apples and Pears and APFIP is combined. The total number of projects over the 5 years is not the sum of the reported annual number of projects due to some projects continuing over multiple years.

Source: ACIL Allen Consulting analysis of financial accounts, Horticulture Australia Limited 2013.

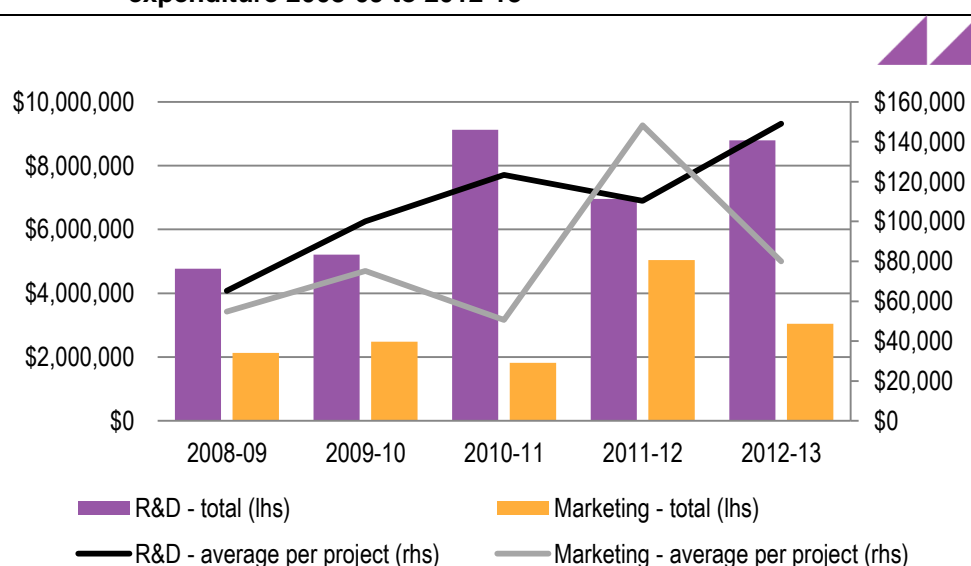
The total project expenditure on research and development for Apples and Pears has increased from \$4.7 million in 2008-09 to \$8.8 million in 2012-13. The total project expenditure on marketing increased from \$2.1 million in 2008-09 to \$5.0 million in 2011-12 before declining to \$3.0 million in 2012-13.

Figure B2 shows how the total expenditure for research and development projects and for marketing projects has varied between 2008-09 and 2012-13. It also shows the average expenditure for each type of project over that period.

Although the average expenditure per R&D project for apples and pears has increased over the period, the median expenditure per R&D project for apples and pears has decreased from \$33,060 to \$23,127.

Both the median expenditure for R&D and marketing projects is below the average expenditure highlighting the finding that HAL has been completing many smaller-sized R&D and marketing projects over 2008-13 period.

Figure B2 **Apples and Pears – total project expenditure and average project expenditure 2008-09 to 2012-13**



Note: Data relating to Apples, Pears, Apples and Pears and APFIP is combined.

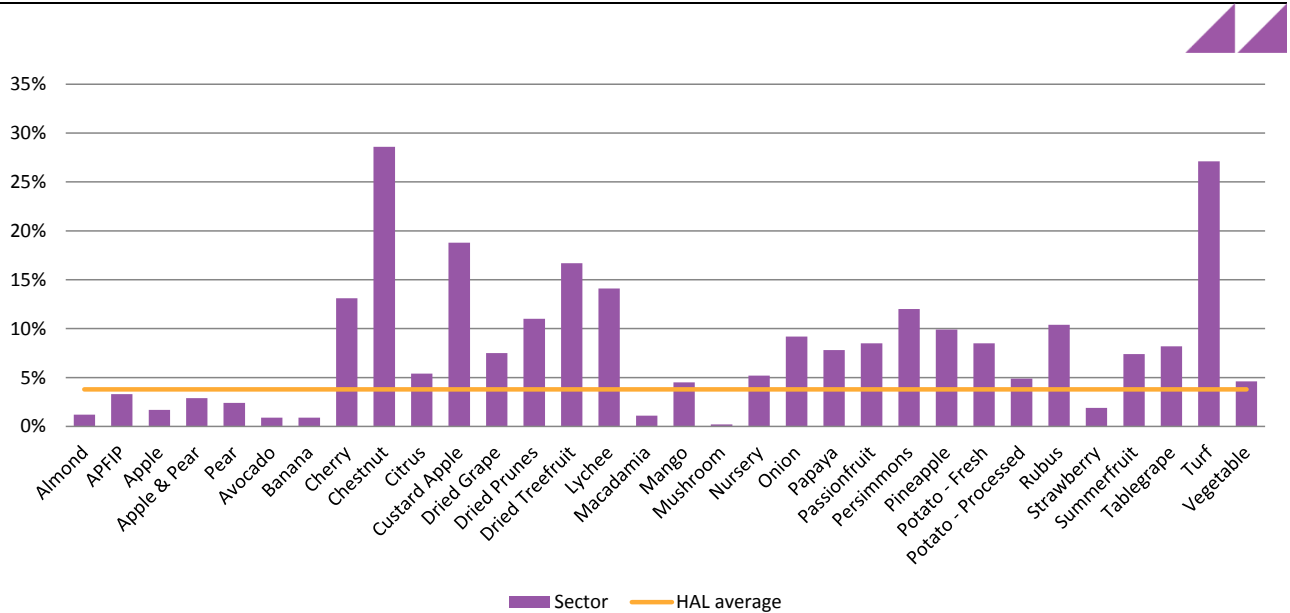
Source: ACIL Allen Consulting analysis of financial accounts, Horticulture Australia Limited 2013.

B.2.7 Costs

Levy collection costs

Figure B3 shows the cost of collecting levies as a percentage of levies collected for each sector in 2012-13 and for HAL as a whole. This figure shows that the cost of collecting levies in the Apple and Pear sector expressed as a percentage of levies collected was lower than for many other sectors.

Figure B3 Levy collection costs as a percentage of levies collected 2012-13

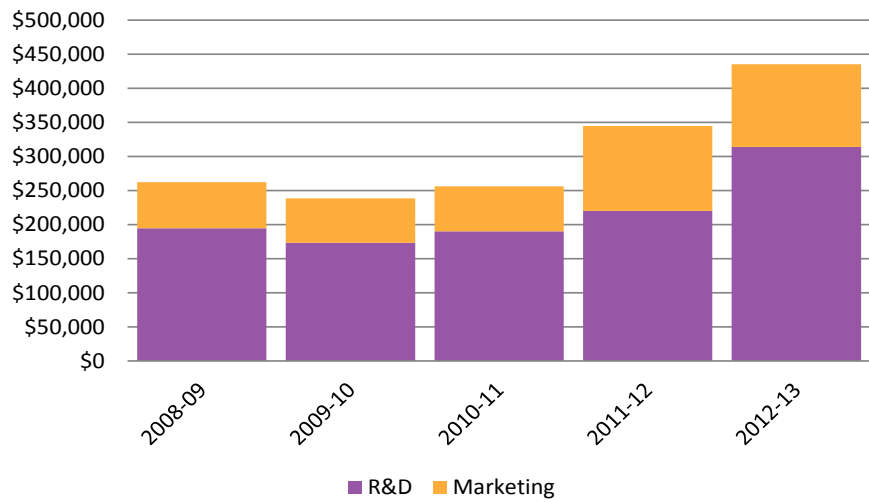


Note: Data relating to Apples, Pears, Apples and Pears and APFIP is not combined.
 Source: ACIL Allen Consulting analysis of financial accounts data, Horticulture Australia Limited 2013.

Consultation costs

As shown in Figure B4, the consultation costs for both research and development and marketing in the Apples and Pears sector has increased materially between 2008-09 and 2012-13.

Figure B4 Apples and Pears – consultation costs 2008-09 to 2012-13



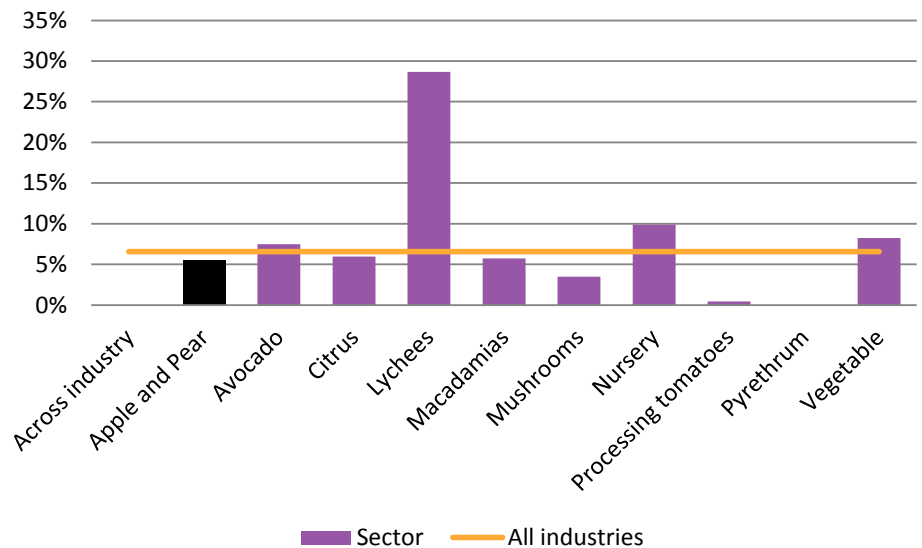
Note: Data relating to Apples, Pears, Apples and Pears and APFIP is combined.
 Source: ACIL Allen Consulting analysis of financial accounts data, Horticulture Australia Limited 2013.

Consultation funding for Apples and Pears as a percentage of total revenues (levies plus voluntary contributions) has varied between 2008-09 and 2012-13.

— Consultation funding amounted to 4.6 per cent of total revenues in 2008-09, was 3.2 per cent of total revenues in 2010-11, and 5.5 per cent of total revenues in 2012-13.

Consultation funding in 2012-13 as a percentage of total revenues was lower than the HAL average as shown in Figure B5.

Figure B5 Apples and Pears — consultation costs as a percentage of total revenues 2012-13



Note: Data relating to Apples, Pears, Apples and Pears and APFIP is combined.
 Source: ACIL Allen Consulting analysis of financial accounts data, Horticulture Australia Limited 2013.

B.3 Case study – Vegetables

B.3.1 Sector products

The following products comprise the vegetables sector: vegetables and potatoes (Vegetables).

B.3.2 Farmgate gross value of production

- The farmgate gross value of production (GVP) of the vegetables sector in 2011-12 was estimated by industry to be \$3.01 billion (Industry Annual Investment Plan).
- The ABS stated that the GVP of the vegetable sector was⁷:
 - \$2,833.4 million in 2005-06
 - \$3,103.0 million in 2006-07
 - \$3,362.7 million in 2007-08
 - \$3,012.3 million in 2008-09
 - \$3,023.2 million in 2009-10
 - \$3,338.2 million in 2010-11
 - \$3,338.5 million in 2011-12.

B.3.3 Number of businesses in sector

Statistics regarding the total number of businesses in the Australian vegetable sector excluding mushrooms and processing tomatoes are as follows.

- There were 5,485 vegetable (including potatoes, and excluding mushroom and processing tomatoes) growing businesses in Australia in 2010-11.⁸
- There were 5,923 vegetable (including potatoes and processing tomatoes and excluding mushroom) growing businesses in Australia in 2011-12.⁹

B.3.4 Levies

What is the levy payable on?

The levy is payable as follows:¹⁰

- Levy is payable on vegetables produced in Australia and either sold by the producer or used by the producer in the production of other goods
- Export charge is payable on vegetables produced in and exported from Australia
- No export charge is payable if domestic levy has already been paid on the Vegetables to be exported
- Note: Vegetable levy and export charge is not payable on: Asparagus, garlic, **hard onions, herbs (other than fresh culinary shallots and parsley), melons, **mushrooms, **potatoes (other than sweet potatoes), seed sprouts or tomatoes. ** Hard onions, mushrooms and potatoes are levied separately.

⁷ ABS Catalogue 7503.0 - Value of Agricultural Commodities Produced, Australia, various years

⁸ ABS 2012, 7121.0 - *Agricultural Commodities, Australia, 2010-11*, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/7121.02010-11?OpenDocument>

⁹ ABS 2013, 7121.0 - *Agricultural Commodities, Australia, 2011-12*, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/7121.02011-12?OpenDocument>

¹⁰ Department of Agriculture, Fisheries and Forestry 2012, *Information on vegetable levy & export charge*, http://www.daff.gov.au/__data/assets/pdf_file/0010/183367/27_vegetables_notice.pdf

Purpose

The Australian Government Department of Agriculture published the following statement relating to the purpose of the levy:¹¹

A levy or an export charge is payable on Vegetables to provide funding for research and development carried out via Horticulture Australia Limited (HAL) and plant health programs via Plant Health Australia (PHA). The Levies Revenue Service (LRS) receives the funds and forwards them to HAL and PHA, in addition to distributing the Australian Government's matching research and development (R&D) contributions.

Quantum

The quantum of the levy is as follows.

Table B4 Vegetables – levies

Commodity	Active Rate	Unit	Marketing	Marketing Body	R&D	R&D Body	AHA	PHA	NRS
Vegetable levy and export charge	0.5%	ad valorem			0.485%	HAL		0.0150%	

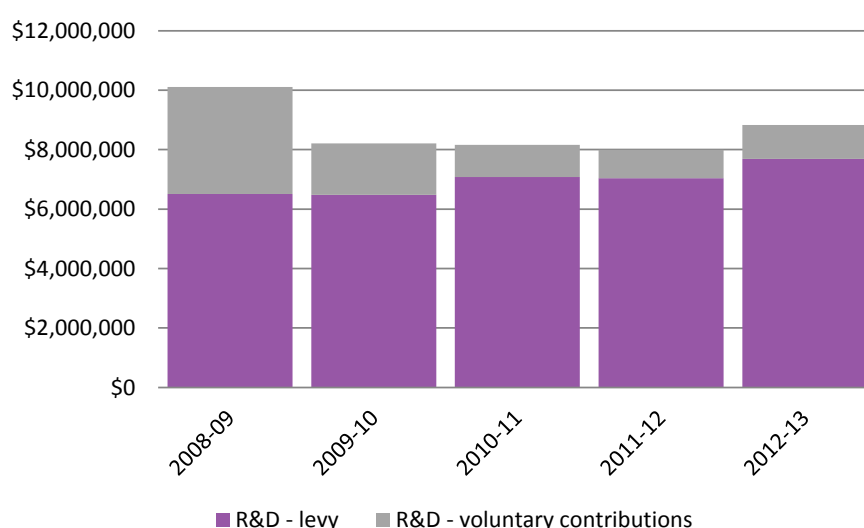
Source: Document summarising characteristics of levies from Horticulture Australia Limited 2013.

B.3.5 Levies and voluntary contributions

The annual levies for research and development have totalled between approximately \$8 million and \$10 million for each of the financial years 2008-09 to 2012-13 as shown in Figure B6. There were no levies or voluntary contributions in relation to marketing over this time period.

Total levy proceeds for Vegetables have grown at an average compound rate of 4.2 per cent per annum between 2008-09 and 2012-13.

Figure B6 Vegetables – levies and voluntary contributions 2008-09 to 2012-13



Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

¹¹ Department of Agriculture, Fisheries and Forestry 2012, *Information on vegetable levy & export charge*, http://www.daff.gov.au/__data/assets/pdf_file/0010/183367/27_vegetables_notice.pdf

B.3.6 Projects and project expenditure

The number of Vegetables research and development projects declined between 2008-09 and 2012-13 as indicated in Table B5. There were no Vegetable marketing projects over this period.

Table B5 **Vegetables – number of projects 2008-09 to 2012-13**

Type of project	2008-09	2009-10	2010-11	2011-12	2012-13
R&D	206	188	179	138	141
Marketing	0	0	0	0	0
Total	447				

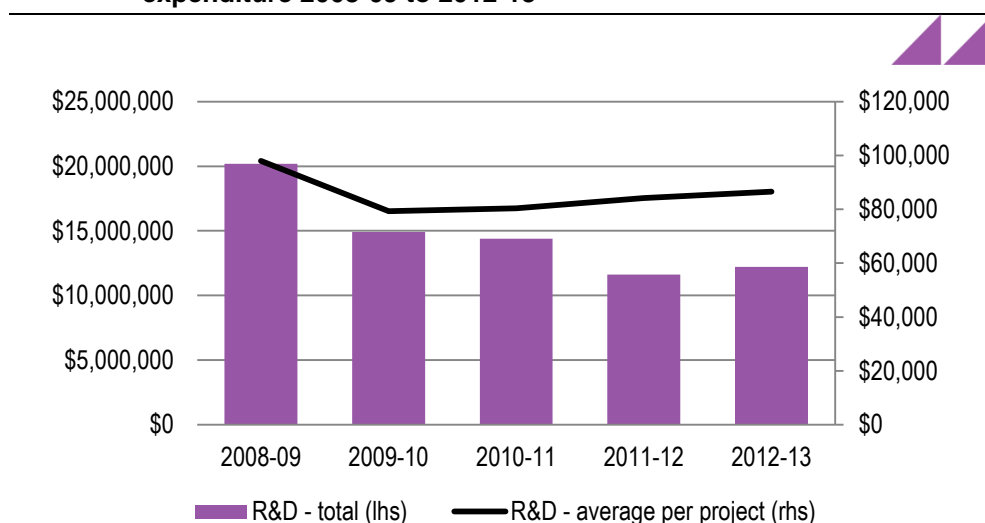
The total number of projects over the 5 years is not the sum of the reported annual number of projects due to some projects continuing over multiple years.

Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

The total project expenditure on research and development for Vegetables has declined from \$19.9 million in 2008-09 to \$11.7 million in 2012-13. There was no expenditure on marketing projects.

Figure B7 shows how the total expenditure for projects has varied between 2008-09 and 2012-13. It also shows the average expenditure for each project over that period.

Figure B7 **Vegetables – total project expenditure and average project expenditure 2008-09 to 2012-13**



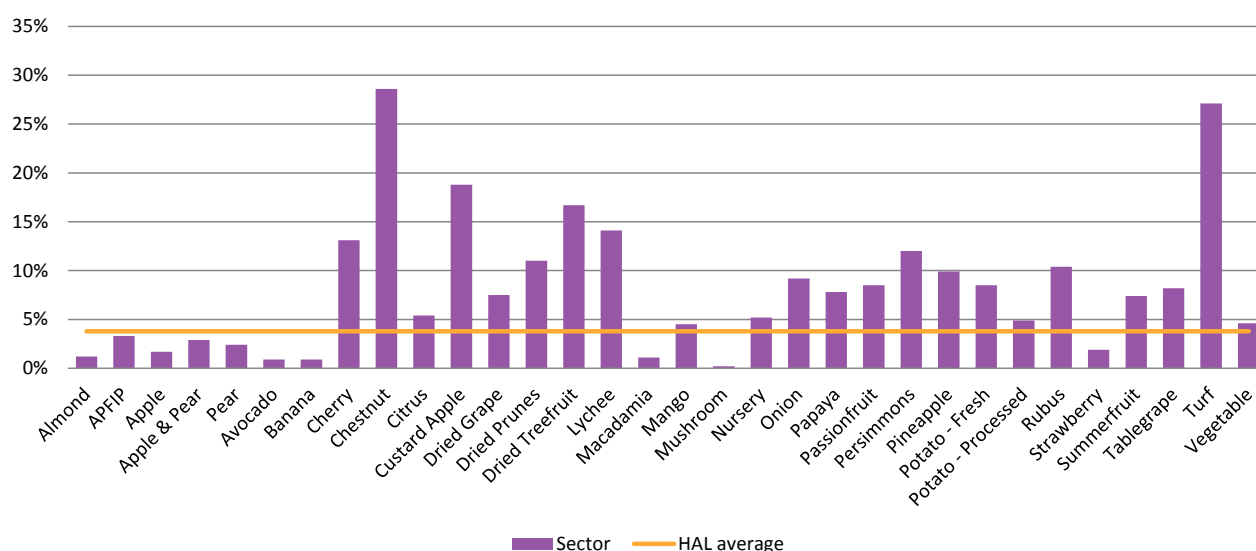
Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.3.7 Costs

Levy collection costs

Figure B8 shows the cost of collecting levies as a percentage of levies collected for each sector in 2012-13 and for HAL as a whole. This figure shows that the cost of collecting levies in the Vegetables sector expressed as a percentage of levies collected was higher than for HAL as a whole.

Figure B8 Levy collection costs as a percentage of levies collected 2012-13



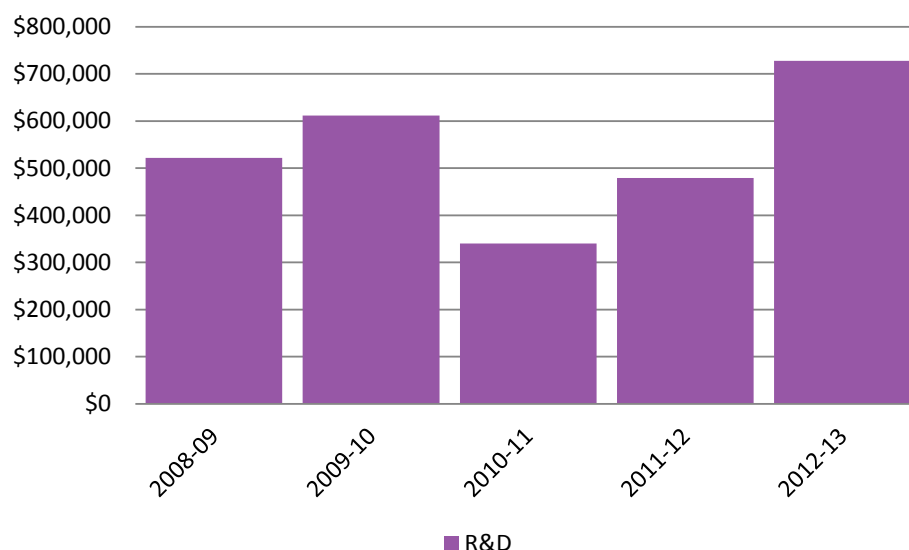
Note: Data relating to Apples, Pears, Apples and Pears and APFIP is not combined.

Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

Consultation costs

As shown in Figure B9, the consultation costs for research and development in the vegetables sector have increased between 2008-09 and 2012-13.

Figure B9 Vegetables – consultation costs 2008-09 to 2012-13



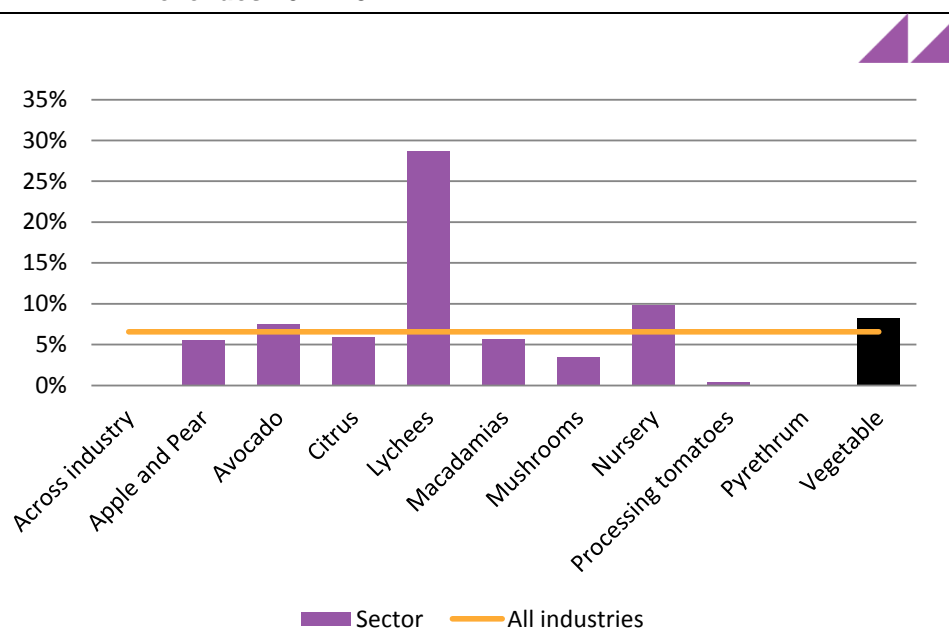
Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

Consultation funding for Vegetables as a percentage of total revenues (levies plus voluntary contributions) has varied between 2008-09 and 2012-13.

— Consultation funding amounted to 4.2 per cent of total revenues in 2010-11 and 8.2 per cent of total revenues in 2012-13.

Consultation funding in 2012-13 as a percentage of total revenues was higher than the HAL average as shown in Figure B10.

Figure B10 **Vegetables – consultation costs as a percentage of total revenues 2012-13**



Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.4 Case study – Avocados

B.4.1 Sector products

The following products comprise the avocado sector: avocados.

B.4.2 Farmgate gross value of production

- The farmgate gross value of production (GVP) of the avocado sector (Avocados) in 2011-12 was estimated by industry to be \$215 million (Industry Annual Investment Plan)
- The ABS stated that the GVP of the avocado sector was:¹²
 - \$109.8 million in 2008-09
 - \$105.1 million in 2010-11
 - \$126.5 million in 2011-12.

B.4.3 Number of businesses in sector

There were 868 avocado grower businesses in Australia in 2011-12.¹³

¹² ABS Catalogue 7503.0 - Value of Agricultural Commodities Produced, Australia, various years

¹³ ABS 2013, 7121.0 - Agricultural Commodities, Australia, 2011-12, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/7121.02011-12?OpenDocument>

B.4.4 Levies

What is the levy payable on?

The levy is payable as follows:¹⁴

- Levy is payable on fresh avocados produced and sold in Australia. Export charge is payable on fresh avocados produced in and exported from Australia. If domestic levy has been paid on avocados prior to export, no export charge is payable
- Levy is also payable on avocados produced in Australia and directed to processing.

Purpose

The Australian Government Department of Agriculture published the following statement relating to the purpose of the levy:¹⁵

A levy or export charge is payable on fresh avocados to provide funding for research, development and promotion carried out via Horticulture Australia Limited (HAL).

A levy is also payable on avocados directed to processing to provide funding for research and development carried out via Horticulture Australia Limited (HAL).

Quantum

The quantum of the levy is as follows.

Table B6 Avocados – levies

Commodity	Active Rate	Unit	Marketing	Marketing Body	R&D	R&D Body	AHA	PHA	NRS
Avocado - domestic & export fresh	7.5	cents/kg	4.5	HAL	3	HAL			
Avocado - processing	1	cents/kg			1	HAL			

Source: Document summarising levy characteristics from Horticulture Australia Limited 2013.

B.4.5 Levies and voluntary contributions

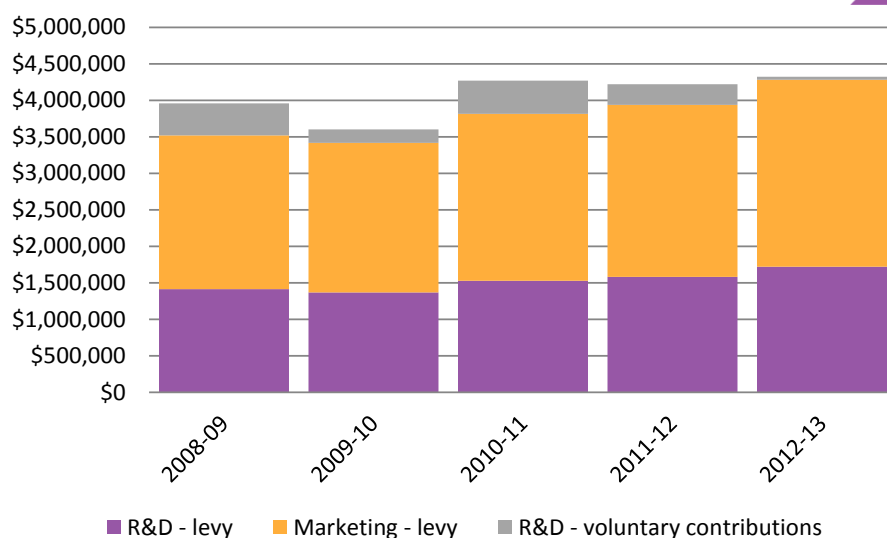
The annual levies for research and development have totalled between approximately \$3.6 million and \$4.3 million for each of the financial years 2008-09 to 2012-13 as shown in Figure B11. There were no voluntary contributions in relation to marketing over this time period.

Total levy proceeds for Avocados have grown at an average compound rate of 5.0 per cent per annum between 2008-09 and 2012-13.

¹⁴ Department of Agriculture, Fisheries and Forestry, *Information on avocado levy & export charge*, http://www.daff.gov.au/__data/assets/pdf_file/0004/183352/03_avocado_notice.pdf

¹⁵ Department of Agriculture, Fisheries and Forestry, *Information on avocado levy & export charge*, http://www.daff.gov.au/__data/assets/pdf_file/0004/183352/03_avocado_notice.pdf

Figure B11 Avocados – levies and voluntary contributions 2008-09 to 2012-13



Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.4.6 Projects and project expenditure

The number of Avocado projects increased between 2008-09 and 2012-13 as indicated in Table B7.

Table B7 Avocados – number of projects 2008-09 to 2012-13

Type of project	2008-09	2009-10	2010-11	2011-12	2012-13
R&D	56	41	54	54	57
Marketing	21	21	24	21	21
Total			233		

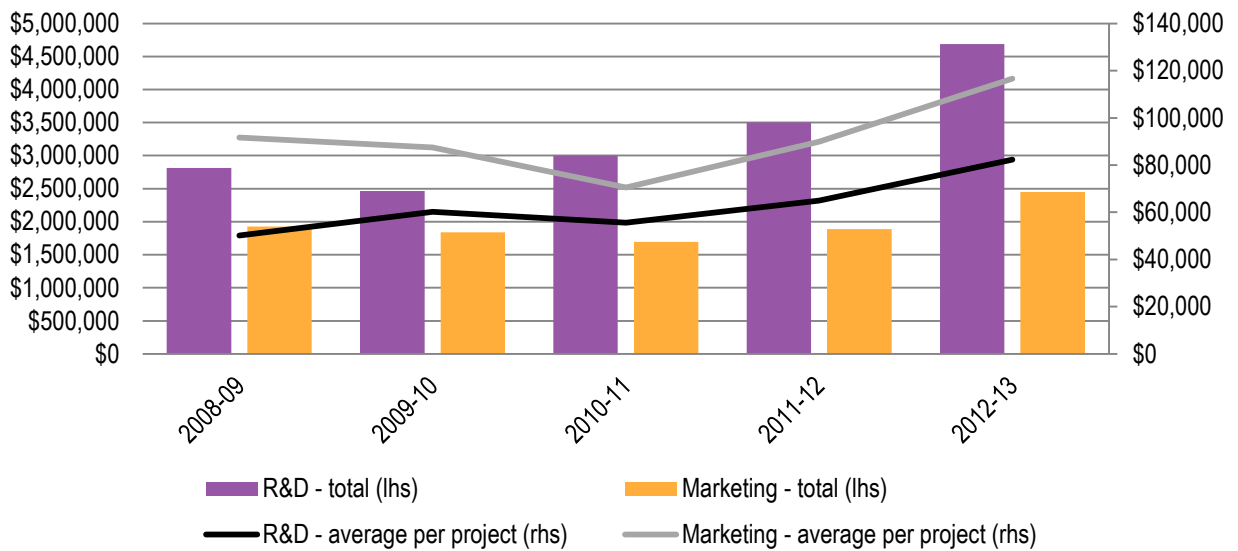
Note: The total number of projects over the 5 years is not the sum of the reported annual number of projects due to some projects continuing over multiple years.

Source: Horticulture Australia Limited 2013.

The total project expenditure on research and development for Avocados increased from \$2.8 million in 2008-09 to \$4.6 million in 2012-13. The total project expenditure on marketing for Avocados has increased from \$1.9 million in 2008-09 to \$2.4 million in 2012-13.

Figure B12 shows how the total expenditure for projects has varied between 2008-09 and 2012-13. It also shows the average expenditure for each project over that period.

Figure B12 Avocados – total project expenditure and average project expenditure 2008-09 to 2012-13



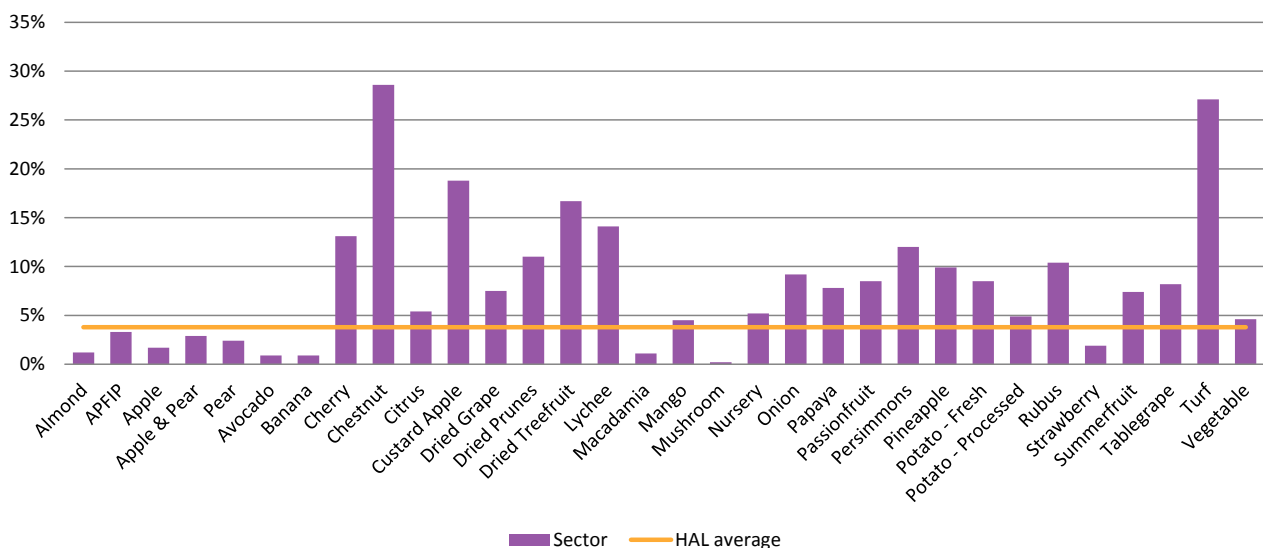
Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.4.7 Costs

Levy collection costs

Figure B13 shows the cost of collecting levies as a percentage of levies collected for each sector in 2012-13 and for HAL as a whole. This figure shows that the cost of collecting levies in the Avocado sector expressed as a percentage of levies collected was lower than for HAL as a whole.

Figure B13 Levy collection costs as a percentage of levies collected 2012-13



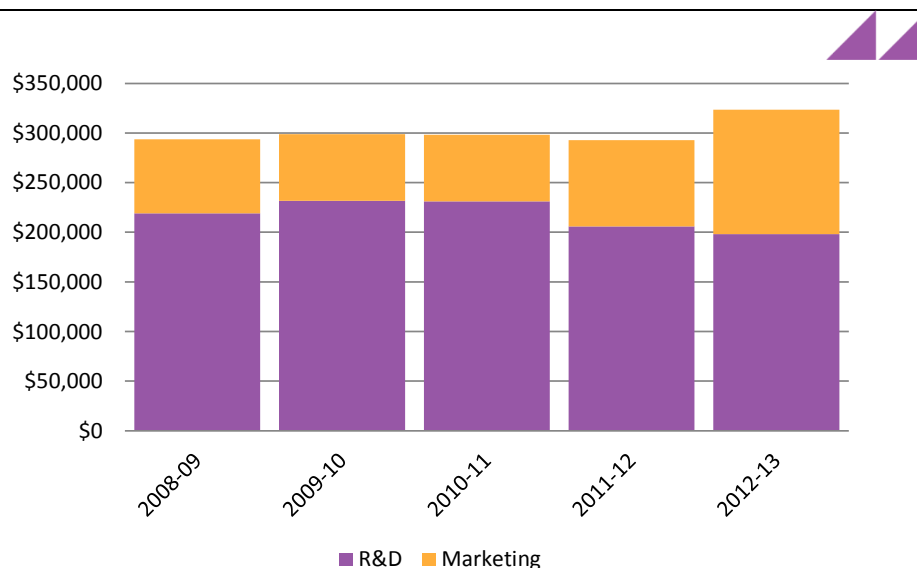
Note: Data relating to Apples, Pears, Apples and Pears and APFIP is not combined.

Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

Consultation costs

As shown in Figure B14, the consultation costs for research and development in the Avocado sector have diminished between 2008-09 and 2012-13 while the consultation costs for marketing have increased over the same time period.

Figure B14 **Avocado – consultation costs 2008-09 to 2012-13**



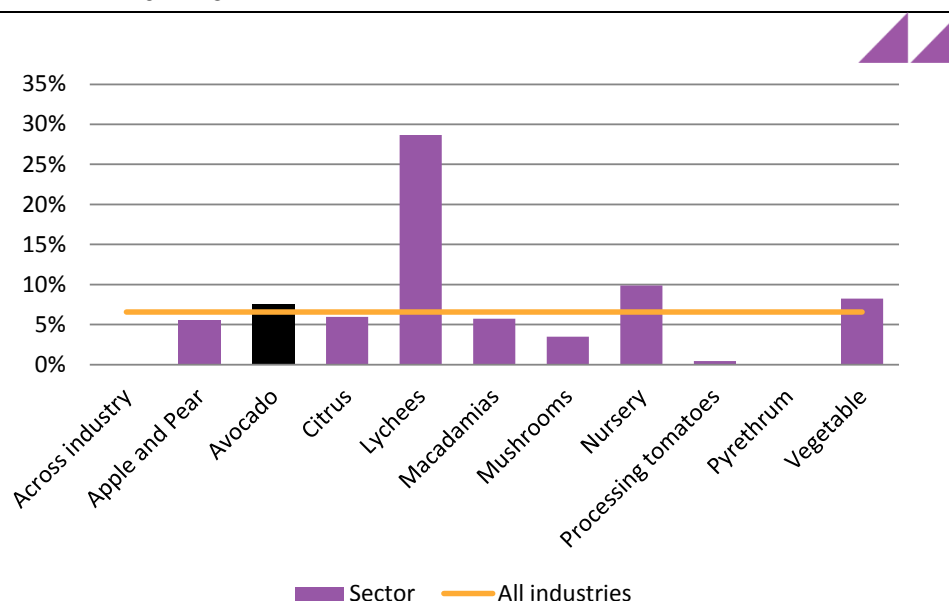
Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

Consultation funding for Avocados as a percentage of total revenues (levies plus voluntary contributions) has varied between 2008-09 and 2012-13.

— Consultation funding amounted to 7.4 per cent of total revenues in 2008-09 and 7.5 per cent of total revenues in 2012-13.

Consultation funding in 2012-13 as a percentage of total revenues was higher than the HAL average as shown in Figure B15.

Figure B15 **Avocado – consultation costs as a percentage of total revenues 2012-13**



Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.5 Case study — Across industry

B.5.1 Sector products

The across industry category is not a sector but instead a funding category for projects that are considered to have benefits spread across two or more sectors.

B.5.2 Farmgate gross value of production

Not relevant.

B.5.3 Number of businesses in sector

Not relevant.

B.5.4 Levies

Not relevant.

B.5.5 Projects and project expenditure

The number of across industry projects increased between 2008-09 and 2012-13 as indicated in Table B8.

Table B8 **Across industry – number of projects 2008-09 to 2012-13**

Type of project	2008-09	2009-10	2010-11	2011-12	2012-13
R&D	20	22	24	41	42
Marketing	0	0	0	0	0
Total			90		

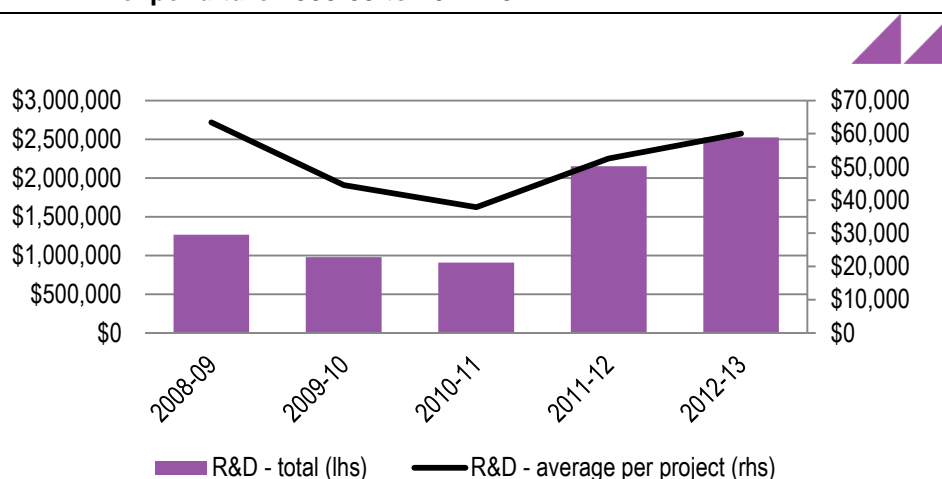
Note: The total number of projects over the 5 years is not the sum of the reported annual number of projects due to some projects continuing over multiple years.

Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

The total project expenditure on research and development for across industry projects has increased from \$1.3 million in 2008-09 to \$2.5 million in 2012-13. There was no expenditure on marketing projects.

Figure B16 below shows how the total expenditure for projects has varied between 2008-09 and 2012-13. It also shows the average expenditure for each project over that period.

Figure B16 **Across industry – total project expenditure and average project expenditure 2008-09 to 2012-13**



Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.5.6 Costs

Levy collection costs

No levies were collected and consequently there were no costs associated with collecting levies.

Consultation costs

There were no consultation costs for across industry between 2008-09 and 2012-13.

B.6 Case study — Citrus

B.6.1 Sector products

The following products comprise the vegetables sector: commercial citrus. The 2012 HAL Statistical Handbook lists statistics for oranges, mandarins, lemons, limes and grapefruit.

B.6.2 Farmgate gross value of production

- The farmgate gross value of production (GVP) of the citrus sector in 2011-12 was estimated by industry to be \$450 million (Industry Annual Investment Plan).
- The ABS stated that the GVP of the citrus sector was:¹⁶
 - \$381.3 million in 2007-08 (oranges and mandarins)
 - \$441.9 million in 2008-09
 - \$381.3 million in 2009-10 (oranges and mandarins)
 - \$409.1 million in 2010-11
 - \$416.2 million in 2011-12 (oranges and mandarins).

¹⁶ ABS Catalogue 7503.0 - Value of Agricultural Commodities Produced, Australia, various years.

B.6.3 Number of businesses in sector

- The ABS stated that there were 2,113 orange and mandarin grower businesses in Australia in 2011-12.¹⁷
- There were 1,867 citrus-growing properties across Australia in 2010-11.¹⁸

B.6.4 Levies

What is the levy payable on?

The levy is payable as follows:¹⁹

- Levy is payable on citrus produced in Australia that is either sold by the producer or used by the producer in the production of other goods
- Export charge is payable on citrus produced in and exported from Australia
- No export charge is payable if domestic levy has already been paid on the citrus to be exported.

Purpose

The Australian Government Department of Agriculture published the following statement relating to the purpose of the levy:²⁰

A levy or an export charge is payable on citrus to provide funding for promotion, research and development carried out via Horticulture Australia Limited (HAL) and plant health programs via Plant Health Australia (PHA). DAFF-Levies receives the funds and forwards them to HAL and PHA, in addition to distributing the Australian Government's matching research and development (R&D) contributions.

Quantum

The quantum of the levy is as follows.

Table B9 Citrus – levies

Commodity	Active Rate	Unit	Marketing	Marketing Body	R&D	R&D Body	AHA	PHA	NRS
Citrus - oranges in bulk	\$2.75	\$/tonne	\$0.75	HAL	\$1.97	HAL		\$0.03	
Citrus - oranges not in bulk	5.5	cents/box	1.5	HAL	3.94	HAL		0.06	
Citrus - other citrus in bulk	\$2.00	\$/tonne		HAL	\$1.97	HAL		\$0.03	
Citrus - other citrus not in bulk	4	cents/box		HAL	3.94	HAL		0.06	

Source: Document summarising characteristics of horticulture levies provided by Horticulture Australia Limited 2013.

¹⁷ ABS 2013, *7121.0 - Agricultural Commodities, Australia, 2011-12*, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/7121.02011-12?OpenDocument>

¹⁸ HAL 2012, *The Australian Horticulture Statistics Handbook 2012*. Source: Citrus Australia (2011 National Citrus Planting Database)

¹⁹ Department of Agriculture, Fisheries and Forestry, *Information on citrus levy & export charge*, http://www.daff.gov.au/__data/assets/pdf_file/0009/183375/06-citrus-notice.pdf

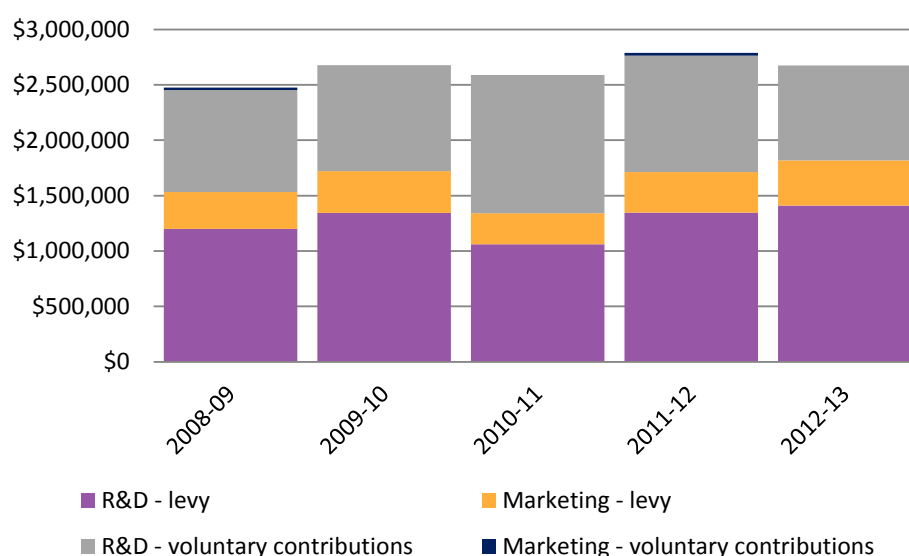
²⁰ Department of Agriculture, Fisheries and Forestry, *Information on citrus levy & export charge*, http://www.daff.gov.au/__data/assets/pdf_file/0009/183375/06-citrus-notice.pdf

B.6.5 Levies and voluntary contributions

The annual levies and voluntary contributions for research and development and marketing have totalled between approximately \$2.5 million and \$2.8 million for each of the financial years 2008-09 to 2012-13 as shown in Figure B17.

Total levy proceeds for Citrus have grown at an average compound rate of 4.4 per cent per annum between 2008-09 and 2012-13.

Figure B17 Citrus – levies and voluntary contributions 2008-09 to 2012-13



Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.6.6 Projects and project expenditure

The number of Citrus projects increased between 2008-09 and 2012-13 as indicated in Table B10.

Table B10 Citrus – number of projects 2008-09 to 2012-13

Type of project	2008-09	2009-10	2010-11	2011-12	2012-13
R&D	60	55	59	53	53
Marketing	11	11	14	13	10
Total			194		

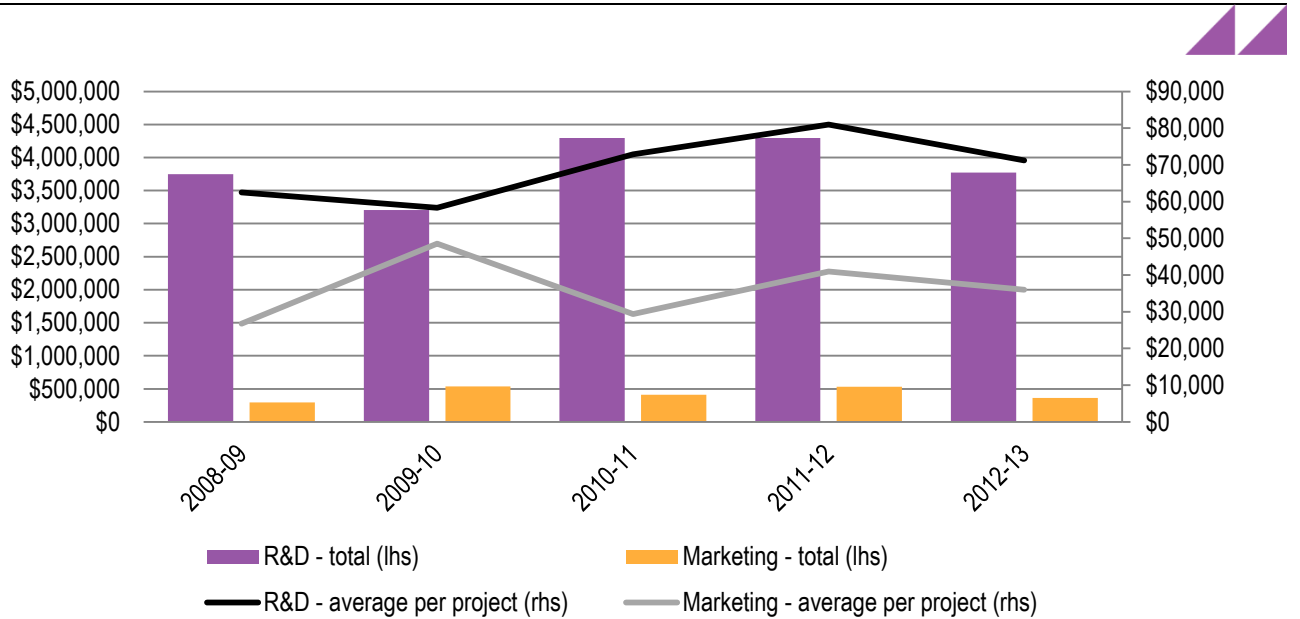
Note: The total number of projects over the 5 years is not the sum of the reported annual number of projects due to some projects continuing over multiple years.

Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

The total project expenditure on research and development for citrus varied over the period 2008-09 to 2012-13: with a low of \$3.2 million in 2009-10 and a high of \$4.3 million in 2011-12. The expenditure of marketing projects also varied over this period: with a low of \$294,409 in 2008-09 and a high of \$534,418 in 2009-10.

Figure B18 shows the total expenditure for projects has varied between 2008-09 and 2012-13. It also shows the average expenditure for each project over that period.

Figure B18 Citrus – total project expenditure and average project expenditure 2008-09 to 2012-13



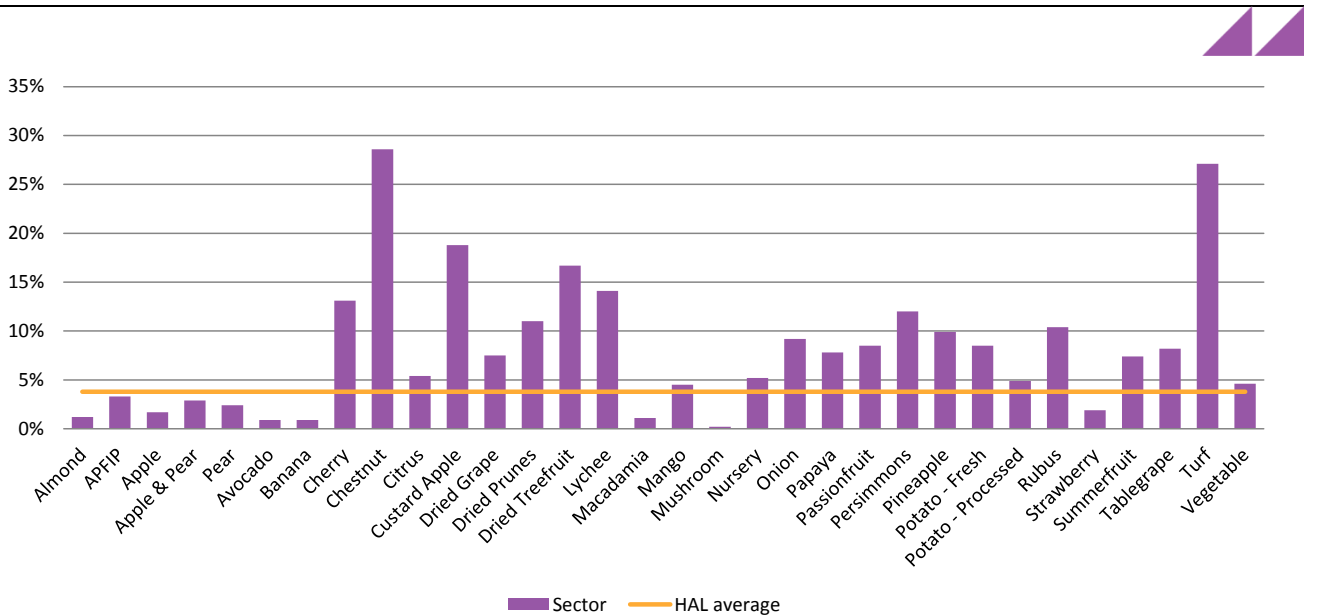
Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.6.7 Costs

Levy collection costs

Figure B19 below shows the cost of collecting levies as a percentage of levies collected for each sector in 2012-13 and for HAL as a whole. This figure shows that the cost of collecting levies in the Citrus sector expressed as a percentage of levies collected was higher than for HAL as a whole.

Figure B19 Levy collection costs as a percentage of levies collected 2012-13

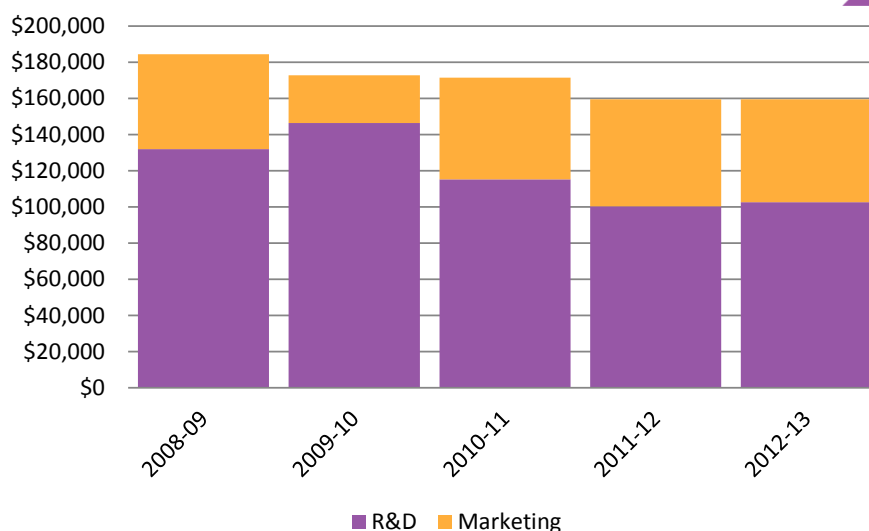


Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

Consultation costs

As shown in Figure B20, the total consultation costs for R&D and marketing in the citrus sector declined between 2008-09 and 2012-13.

Figure B20 Citrus – consultation costs 2008-09 to 2012-13



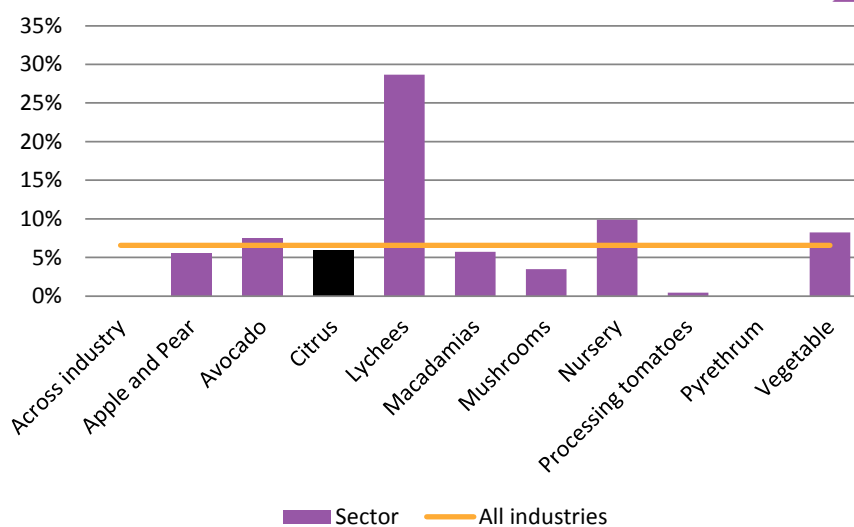
Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

Consultation funding for Avocados as a percentage of total revenues (levies plus voluntary contributions) has varied between 2008-09 and 2012-13.

— Consultation funding declined from 7.5 per cent of total revenues in 2008-09 to 6.0 per cent of total revenues in 2012-13.

Consultation funding in 2012-13 as a percentage of total revenues was lower than the HAL average as shown in Figure B21.

Figure B21 Citrus – consultation costs as a percentage of total revenues 2012-13



Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.7 Case study — Nursery

B.7.1 Sector products

The following products comprise the nursery sector: nurseries, cut flowers and cultivated turf.

B.7.2 Farmgate gross value of production

- The farmgate gross value of production (GVP) of the nursery sector in 2011-12 was estimated by industry to be \$1.030 billion (Industry Annual Investment Plan)
- The ABS stated that the GVP of the nursery sector was²¹:
 - \$1,432.8 million in 2007-08 (cultivated turf, nurseries, and cut flowers)
 - \$1,294.9 million in 2008-09
 - \$1,432.8 million in 2009-10 (nurseries)
 - \$1,262.7 million in 2010-11 (cultivated turf, nurseries, and cut flowers)
 - \$1,271.5 million in 2011-12 (cultivated turf, nurseries, and cut flowers).

B.7.3 Number of businesses in sector

There were 2,918 nursery sector grower businesses in Australia in 2011-12.²²

B.7.4 Levies

What is the levy payable on?

The levy is payable as follows:²³

- Levy is payable on potted plants produced in Australia that are sold by the producer or used by the producer in the production of other goods. However, for ease of collection, the levy is paid on the purchase by the producer of pots (prescribed goods), which are used in the production or preparation of a nursery product for sale or for use in the production of other goods e.g. repotting, propagation for later sale etc.

Purpose

The Australian Government Department of Agriculture published the following statement relating to the purpose of the levy:²⁴

A levy is payable on Nursery Products to provide funding for promotion, research and development programs carried out via Horticulture Australia Limited (HAL). The Levies Revenue Service (LRS) receives the funds and forwards them to HAL, in addition to distributing the Australian Government's matching research and development (R&D) contributions.

Quantum

The quantum of the levy is as follows.

²¹ ABS Catalogue 7503.0 - Value of Agricultural Commodities Produced, Australia, various years

²² ABS 2013, 7121.0 - *Agricultural Commodities, Australia, 2011-12*, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/7121.02011-12?OpenDocument>

²³ Department of Agriculture, Fisheries and Forestry, *Information on nursery products levy*, http://www.daff.gov.au/__data/assets/pdf_file/0007/183382/18_nursery_notice.pdf

²⁴ Department of Agriculture, Fisheries and Forestry, *Information on nursery products levy*, http://www.daff.gov.au/__data/assets/pdf_file/0007/183382/18_nursery_notice.pdf

Table B11 Nursery – levies

Commodity	Active Rate	Unit	Marketing	Marketing Body	R&D	R&D Body	AHA	PHA	NRS	Other	Other - Body
Nursery Products Levy	5%	ad valorem	2%	HAL	2.75%	HAL		0.25%		0	EPPR (PHA)

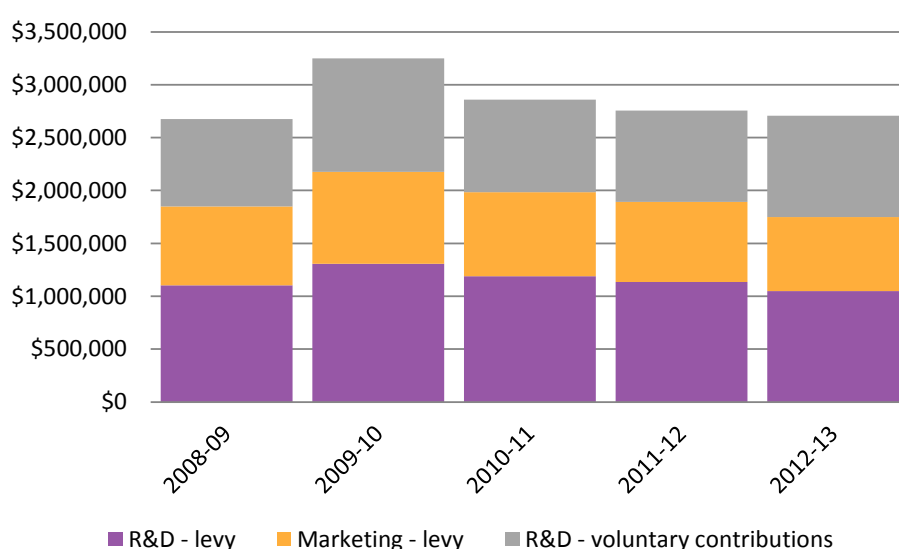
Source: Documents summarising characteristics of levies from Horticulture Australia Limited 2013.

B.7.5 Levies and voluntary contributions

The annual levies and voluntary contributions for research and development and marketing have totalled between approximately \$2.7 million and \$3.2 million for each of the financial years 2008-09 to 2012-13 as shown in Figure B22.

Total levy proceeds for Nursery have declined at an average compound rate of 1.4 per cent per annum between 2008-09 and 2012-13.

Figure B22 Nursery – levies and voluntary contributions 2008-09 to 2012-13



Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.7.6 Projects and project expenditure

The number of Nursery projects over the period 2008-09 and 2012-13 is indicated in Table B12.

Table B12 Nursery – number of projects 2008-09 to 2012-13

Type of project	2008-09	2009-10	2010-11	2011-12	2012-13
R&D	34	38	28	31	33
Marketing	7	10	9	10	6
Total	104				

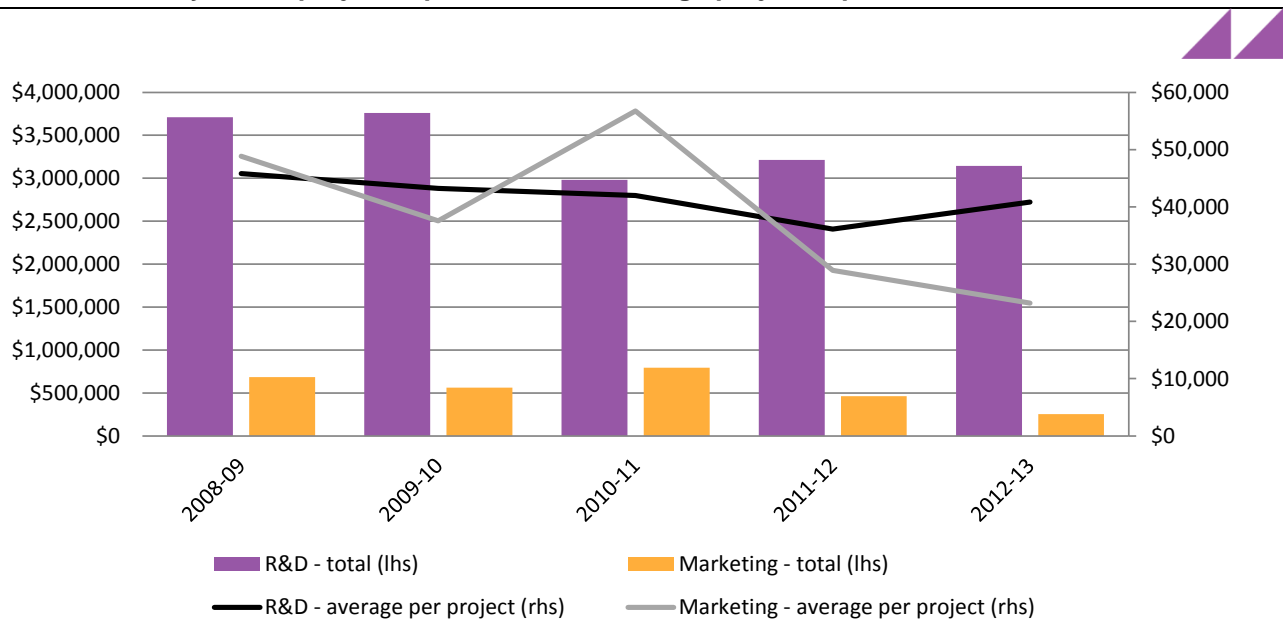
Note: The total number of projects over the 5 years is not the sum of the reported annual number of projects due to some projects continuing over multiple years.

Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

The total project expenditure on research and development for nursery has varied between \$3.0 million and \$3.8 million over the period 2008-09 to 2012-13. The total project expenditure on marketing for nursery declined significantly from \$683,605 in 2008-09 to \$257,385 in 2012-13.

Figure B23 shows how the total expenditure for projects has varied between 2008-09 and 2012-13. It also shows the average expenditure for each project over that period.

Figure B23 Nursery – total project expenditure and average project expenditure 2008-09 to 2012-13



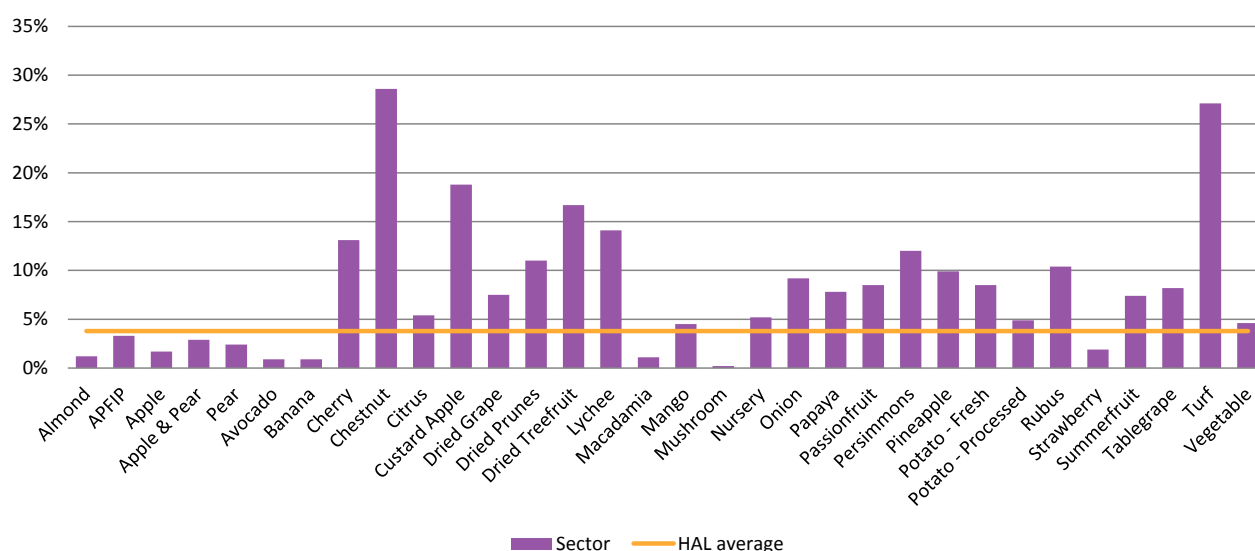
Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.7.7 Costs

Levy collection costs

Figure B24 shows the cost of collecting levies as a percentage of levies collected for each sector in 2012-13 and for HAL as a whole. This figure shows that the cost of collecting levies in the Nursery sector expressed as a percentage of levies collected was higher than for HAL as a whole.

Figure B24 Levy collection costs as a percentage of levies collected 2012-13

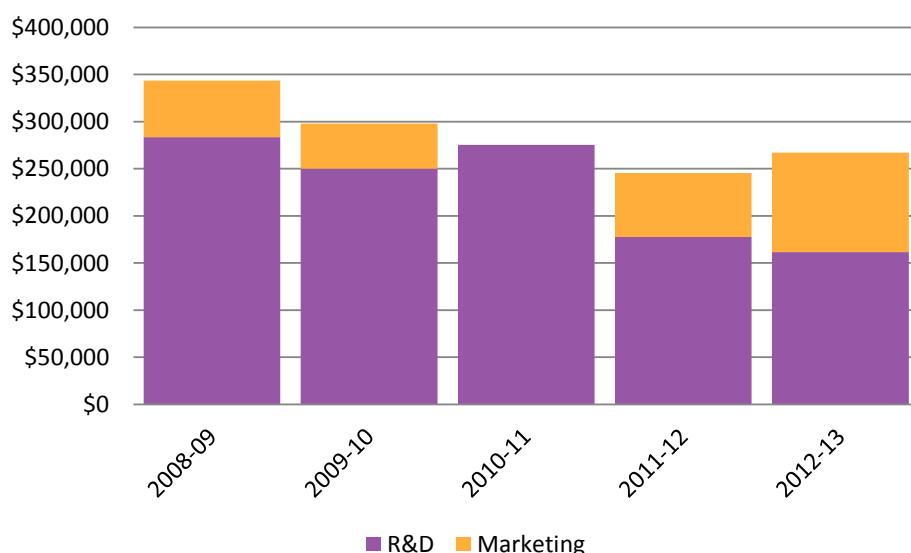


Note: Data relating to Apples, Pears, Apples and Pears and APFIP is not combined.
 Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

Consultation costs

As shown in Figure B25, consultation costs for research and development in the nursery sector declined from \$343,641 in 2008-09 to \$267,175 in 2012-13.

Figure B25 Nursery – consultation costs 2008-09 to 2012-13



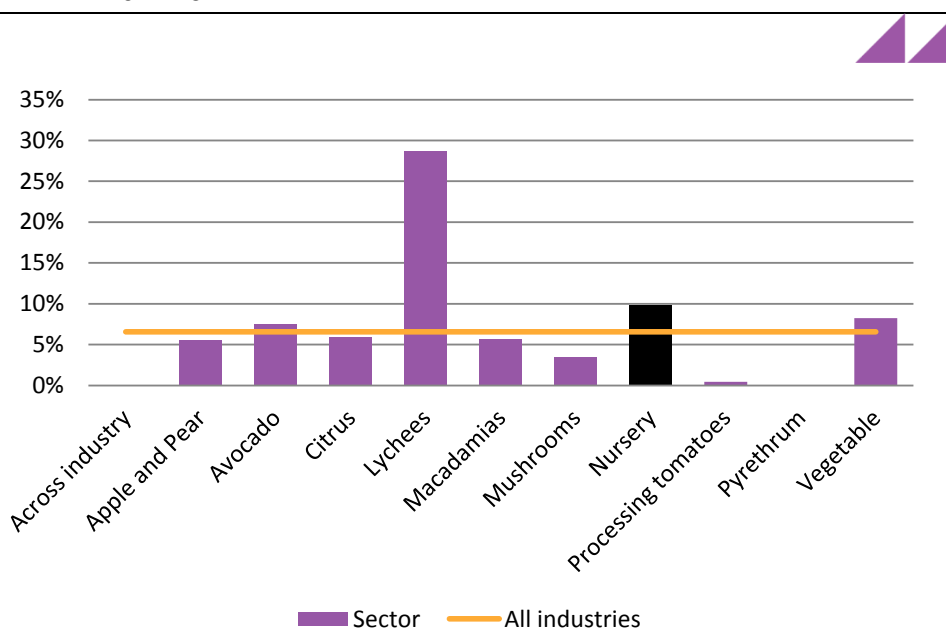
Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

Consultation funding for Avocados as a percentage of total revenues (levies plus voluntary contributions) declined between 2008-09 and 2012-13.

— Consultation funding declined from 12.8 per cent of total revenues in 2008-09 to 9.9 per cent of total revenues in 2012-13.

Consultation funding in 2012-13 as a percentage of total revenues was greater than the HAL average as shown in Figure B26.

Figure B26 **Nursery – consultation costs as a percentage of total revenues 2012-13**



Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.8 Case study — Pyrethrum

B.8.1 Sector products

The following products comprise the pyrethrum sector: pyrethrum.

B.8.2 Farmgate gross value of production

- The farmgate gross value of production (GVP) of the pyrethrum sector in 2008-09 was estimated by industry to be \$20 million (Pyrethrum Annual Investment Plan July 2011 – June 2012).
- The farmgate gross value of production (GVP) of the pyrethrum sector in 2012-13 was estimated by industry to be \$14 million (Pyrethrum Annual Investment Plan July 2012 – June 2013).

B.8.3 Number of businesses in sector

Botanical Resources Australia Pty Ltd was the contracting, processing and marketing company for the pyrethrum industry in 2010.²⁵ It is unclear how many growers of pyrethrum in Australia there are in 2013.

B.8.4 Levies

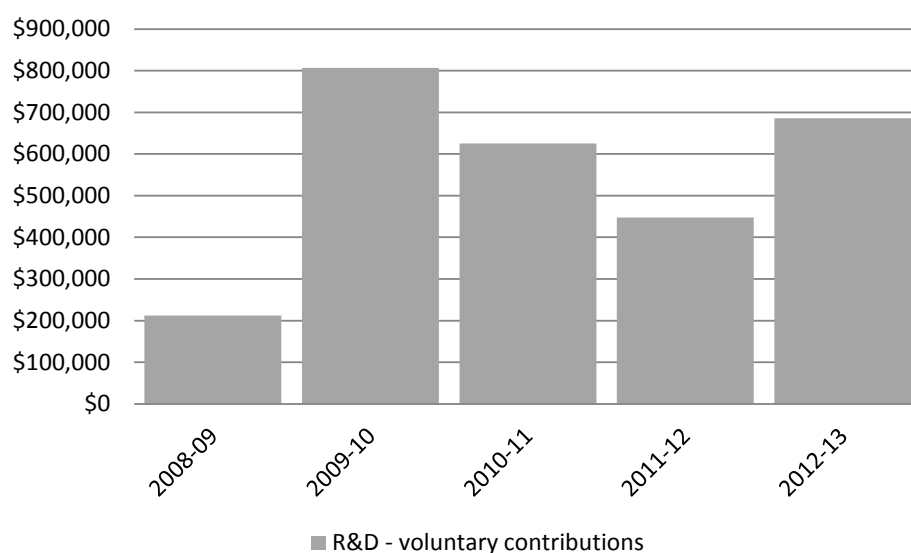
There are no levies relating to the pyrethrum sector.

²⁵ Pyrethrum Annual Investment Plan July 2010 – June 2011

B.8.5 Levies and voluntary contributions

Voluntary contributions for research and development totalled between approximately \$0.2 million and \$0.8 million for each of the financial years 2008-09 to 2012-13 as shown in Figure B27. No levies were collected and voluntary contributions were made only in relation to research and development.

Figure B27 **Pyrethrum – levies and voluntary contributions 2008-09 to 2012-13**



Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.8.6 Projects and project expenditure

The number of Pyrethrum projects increased between 2008-09 and 2012-13 as indicated in Table B13.

Table B13 **Pyrethrum – number of projects 2008-09 to 2012-13**

Type of project	2008-09	2009-10	2010-11	2011-12	2012-13
R&D	5	9	6	7	7
Marketing	0	0	0	0	0
Total			14		

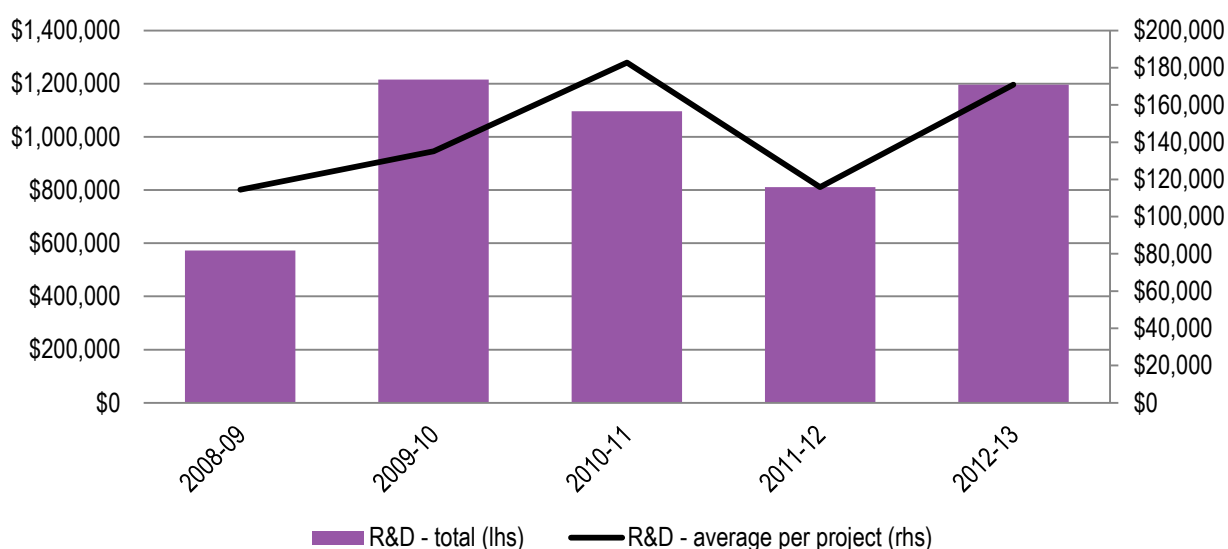
Note: The total number of projects over the 5 years is not the sum of the reported annual number of projects due to some projects continuing over multiple years.

Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited, 2013.

The total project expenditure on research and development for Pyrethrum increased from \$0.6 million in 2008-09 to \$1.2 million in 2012-13. There was no expenditure on marketing projects over that time period.

Figure B28 shows how the total expenditure for projects has varied between 2008-09 and 2012-13. It also shows the average expenditure for each project over that period.

Figure B28 Nursery – total project expenditure and average project expenditure 2008-09 to 2012-13



Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.8.7 Costs

Levy collection costs

No levies were collected and consequently there were no costs associated with collecting levies.

Consultation costs

There were no consultation costs for Pyrethrum between 2008-09 and 2012-13.

B.9 Case study — Macadamias

B.9.1 Sector products

The following products comprise the macadamia sector: macadamia nuts.

B.9.2 Farmgate gross value of production

- The farmgate gross value of production (GVP) of the macadamias sector in 2009-10 was estimated by industry to be \$65.7 million (Macadamia Annual Investment Plan July 2011-June 2012).
- The farmgate gross value of production (GVP) of the macadamias sector in 2011-12 was estimated by industry to be \$100 million (Macadamia Annual Investment Plan July 2012-June 2013).

- The ABS stated that the GVP of the macadamia sector was:²⁶
 - \$54.4 million in 2007-08
 - \$49.1 million in 2008-09
 - \$54.4 million in 2009-10
 - \$77.9 million in 2010-11
 - \$102.1 million in 2011-12.

B.9.3 Number of businesses in sector

There were 837 macadamia grower businesses in Australia in 2011-12.²⁷

B.9.4 Levies

What is the levy payable on?

The levy is payable as follows:²⁸

- Levy is payable on Macadamia Nuts produced in Australia that are either sold by the producer or used in the production of other goods.
- Export charge is payable on Macadamia Nuts produced in and exported from Australia.
- No export charge is payable if domestic levy has already been paid on the Macadamia Nuts to be exported.

Purpose

The Australian Macadamia Society (AMS) provided the following discussion regarding the macadamia levy:²⁹

An industry levy is collected from all AMS members in order to raise the necessary funding for research, marketing and industry development – projects which are essential for ensuring the macadamia industry remains a strong and successful industry now and into the future.

The levy has arguably been the single most important driver of the growth of the Australian macadamia industry. Unlike many other new rural industries that emerged around the 1980's, the macadamia industry understood the need to invest in its development and future.

Quantum

The quantum of the levy is as follows.

Table B14 Macadamias – levies

Commodity	Active Rate	Unit	Marketing	Marketing Body	R&D	R&D Body	AHA	PHA	NRS	Other	Other - Body
Macadamia - dried kernel	25.21	cents/kg	16.01	HAL	8.57	HAL			0.63	0	EPPR (PHA)

Source: HAL 2013

²⁶ ABS Catalogue 7503.0 - Value of Agricultural Commodities Produced, Australia, various years

²⁷ ABS 2013, 7121.0 - Agricultural Commodities, Australia, 2011-12, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/7121.02011-12?OpenDocument>

²⁸ Department of Agriculture, Fisheries and Forestry, *Information on macadamia levy & export charge*, http://www.daff.gov.au/_data/assets/pdf_file/0005/183362/16_macadamia_notice.pdf

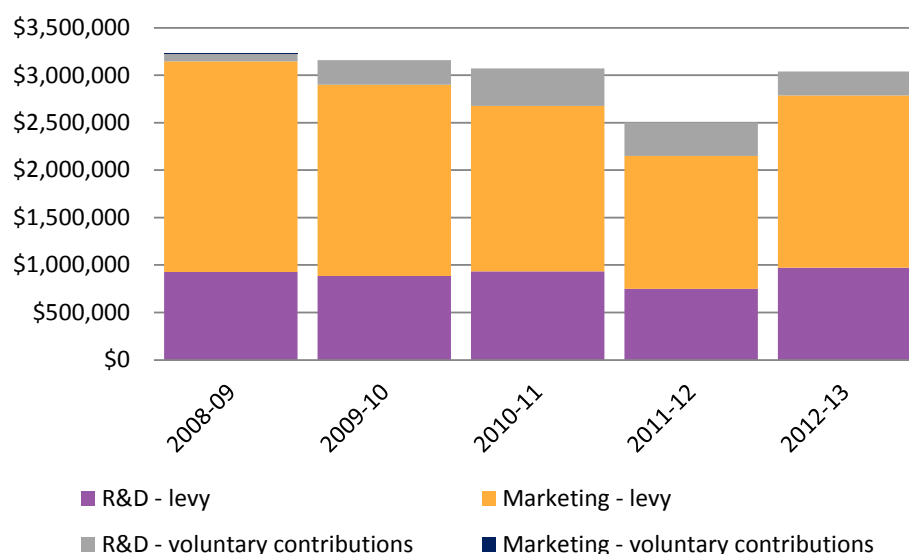
²⁹ <http://www.australian-macadamias.org/for-growers/industry-levy?r=1>

B.9.5 Levies and voluntary contributions

The annual levies and voluntary contributions for research and development and marketing have totalled between approximately \$2.5 million and \$3.2 million for each of the financial years 2008-09 to 2012-13 as shown in Figure B29.

Total levy proceeds for Macadamias have declined at an average compound rate of 3.0 per cent per annum between 2008-09 and 2012-13.

Figure B29 **Macadamias – levies and voluntary contributions 2008-09 to 2012-13**



Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.9.6 Projects and project expenditure

The number of Nursery projects declined between 2008-09 and 2012-13 as indicated in Table B15.

Table B15 **Macadamias – number of projects 2008-09 to 2012-13**

Type of project	2008-09	2009-10	2010-11	2011-12	2012-13
R&D	39	41	38	36	32
Marketing	43	34	23	22	13
Total			180		

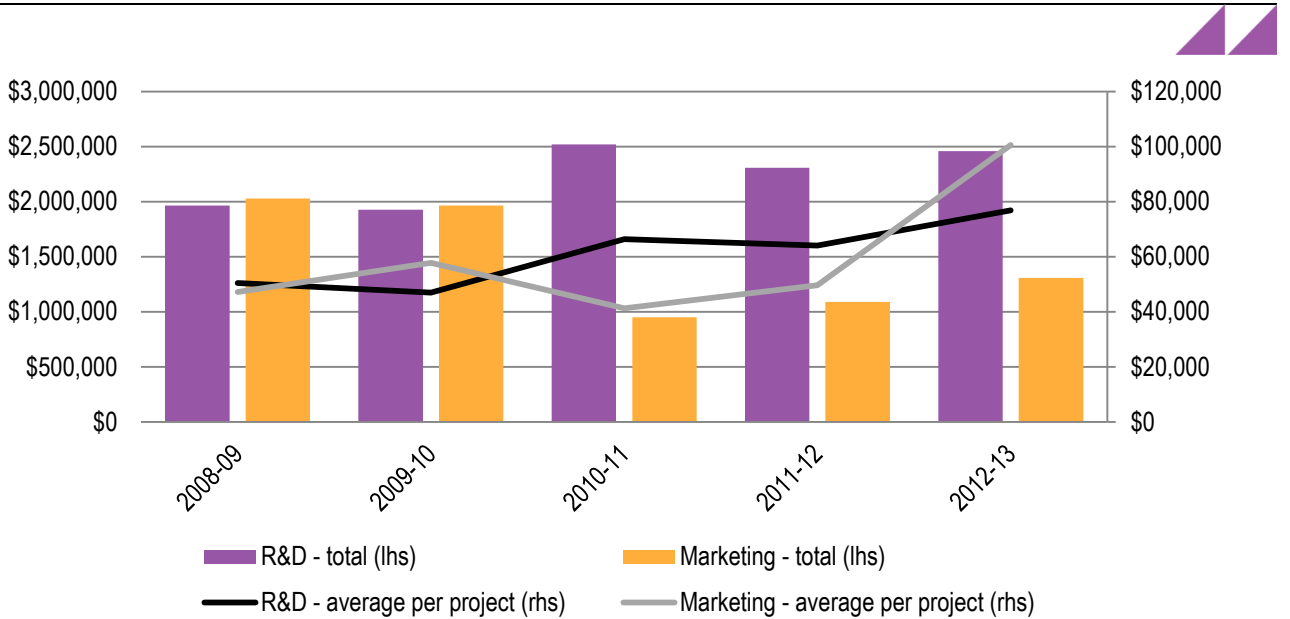
Note: The total number of projects over the 5 years is not the sum of the reported annual number of projects due to some projects continuing over multiple years.

Source: ACIL Allen Consulting analysis of financial accounts, Horticulture Australia Limited, 2013.

The total project expenditure on research and development for the macadamia sector increased from \$2.0 million in 2008-09 to \$2.5 million in 2012-13. The total project expenditure on marketing for the macadamia sector declined from \$2.0 million in 2008-09 to \$1.3 million in 2012-13.

Figure B30 shows how the total expenditure for projects has varied between 2008-09 and 2012-13. It also shows the average expenditure for each project over that period.

Figure B30 Macadamias – total project expenditure and average project expenditure 2008-09 to 2012-13



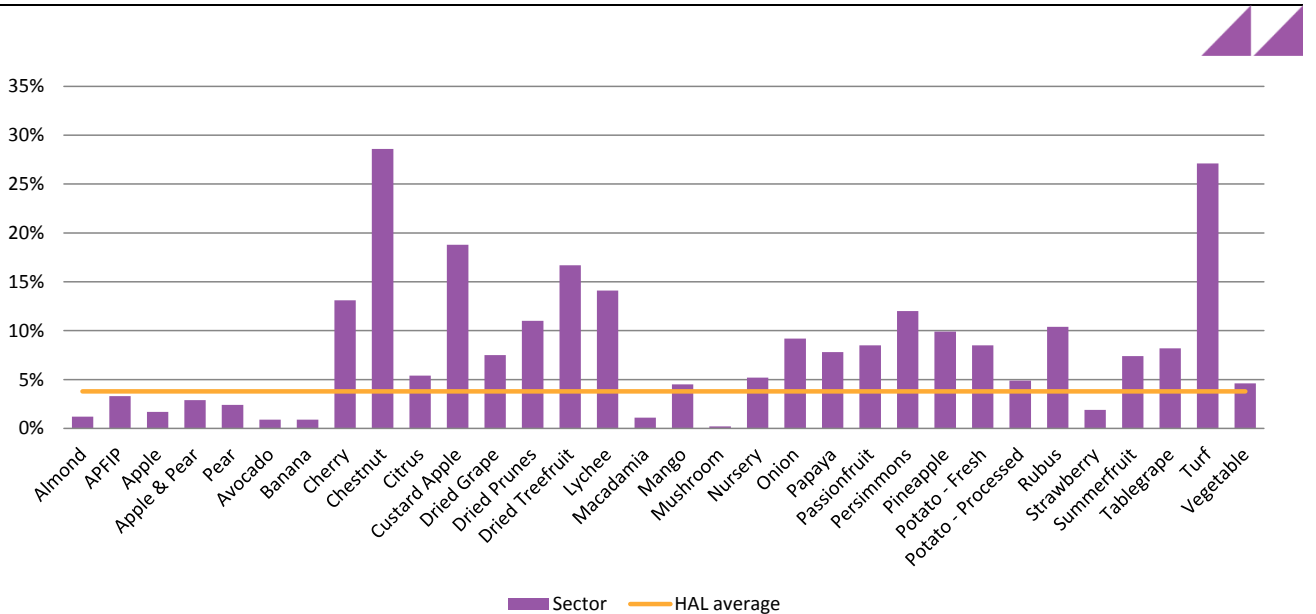
Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.9.7 Costs

Levy collection costs

Figure B31 shows the cost of collecting levies as a percentage of levies collected for each sector in 2012-13 and for HAL as a whole. This figure shows that the cost of collecting levies in the Macadamias sector expressed as a percentage of levies collected was less than for HAL as a whole.

Figure B31 Levy collection costs as a percentage of levies collected 2012-13

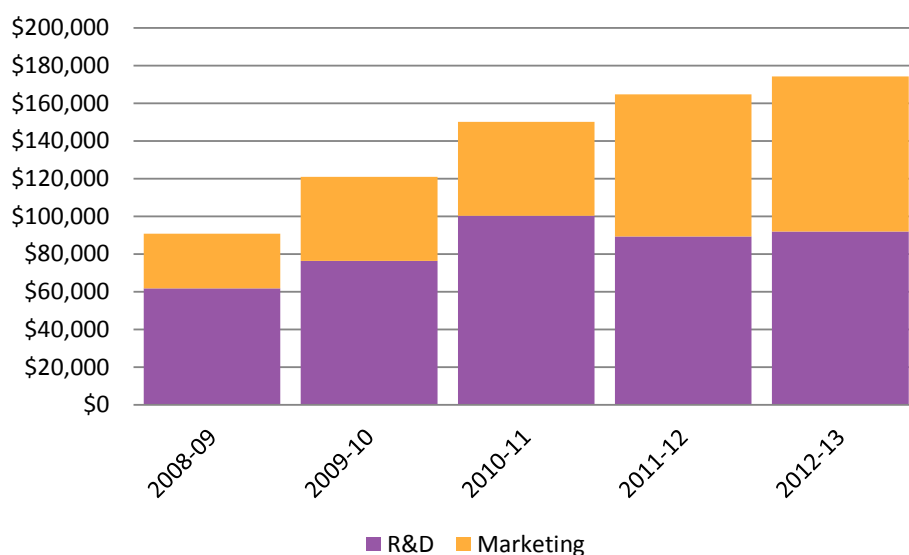


Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

Consultation costs

As shown in Figure B32, the consultation costs for research and development in the macadamia sector have increased between 2008-09 and 2012-13.

Figure B32 **Macadamias – consultation costs 2008-09 to 2012-13**



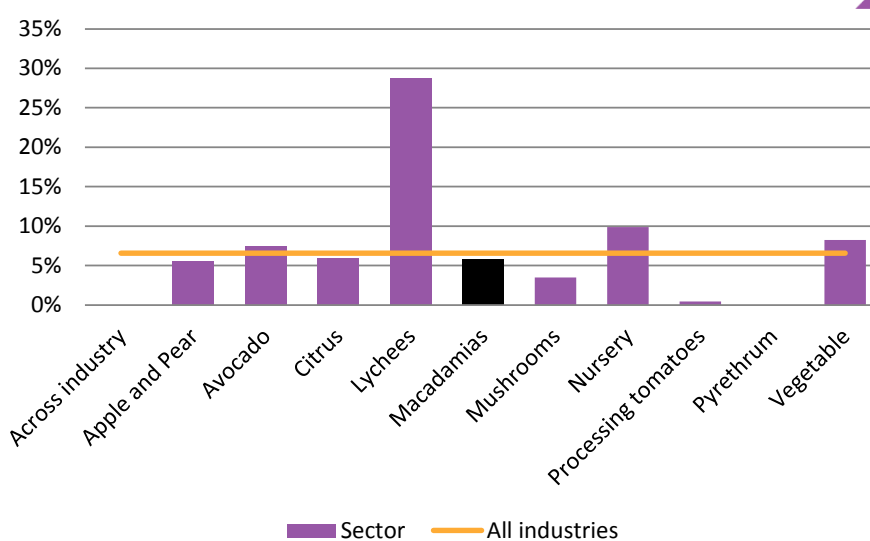
Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

Consultation funding for Avocados as a percentage of total revenues (levies plus voluntary contributions) has increased between 2008-09 and 2012-13.

— Consultation funding was 2.8 per cent of total revenues in 2008-09 and 5.7 per cent of total revenues in 2012-13.

Consultation funding in 2012-13 as a percentage of total revenues was lower than the HAL average as shown in Figure B33.

Figure B33 **Macadamias – consultation costs as a percentage of total revenues 2012-13**



Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.10 Case study — Lychees

B.10.1 Sector products

The following products comprise the lychee sector: lychees.

B.10.2 Farmgate gross value of production

- The farmgate gross value of production (GVP) of the lychees sector in 2008-09 was estimated by industry to be \$11 million (Lychee Annual Investment Plan July 2011-June 2012).
- The farmgate gross value of production (GVP) of the lychees sector in 2011-12 was estimated by industry to be \$20 million (Lychee Annual Investment Plan July 2012-June 2013).

B.10.3 Number of businesses in sector

There were 267 lychee grower businesses in Australia in 2010-11.³⁰

B.10.4 Levies

What is the levy payable on?

The levy is payable as follows:³¹

- Levy is payable on fresh Lychees and processing Lychees that are produced and sold in Australia.
- Export Charge is payable on fresh Lychees that are exported from Australia.
- No Export Charge is payable if domestic levy has already been paid on the Lychees to be exported.

Purpose

The Australian Government Department of Agriculture published the following statement relating to the purpose of the levy:³²

A levy or an export charge is payable on Lychees to provide funding for marketing, research and development carried out via Horticulture Australia Limited (HAL). The Levies Revenue Service (LRS) receives the funds and forwards them to HAL, in addition to distributing the Australian Government's matching research and development (R&D) contributions.

Quantum

The quantum of the levy is as follows.

³⁰ ABS 2012, 7121.0 - *Agricultural Commodities, Australia, 2010-11*, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/7121.02010-11?OpenDocument>

³¹ Department of Agriculture, Fisheries and Forestry, *Information on lychees levy & export charge*, http://www.daff.gov.au/__data/assets/pdf_file/0009/183393/66_lychee_notice.pdf

³² Department of Agriculture, Fisheries and Forestry, *Information on lychees levy & export charge*, http://www.daff.gov.au/__data/assets/pdf_file/0009/183393/66_lychee_notice.pdf

Table B16 Lychees – levies

Commodity	Active Rate	Unit	Marketing	Marketing Body	R&D	R&D Body	AHA	PHA	NRS
Lychee - domestic & export fresh	8	cents/kg	2.5	HAL	5.5	HAL			
Lychee - processing	1	cents/kg			1	HAL			

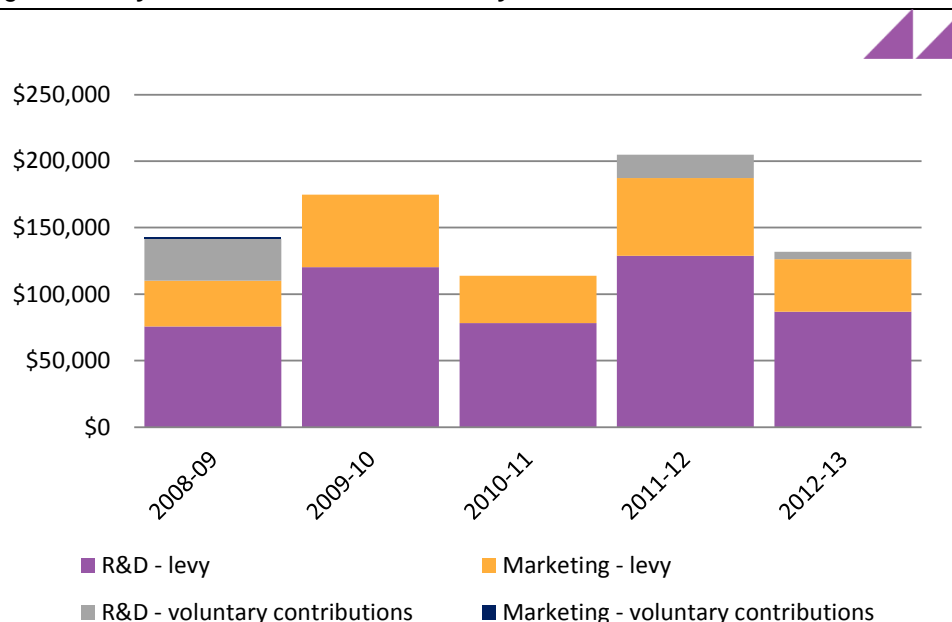
Source: HAL 2013

B.10.5 Levies and voluntary contributions

The annual levies and voluntary contributions for research and development and marketing have totalled between approximately \$114,000 and \$205,000 for each of the financial years 2008-09 to 2012-13 as shown in Figure B34 below.

Total levy proceeds for Lychees have increased at an average compound rate of 3.4 per cent per annum between 2008-09 and 2012-13.

Figure B34 Lychees – levies and voluntary contributions 2008-09 to 2012-13



Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.10.6 Projects and project expenditure

The total number of Lychee projects increased between 2008-09 and 2012-13 as indicated in B17. The number of R&D projects has increased while the number of marketing projects has declined.

Table B17 Lychees – number of projects 2008-09 to 2012-13

Type of project	2008-09	2009-10	2010-11	2011-12	2012-13
R&D	13	13	13	13	16
Marketing	9	7	7	3	4
Total			72		

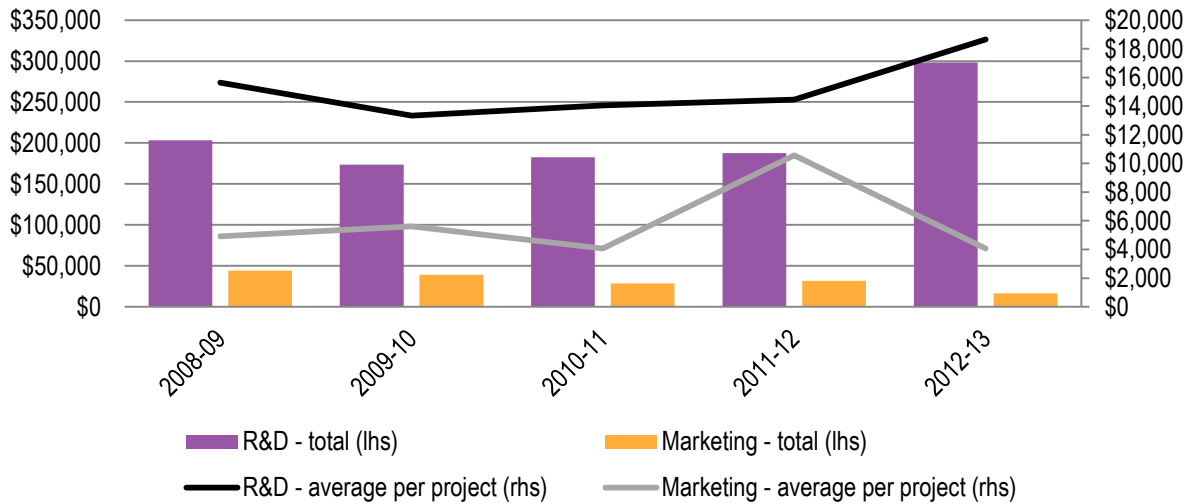
Note: The total number of projects over the 5 years is not the sum of the reported annual number of projects due to some projects continuing over multiple years.

Source: ACIL Allen Consulting analysis of financial accounts, Horticulture Australia Limited, 2013.

The total project expenditure on research and development for Lychees increased from \$203,280 in 2008-09 to \$298,361 in 2012-13. The total project expenditure on marketing for lychees declined from \$44,276 in 2008-09 to \$16,297 in 2012-13.

Figure B35 shows how the total expenditure for projects has varied between 2008-09 and 2012-13. It also shows the average expenditure for each project over that period.

Figure B35 Lychees – total project expenditure and average project expenditure 2008-09 to 2012-13



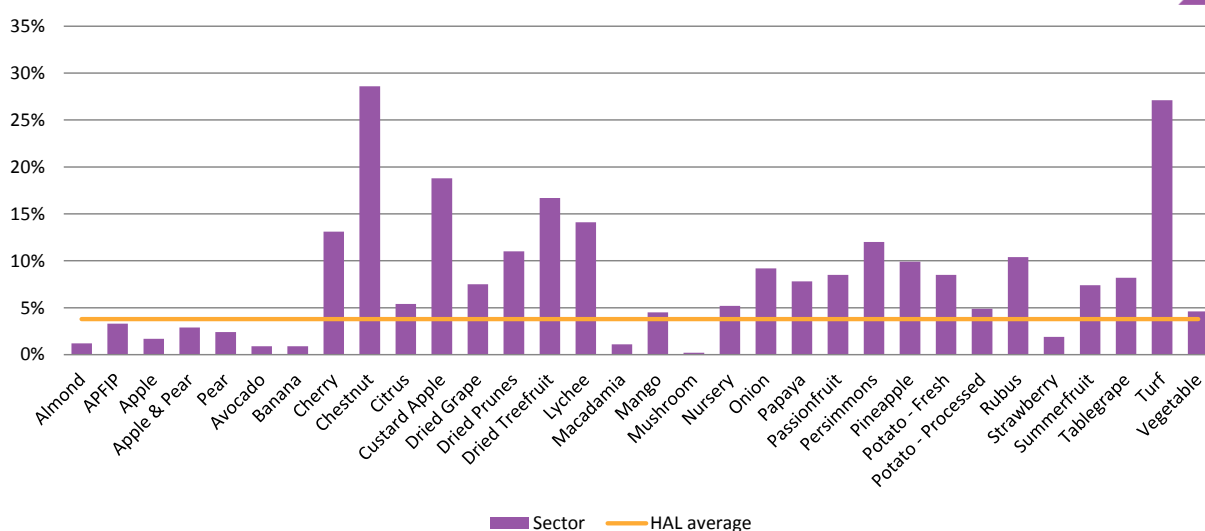
Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.10.7 Costs

Levy collection costs

Figure B36 below shows the cost of collecting levies as a percentage of levies collected for each sector in 2012-13 and for HAL as a whole. This figure shows that the cost of collecting levies in the Lychee sector expressed as a percentage of levies collected was greater than for HAL as a whole.

Figure B36 Levy collection costs as a percentage of levies collected 2012-13

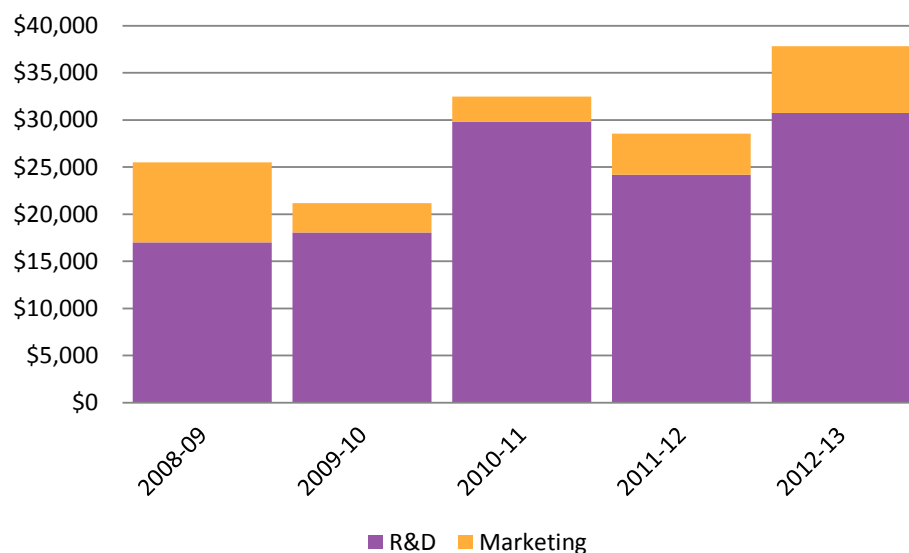


Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

Consultation costs

As shown in Figure B37, consultation costs for research and development in the Lychee sector increased between 2008-09 and 2012-13.

Figure B37 Lychees – consultation costs 2008-09 to 2012-13



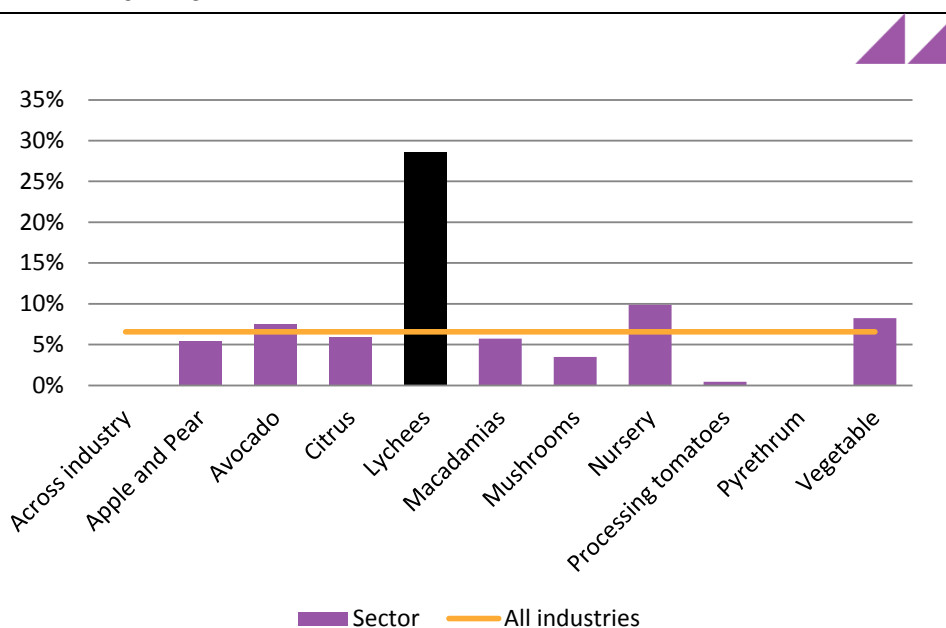
Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

Consultation funding for Lychees as a percentage of total revenues (levies plus voluntary contributions) varied between 2008-09 and 2012-13.

— Consultation funding was 17.8 per cent of total revenues in 2008-09 and 28.7 per cent of total revenues in 2012-13.

Consultation funding in 2012-13 as a percentage of total revenues was higher than the HAL average as shown in Figure B38.

Figure B38 **Lychees – consultation costs as a percentage of total revenues 2012-13**



Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.11 Case study — Tomato processing

B.11.1 Sector products

The following products comprise the processing tomatoes sector: the preparation of tomatoes for processing.

B.11.2 Farmgate gross value of production

- The farmgate gross value of production (GVP) of the processing tomatoes sector in 2008-09 was estimated by industry to be \$19 million (Tomato - Processing Annual Investment Plan July 2011-June 2012).
- The farmgate gross value of production (GVP) of the processing tomatoes sector in 2011-12 was estimated by industry to be \$21 million (Tomato - Processing Annual Investment Plan July 2012-June 2013).
- The ABS stated that the GVP of the processing tomatoes sector was³³:
 - \$18.5 million in 2007-08
 - \$29.5 million in 2008-09 (tomatoes for processing)
 - \$13.3 million in 2010-11 (tomatoes for processing).

B.11.3 Number of businesses in sector

There were 169 processing tomato businesses in Australia in 2010-11.³⁴

B.11.4 Levies

There are no levies relating to the processing tomatoes sector.

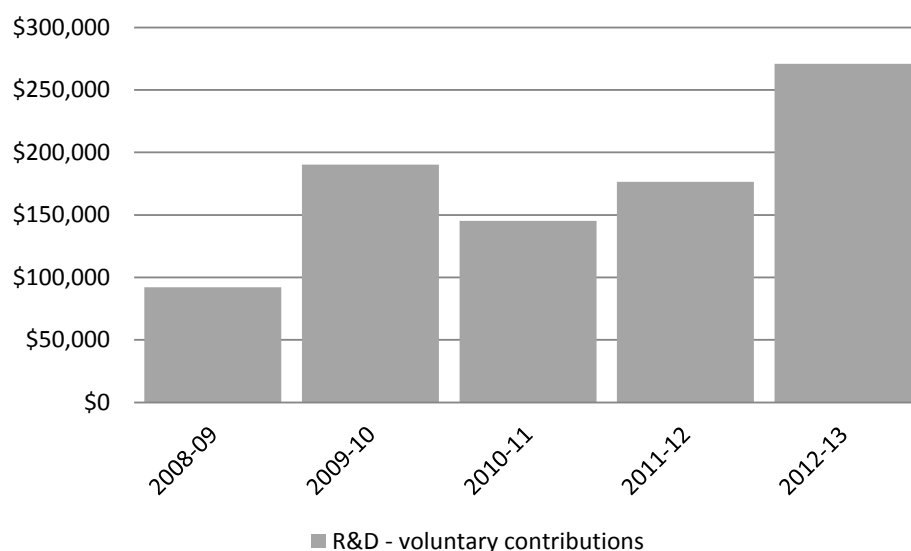
³³ ABS Catalogue 7503.0 - Value of Agricultural Commodities Produced, Australia, various years

³⁴ ABS 2012, 7121.0 - Agricultural Commodities, Australia, 2010-11, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/7121.02010-11?OpenDocument>

B.11.5 Levies and voluntary contributions

The annual levies and voluntary contributions for research and development and marketing have totalled between approximately \$92,000 and \$271,000 for each of the financial years 2008-09 to 2012-13 as shown in Figure B39. No levies were collected in relation to Processing Tomatoes and voluntary contributions were only made in relation to research and development.

Figure B39 **Processing Tomatos – levies and voluntary contributions 2008-09 to 2012-13**



Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.11.6 Projects and project expenditure

The number of processing tomato projects increased between 2008-09 and 2012-13 as indicated in Table B18.

Table B18 **Processing tomatoes – number of projects 2008-09 to 2012-13**

Type of project	2008-09	2009-10	2010-11	2011-12	2012-13
R&D	6	8	5	8	7
Marketing	0	0	0	0	0
Total	18				

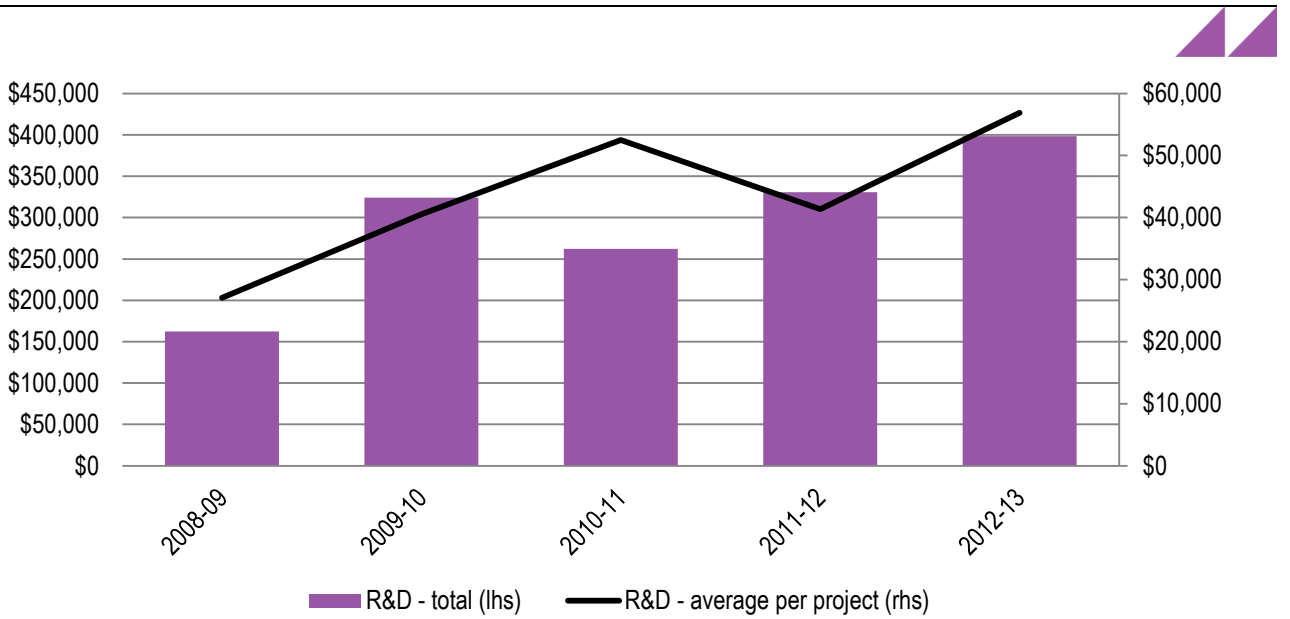
Note: The total number of projects over the 5 years is not the sum of the reported annual number of projects due to some projects continuing over multiple years.

Source: ACIL Allen Consulting analysis of financial accounts, Horticulture Australia Limited, 2013.

The total project expenditure on research and development for processing tomatoes increased from \$162,384 in 2008-09 to \$398,370 in 2012-13. There was no expenditure on marketing projects.

Figure B40 shows how the total expenditure for projects has varied between 2008-09 and 2012-13. It also shows the average expenditure for each project over that period.

Figure B40 Processing Tomatoes – total project expenditure and average project expenditure 2008-09 to 2012-13



Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.11.7 Costs

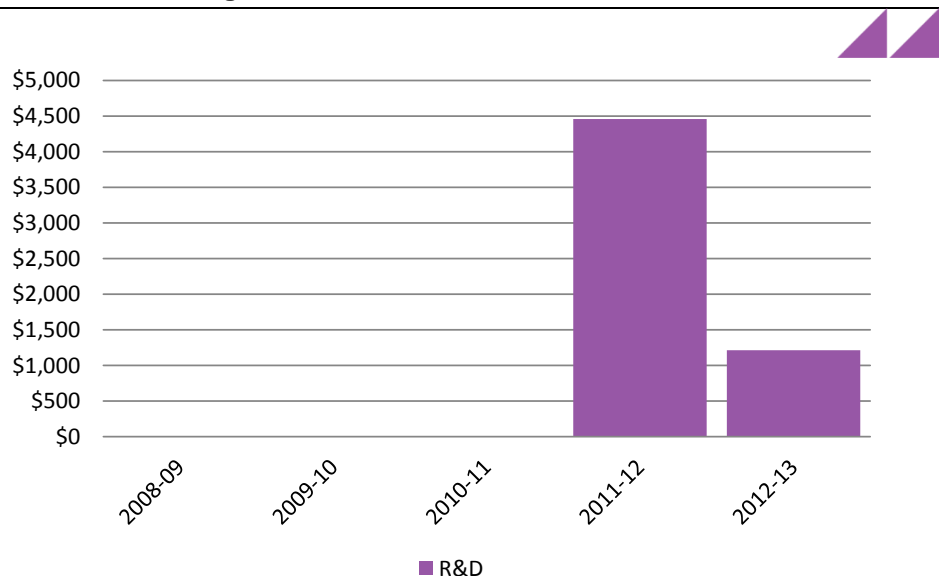
Levy collection costs

No levies were collected for Processing Tomatoes.

Consultation costs

As shown in Figure B41, there were no consultation costs for research and development in the processing tomato sector in 2008-09, 2009-10 and 2010-11, and there were consultation costs for research and development in 2011-12 of \$4,456, and \$1,210 in 2012-13.

Figure B41 Processing Tomatoes – consultation costs 2008-09 to 2012-13



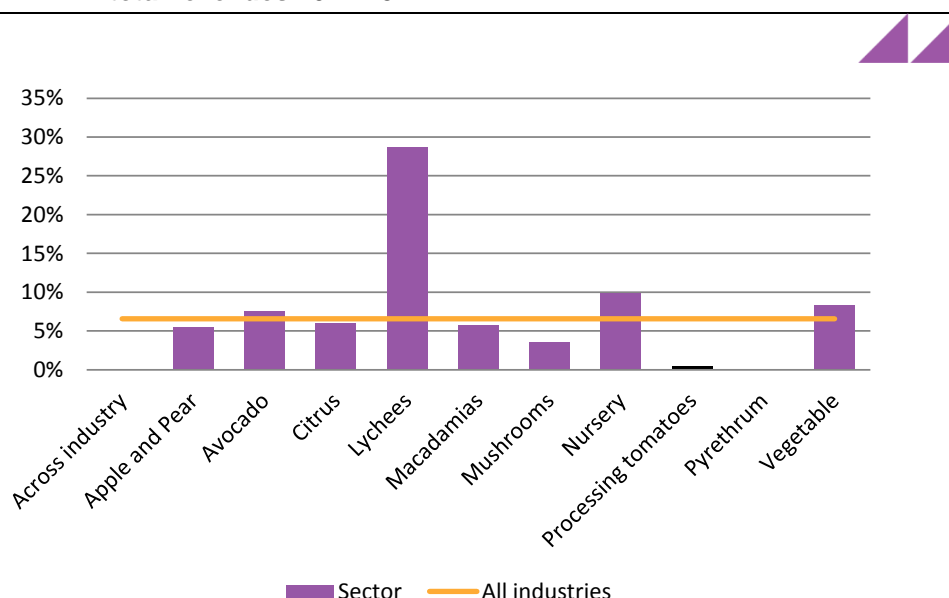
Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

There was consultation funding for Processing Tomatoes in 2011-12 and 2012-13.

— Consultation funding was 2.5 per cent of total revenues in 2011-12 and 0.4 per cent of total revenues in 2012-13.

Consultation funding in 2012-13 as a percentage of total revenues was lower than the HAL average as shown in Figure B42.

Figure B42 **Processing Tomatoes – consultation costs as a percentage of total revenues 2012-13**



Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.12 Case study — Mushrooms

B.12.1 Sector products

The following products comprise the mushrooms sector: mushrooms.

B.12.2 Farmgate gross value of production

— The farmgate gross value of production (GVP) of the mushrooms sector in 2008-09 was estimated by industry to be \$285 million (Mushroom Annual Investment Plan July 2011-June 2012).

— The farmgate gross value of production (GVP) of the mushrooms sector in 2011-12 was estimated by industry to be \$420 million (Mushroom Annual Investment Plan July 2012-June 2013).

— The ABS stated that the GVP of the mushrooms sector was:³⁵

- \$281.5 million in 2007-08
- \$249.5 million in 2008-09
- \$281.5 million in 2009-10
- \$293.4 million in 2010-11
- \$267.0 million in 2011-12.

³⁵ ABS Catalogue 7503.0 - Value of Agricultural Commodities Produced, Australia, various years

B.12.3 Number of businesses in sector

There were 95 mushroom grower businesses in Australia in 2011-12.³⁶

B.12.4 Levies

What is the levy payable on?

The levy is payable as follows:³⁷

— Levy is payable on *Agaricus* Mushrooms produced in Australia, that are either sold by the producer or used by the producer in the production of other goods.

Purpose

The Australian Government Department of Agriculture published the following statement relating to the purpose of the levy:³⁸

A levy is payable on *Agaricus* Mushrooms to provide funding for marketing, research and development carried out via Horticulture Australia Limited (HAL). The Levies Revenue Service (LRS) receives the funds and forwards them to HAL, in addition to distributing the Australian Government's matching research and development (R&D) contributions.

Quantum

The quantum of the levy is as follows.

Table B19 **Mushrooms – levies**

Commodity	Active Rate	Unit	Marketing	Marketing Body	R&D	R&D Body	AHA	PHA	NRS	Other	Other - Body
Mushroom Levy	\$2.16	\$/kg	\$1.62	HAL	\$0.54	HAL					

Source: HAL 2013

B.12.5 Levies and voluntary contributions

The annual levies and voluntary contributions for research and development and marketing have totalled between approximately \$2.5 million and \$3.4 million for each of the financial years 2008-09 to 2012-13 as shown in Figure B43. No voluntary contributions were made in relation to marketing.

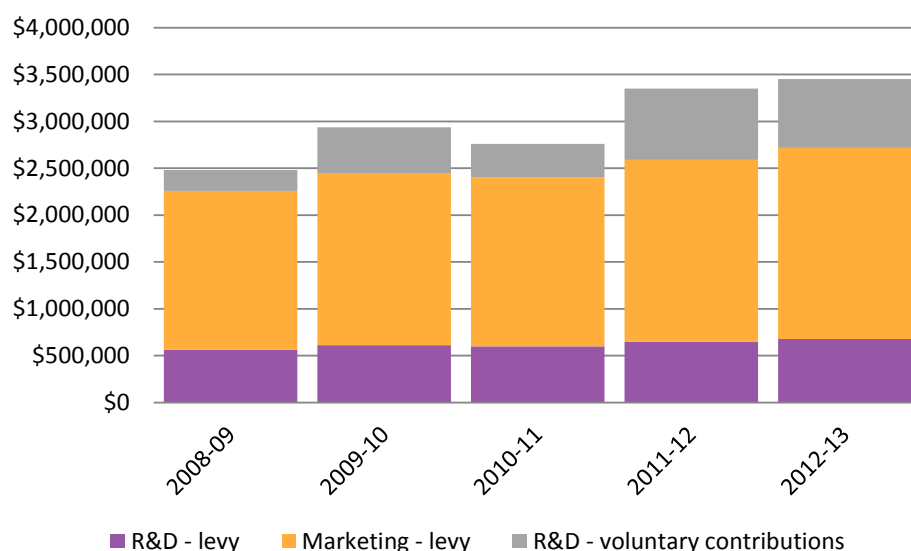
Total levy proceeds for Mushrooms have increased at an average compound rate of 4.7 per cent per annum between 2008-09 and 2012-13.

³⁶ ABS 2013, *7121.0 - Agricultural Commodities, Australia, 2011-12*, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/7121.02011-12?OpenDocument>

³⁷ Department of Agriculture, Fisheries and Forestry, *Information on Agaricus mushroom levy charge*, http://www.daff.gov.au/__data/assets/pdf_file/0003/183387/mushroom-info-sheet-sept-2011.pdf

³⁸ Department of Agriculture, Fisheries and Forestry, *Information on Agaricus mushroom levy charge*, http://www.daff.gov.au/__data/assets/pdf_file/0003/183387/mushroom-info-sheet-sept-2011.pdf

Figure B43 **Mushrooms – levies and voluntary contributions 2008-09 to 2012-13**



Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.12.6 Projects and project expenditure

The total number of mushroom projects increased between 2008-09 and 2012-13 as indicated in Table B20. The numbers of both R&D and marketing projects increased over that time period.

Table B20 **Mushrooms – number of projects 2008-09 to 2012-13**

Type of project	2008-09	2009-10	2010-11	2011-12	2012-13
R&D	46	49	49	56	74
Marketing	7	10	9	11	12

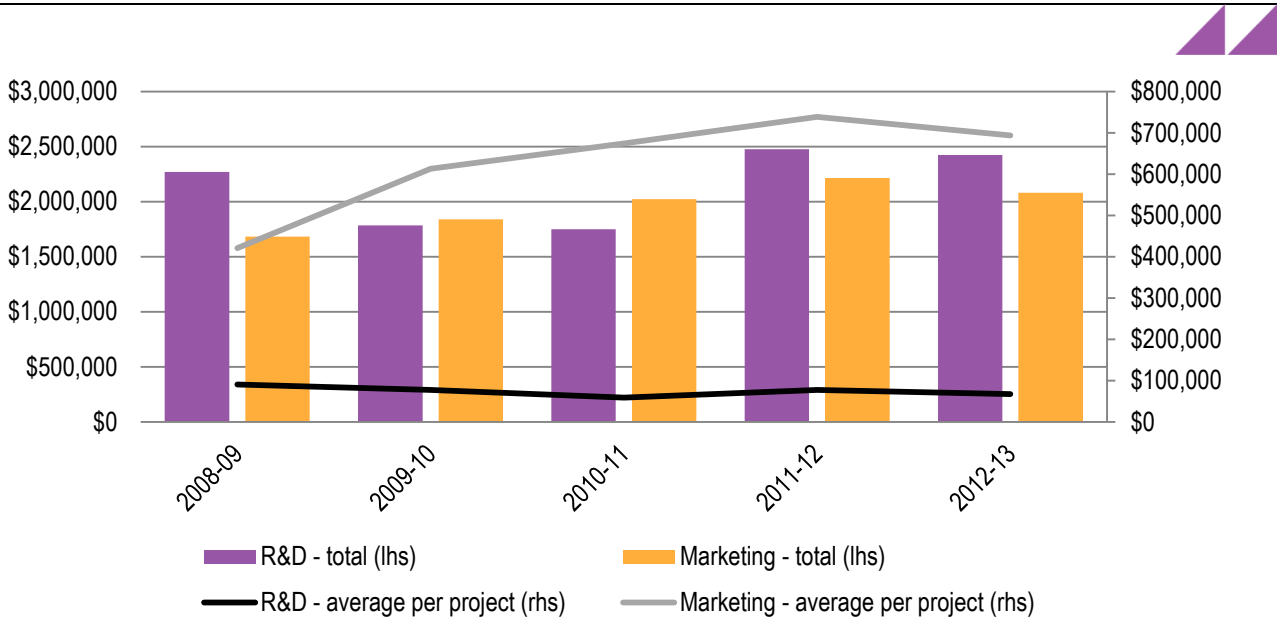
Note: The total number of projects over the 5 years is not the sum of the reported annual number of projects due to some projects continuing over multiple years.

Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

The total project expenditure on research and development for mushrooms was \$2.3 million 2008-09 and \$2.4 million in 2012-13, and varied between \$1.7 million in 2009-10 and \$2.4 million in 2011-12. The total project expenditure on marketing increased from \$1.7 million in 2008-09 to \$2.1 million in 2012-13.

Figure B44 shows how the total expenditure for projects has varied between 2008-09 and 2012-13. It also shows the average expenditure for each project over that period.

Figure B44 **Mushrooms – total project expenditure and average project expenditure 2008-09 to 2012-13**



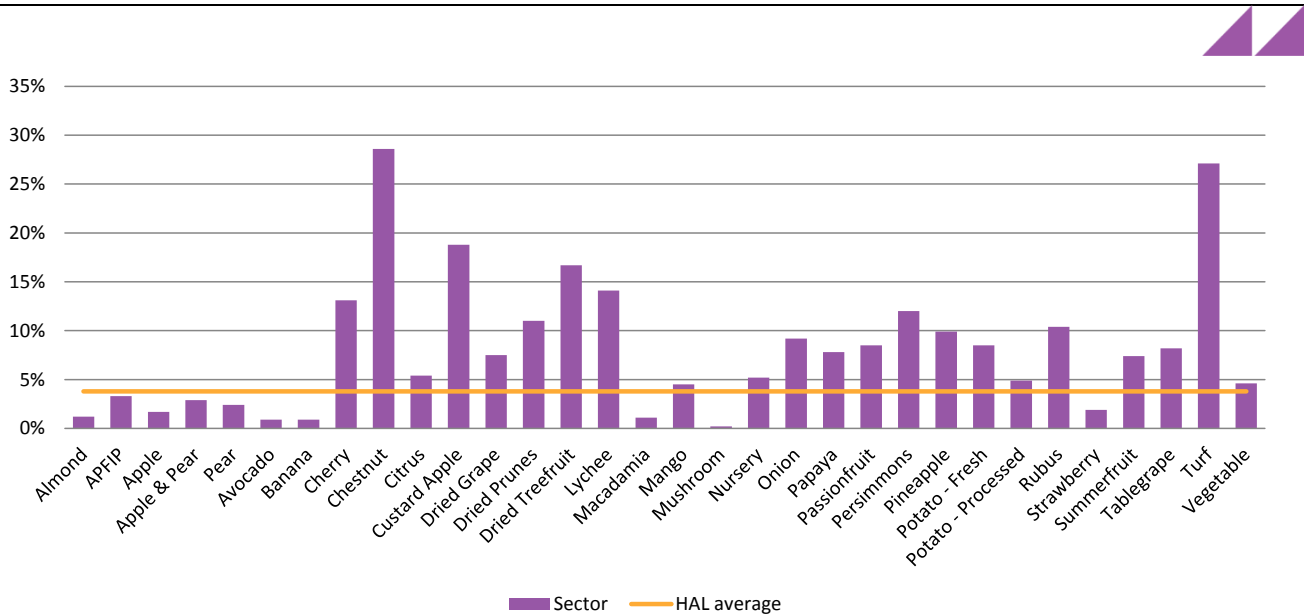
Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

B.12.7 Costs

Levy collection costs

Figure B45 below shows the cost of collecting levies as a percentage of levies collected for each sector in 2012-13 and for HAL as a whole. This figure shows that the cost of collecting levies in the mushroom sector expressed as a percentage of levies collected was lower than for HAL as a whole.

Figure B45 **Levy collection costs as a percentage of levies collected 2012-13**

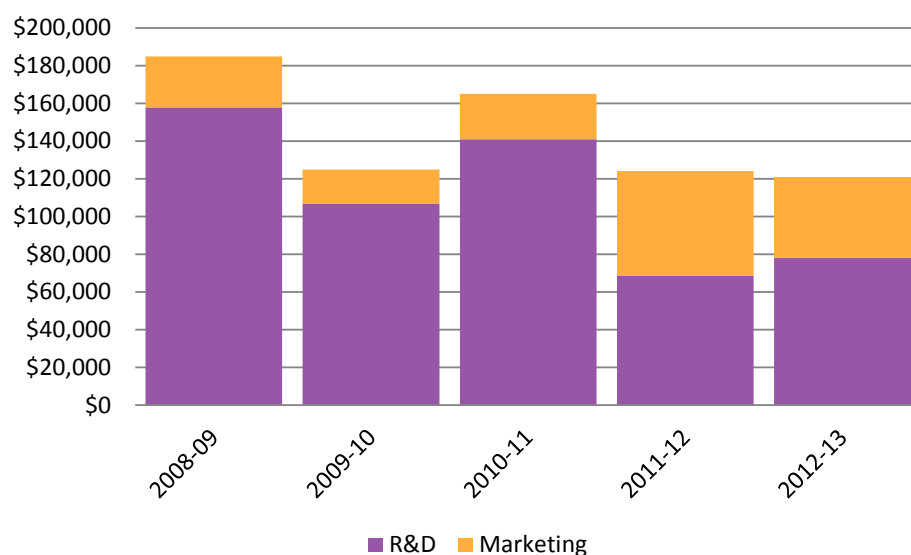


Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

Consultation costs

As shown in Figure B46, the consultation costs for research and development in the mushroom sector decreased between 2008-09 and 2012-13.

Figure B46 **Mushrooms – consultation costs 2008-09 to 2012-13**



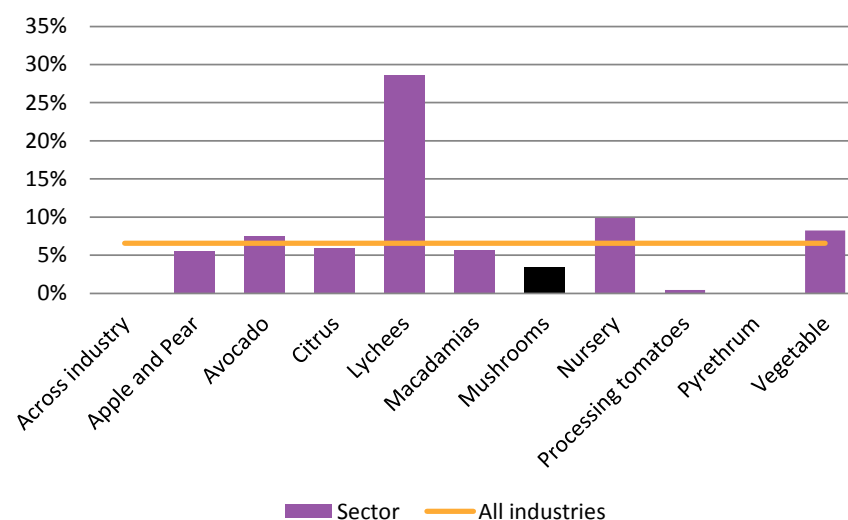
Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

Consultation funding for mushrooms as a percentage of total revenues (levies plus voluntary contributions) declined between 2008-09 and 2012-13.

— Consultation funding was 7.5 per cent of total revenues in 2008-09 and 3.5 per cent of total revenues in 2012-13.

Consultation funding in 2012-13 as a percentage of total revenues was lower than the HAL average as shown in Figure B47.

Figure B47 **Mushrooms – consultation costs as a percentage of total revenues 2012-13**



Source: ACIL Allen Consulting analysis of financial account data, Horticulture Australia Limited 2013.

Appendix C Bibliography

2013 Annual Report Deadlines

2013 HAL Annual Report SFA Requirements

Agenda- DAFF 6 Monthly Meetings 2010 - 2013

An Independent Review of the PIPS Program 2013

Background Note on OHMA & Horticulture Exports

Board Paper- Approval Process for Industry AIP's; 2010-11, 2011-12, 2012-13

Board Paper- Industry AIP's; 2009-10, 2011-12, 2012-13, 2013-14

Board Paper- Proposed Approval Process for Industry AIP's 2012-13

Board Performance Review; 2008, 2010, 2011, 2012, 2013

Board Ready Reckoner of HAL Industries 2010

Board Subcommittee Charter; Audit & Risk 2010, HR & Remuneration 2010, Investment 2012, Industry Advisory Committee

Combined Industry Strategic R&D Plans (including SF) 2011-2016

Confidentiality and Conflicts of Interest Disclosure Form for IAC

Consultation Funding Reconciliation; Apple & Pear, Avocado, Citrus, Vegetable, Lychee, Macadamia, Nursery

Correspondence between DAFF and HAL

DAFF Levies Cost Recovery Model Review- Feb 2013

DAFF Levies: Operations and Finance Report- Oct 2013

DAFF Levy Principles and Guidelines 2011

DAFF Submission into Inquiry into Review of the Citrus Industry in Australia 2013

Delegations of Authority

Draft Audit Reports 2013; Almond Board of Australia, Australian Banana Growers Council, Summerfruit Australia Limited, Turf Producers Australia Limited

E&Y Assessment of HAL Risk Framework- Dec 2011

Evaluation Final report; Almond 2011, Apple & Pear 2013, Avocado 2009, Banana 2012, Citrus 2010, Custard Apple 2012, Cherry 2010, Dried Tree Fruits 2010, Lychee 2012, Macadamia 2011, Mango 2013, Strawberry 2013, Mushroom 2011, Nursery 2009, Processed & Fresh Potato 2009, Summerfruit 2011, Table Grape 2010, Onion 2010

Expenditure by AP Account- 2008-09 - 2012-13

External Planning Calendar Diagram for Funding; 2009-10, 2010-11, 2011-12, 2012-13

Factsheet- National RD&E Project Development under the Framework

Financial Analysis-2008-09 to 2012-13

Funding of PIB Role; Banana, Rubus, Summerfruits

Future Focus: Horticulture's Outlook. Stage 1 Report 2008

Future Focus: Implementation. Stage 3 Report 2008

Future Focus: Horticulture: The Big Drivers? Part 1 Edibles 2007

Future Focus: Horticulture: The Big Drivers? Part 2 Non-edibles 2007

HAL 3 year Review 2004
 HAL 3 year Review 2008
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 HAL Deed of Agreement with Commonwealth Government 2001
 HAL Deed of Agreement with Commonwealth Government 2010-14
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 HAL Fraud Control Plan- Feb 2012
 HAL HR plan- Oct 2013
 HAL Industry Advisory Committee Annual Reports- Production Process Guide
 HAL Industry Plans Strategic Review 2011
 HAL IP Strategy Document
 HAL Marketing Services Review- April 2010
 HAL Memorandum of Understanding 2000
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 HAL Organisational Culture Inventory Debrief- April 2012
 HAL Organisational Structure- Persons; 2009, 2010, 2013
 HAL Project Expenditure- 2008-09 - 2012-13
 HAL Project Expenditure by Industry & Service Provider- 2008-09 - 2012-13
 HAL Project Expenditure by R&D Levy & VC- 2012-13
 HAL Project Policies
 HAL Project Policies for IAC
 HAL Response to Productivity Commissions Inquiry into Rural RDCs Issues Paper 2010
 HAL Review 2018 Process Guide
 HAL Review of Avocado Marketing strategy 2012- Part 1 & 1a
 HAL Risk Register; Board, Corporate Affairs, Finance, Industry Services, IT & Project Management, Marketing Services, R&D Contract Managers, R&D Portfolio Managers
 HAL Staff List
 HAL Statement of Income; 2008-09, 2009-10, 2010-11, 2011-12,2012-13
 HAL Strategic Business Plan 2005 - 2010
 HAL Strategic Plan 2010-2015
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 Income and Expenditure of Export Control
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 Summary of the NHRN RD&E Framework- June 2012
 Sunsetting dates for HMRDS legislation and levies legislation
 Timeliness of Milestone Delivery for Projects completed within Review Period
 Transformational Advisory Group- Structure from Annual Report
 Useful Acronyms for IAC
 Workflow- HAL Proposal Submission Process
 Workflow- Industry Call Proposal Assessment & Contracting Process

Attachment 2

PHASE 2: Stakeholder Engagement Report

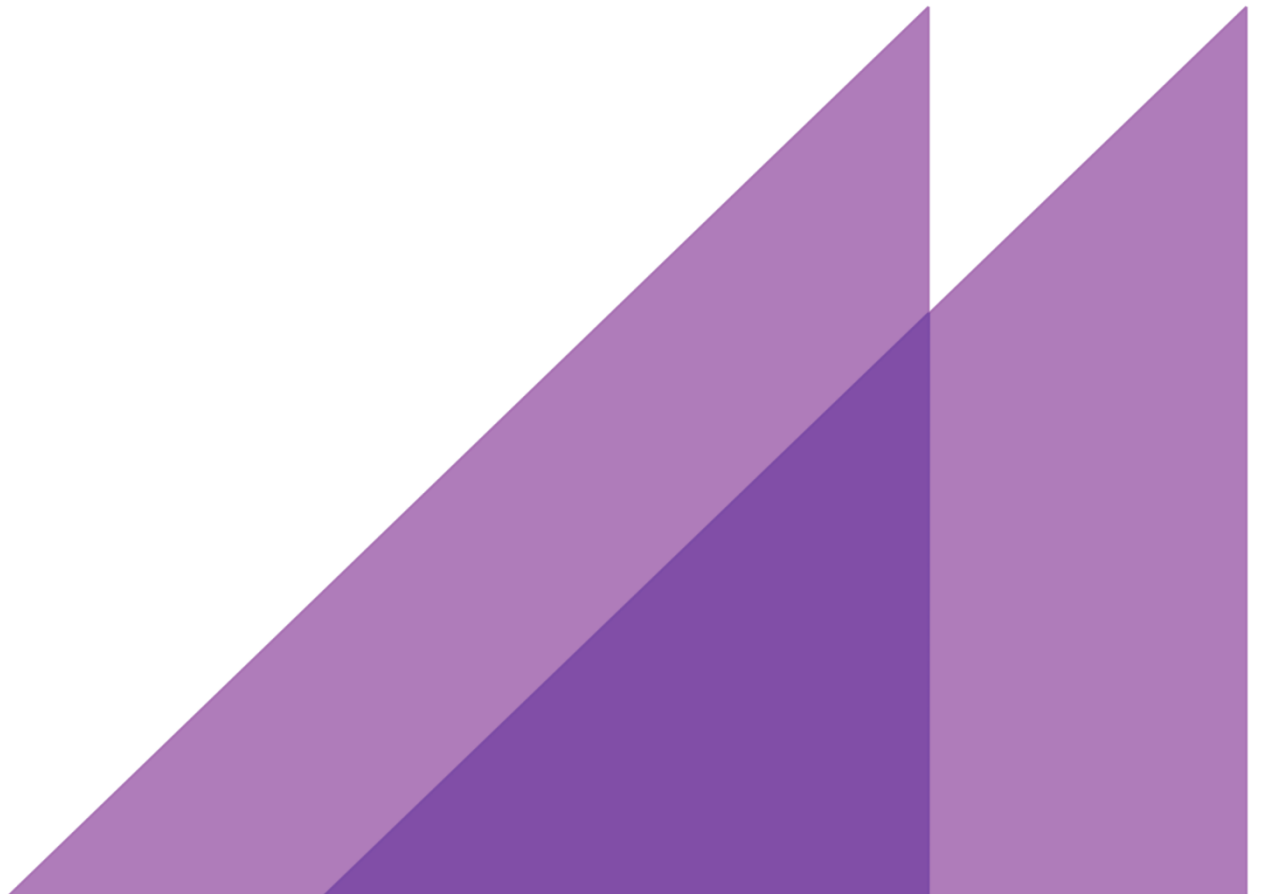
REPORT TO
HORTICULTURE AUSTRALIA LIMITED

MARCH 2014

STAKEHOLDER ENGAGEMENT REPORT



INDEPENDENT REVIEW OF
HAL AND HORTICULTURE
LEVY SYSTEM





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Key points

This section summarises the key points made by various stakeholders during the course of the consultations for phase 2 of the Independent review of Horticulture Australia Limited (HAL). A reasonable degree of consensus around some issues, but some very divergent opinions about many other important issues emerged during the consultations. This summary indicates the main areas of agreement and disagreement. The report and its attachments analyse these in depth.

The case for change

- Most stakeholders supported change in the HAL model and HAL processes where the change being offered was aimed at improving the efficiency of HAL's operations.
- No stakeholders supported 'change for change's sake'. Many stakeholders argued that change should only be made where the benefits to the industry are clearly outlined.
- All other support for change was often contingent on the level of representation given to stakeholders through the proposed changes.
- There were mixed stakeholder views about the desired purpose of HAL. Identified purposes included:
 - HAL being the strategic leader for the entire horticulture industry
 - HAL focusing on industry specific issues and supporting investment decisions to meet the need of individual sectors
 - Reducing HAL's role to a levy collection agency (with no strategic functions).

Governance

- The issue of conflicts within HAL's governance arrangements was discussed at length.
- There was general consensus that conflicts are inevitable in small industries, because there is a limited number of people willing to participate in an Industry Advisory Committee (IAC) or HAL processes. However views were divided as to whether conflicts represented a significant governance problem:
 - A selection of stakeholders (especially growers, researchers and government stakeholders viewed conflicts of interest as fundamental drivers of HAL performance problems.
 - Other stakeholders (in particular (Peak Industry Bodies (PIBs)) felt conflicts of interest were being effectively managed by HAL and, in many cases, argued that there were perceived, not actual, conflict of interest issues.
- Additionally, some stakeholders did not believe conflicts exist within HAL, nor were they an issue requiring resolution.
- There was no consensus about the appropriate ownership model for HAL. Some stakeholders sought the *status quo*, while others saw benefits in a levy payer-based ownership model.

Operations and performance

- The allocation of funding for industry specific versus cross-industry (or multi-industry) purposes was a contested issue during consultations. Perspectives were split on whether there was a need to increase funding allocated to cross-industry initiatives.
- A number of stakeholders identified a need to improve the level of operational transparency and accountability supporting the project approval process. No stakeholders argued for increased confidentiality or secrecy.
- Researchers and service providers saw benefit in improving the use of past research/projects to inform the allocation of HAL resources.
- A large number of stakeholders expressed concern about HAL's administration costs and their impact on its ability to deliver effective and targeted investments.
- One area in which HAL was regularly criticised for its performance was marketing. As a consequence, a few PIBs suggested allowing marketing funds to flow directly through to PIBs and/or the marketing service provider.
- There is wide-spread recognition amongst stakeholders about the difficulties of directly consulting with 28,000 growers and producers¹ who pay levies.
 - Some stakeholders, such as PIBs, viewed HAL's communication arrangements as appropriate for connecting with levy payers.
 - Other stakeholders, including a number of growers and non-HAL PIBs, felt there was a strong case for improving HAL's communication arrangements in the areas of:
 - › strategic and operational planning
 - › publication of research results and outcomes
 - › extension and marketing.

Levy arrangements

- Strong support for mandatory levies to be invested in R&D and marketing for horticulture was expressed.
- There was a consensus among all stakeholders that the existing arrangements for developing new and revising existing levies are overly complex, time consuming and costly. It was recognised that there is a need to reform the existing process in order to reduce complexity and cost.
- Concerns were expressed (particularly by PIBs) about high levy collection costs. In addition, the need for more transparency with respect to how levy collection costs are determined by the Department of Agriculture (the department) was identified.
- Despite the consensus upon a need for change, there was disagreement among stakeholders on how levy arrangements could be improved.

¹ The figure of 28,000 growers was raised by several of the stakeholders consulted, but different numbers were also used on occasion. One observation made by a number of stakeholders was that there was no accurate data on the number of growers in horticulture.

Options

- There was unanimous support among stakeholders for a HAL type entity. Option 5: No HAL, was not a favoured option.
- Many stakeholders (essentially PIBs), expressed support for the existing HAL model with some changes. The changes proposed were within the existing structure of HAL and were designed to improve the efficiency of HAL via:
 - changes to governance to clarify roles
 - streamlining responsibilities and activities (of IACs and PIBs)
 - changes to operations to make them more transparent (including in allocation of funding)
 - providing HAL with an administrative budget over a period of time which is not linked to overall project expenditure
 - processes encouraging increased sharing across industries and resulting in less duplication.
- Support was generally expressed for aspects of the different options outlined in the consultation paper. There was support for options which:
 - reduce duplication and increase efficiency while retaining accountability
 - increase the flexibility and ability of HAL to enhance cross-industry/like-industry/multi-industry investments
 - address perceived/actual conflict of interest issues by clarifying accountability for investment of funds in order to maximise R&D and marketing outcomes for industry.
- During the course of a performance review, stakeholder feedback is most likely to focus on the areas of an organisation's performance requiring improvement; however stakeholders did highlight areas where HAL and the existing model are performing well:
 - levy proceeds are being channelled back to those industries from which they are collected
 - HAL provides industry with a sufficient say as to where the funds are invested (PIBs' response)
 - HAL undertakes the research and development investment function well
 - HAL's overall processes and project management are thorough (this feedback however was sector dependent and also dependent upon the nature of the stakeholder)
 - HAL's interaction with the PIBs and assisting with IAC operations is effective and efficient.

Other observations from the consultation process

The early stages of the consultation process, especially in some of the public forums, were characterised by a few stakeholders being dismissive of possible options for performance improvement. Feedback received from stakeholders on options improved as the consultation period progressed. The submissions, emails and survey responses (including those from PIBs) provided more useful and constructive feedback on possible ways to improve HAL performance.

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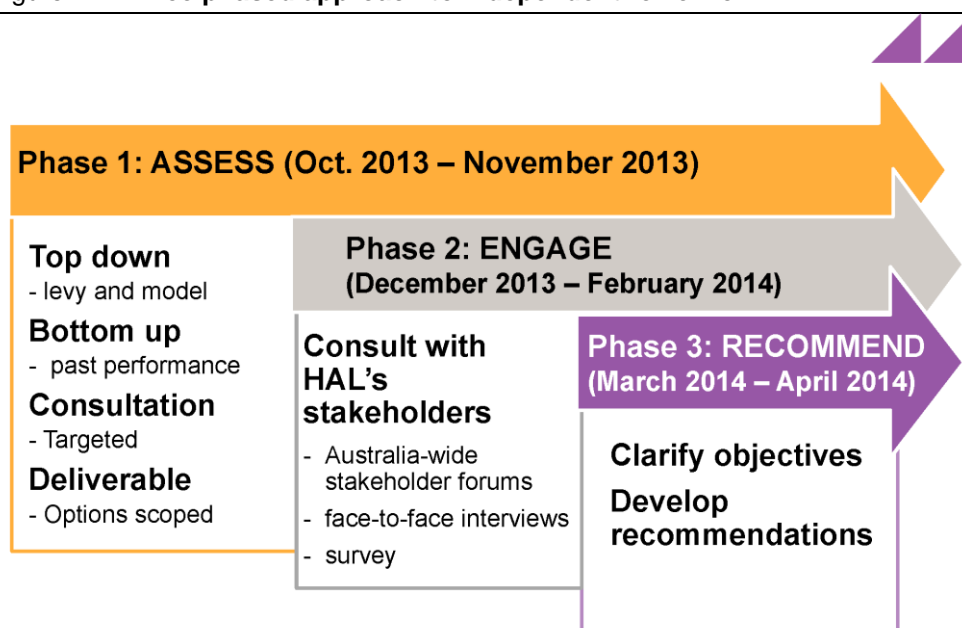
1 Introduction

1.1 Background

ACIL Allen Consulting (ACIL Allen) has been commissioned to conduct an Independent Review of Horticulture Australia Limited (HAL) and the horticulture levy system. The Independent Review also includes an examination of the HAL service delivery model and the efficiency of the levy arrangements. Levy arrangements are the basis for HAL's ownership and revenues.

Consultation with HAL's stakeholders, including the key industries it supports, is an important aspect of the Independent Review. Consultation provides a way in which information from a broad range of industry sources can be captured by the Independent Review team and integrated into its findings and recommendations. This is the second phase to the review – see Figure 1 for approach to the Independent Review.

Figure 1 **Three phased approach to Independent review of HAL**



Source: ACIL Allen Consulting 2014

The purpose of this report is to identify stakeholder perspectives captured through different consultation channels used for the review. The report maps the views of stakeholders who have participated via:

- open forums
- targeted consultation sessions
- an online survey
- written submissions.

It also maps (where relevant) the intensity of stakeholders' views about key themes of the Independent Review.

This report does not outline subsequent recommendations as a result of the consultations — recommendations will be provided in the third phase of the review.

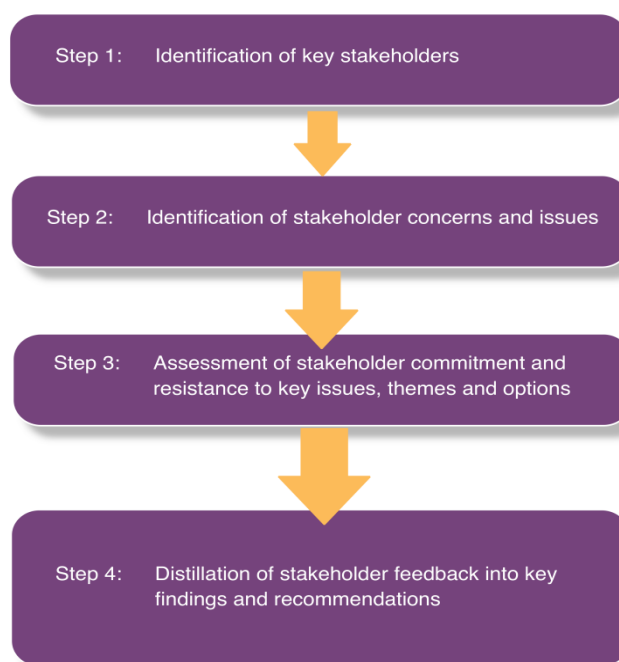
1.2 Consultation approach

The consultation findings presented in this report were shaped by themes, questions and reform options outlined in a consultation paper that was developed specifically for the Independent Review. The consultation paper was used by ACIL Allen to guide the consultation process at various forums and meetings and to provide consistency in the way stakeholders were consulted. A multi-stranded consultation approach was used by ACIL Allen to map the landscape which involved:

- development of a consultation paper – provided a frame of reference for stakeholders
- review website, hotline and email – offered a range of contact points
- media – stakeholder messages (via HAL), media releases, advertisements, media articles and radio interviews
- targeted consultations – both invited and requested
- stakeholder forums across Australia
- online survey – open to all, targeted at growers, distributed as widely as possible
- formal and informal submissions to the review – catered for different needs.

The outcomes from consultation with stakeholders using these methods were analysed through the application of 4 analytical steps – see Figure 2.

Figure 2 **Consultation steps**



Source: ACIL Allen Consulting 2014.

1.3 Report structure

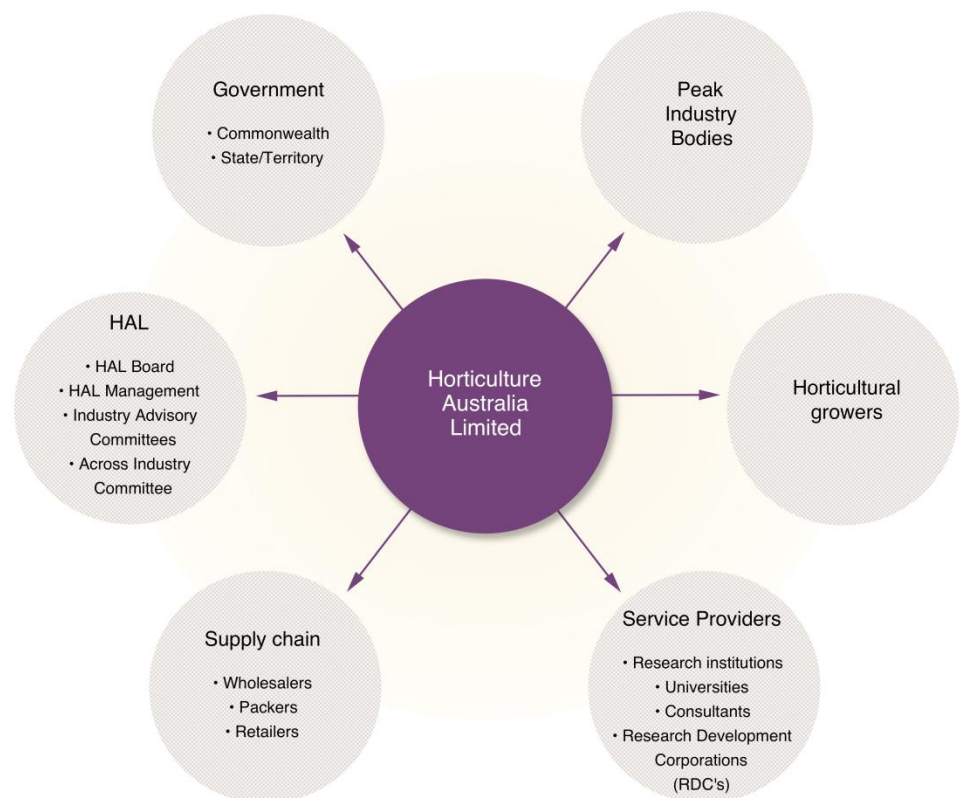
The remaining chapters of this report identify the outcomes, observations and learnings that have arisen from the consultation approach outlined directly above.

- *Chapter 2*: Identifies and describes key stakeholders who participated in the consultation process.
- *Chapter 3 – Chapter 7*: Provides analysis of stakeholder views against key themes of the Independent Review. It also identifies any other observations, insights or learnings that have arisen from the consultation process.
- *Appendix A – Appendix E*: Provide additional detail about each of the consultation methods used for phase 2.

2 Description of key stakeholders

There is a large number of stakeholders that both affect Horticulture Australia Limited's (HAL) performance (and the levy system) and are impacted by HAL's investments and activities. The main stakeholder groups are summarised in Figure 3.

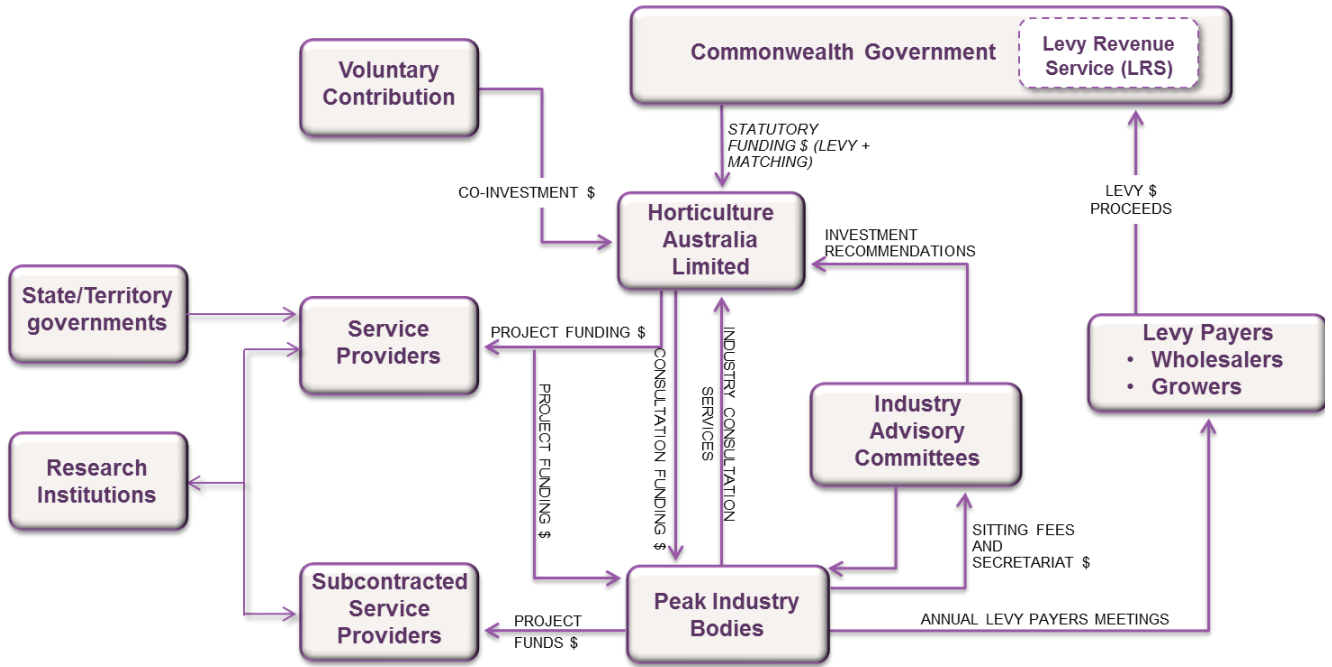
Figure 3 Major stakeholders of HAL



Source: ACIL Allen Consulting 2014.

Figure 4 depicts the relationship which HAL has with each of its main stakeholders.

Figure 4 High level depiction of relationships between HAL and its stakeholders



Note: Reference to “wholesalers” is a proxy for other stakeholders in the supply chain who are involved in levy collection and payment
 Source: ACIL Allen Consulting 2014.

A high level discussion about the roles, functions and inter-relationships between each of these stakeholder groups is provided in more detail below.

Table 1 Summary of key stakeholder roles, functions and relationships

Stakeholder	Roles and functions	Relationship to other stakeholders
HAL		
Board	<ul style="list-style-type: none"> ▪ Responsible for prioritising, deciding and overseeing the management of the Australian Horticulture Industry's investment in marketing, and R&D ▪ Board has 4 main committees/groups, which are: <ul style="list-style-type: none"> ♦ Audit & Risk Committee – Assists the Board in fulfilling its corporate governance responsibilities (e.g. risk, audit, internal controls, legal and regulatory obligations) ♦ Investment Committee – Assists the Board in providing expert advice in relation to investments in R&D, marketing, industry development, communications, extension, and transformational programs ♦ Human Resource and Remuneration Committee – Assists the Board to ensure appropriate strategies and policies in these areas ♦ Transformational Advisory Group – Reviews and filters transformational investment proposals 	<ul style="list-style-type: none"> ▪ Board ultimately responsible to Members for HAL's performance and operations ▪ Board also responsible to the Minister for Agriculture under the Funding Agreement between HAL and the Commonwealth Government
Operational divisions	<ul style="list-style-type: none"> ▪ HAL has five divisions that report to the CEO, which are: <ul style="list-style-type: none"> ♦ Industry Services Division – Liaises with PIBs and IACs to develop investment plans and programs for each member industry ♦ R&D Services – Delivers portfolio and contract management expertise for HALS's R&D investments ♦ Corporate Affairs – Is responsible for communication flows with external stakeholders and members ♦ Marketing Services – Works with industry to develop marketing plans and managers the delivery of the marketing investment program ♦ Finance and Corporate Services – Is responsible for business and organisational performance, including administration, finance and internal systems 	<ul style="list-style-type: none"> ▪ HAL divisional managers are ex-officio members of IACs and provides a conduit between HAL and IACs
Industry Advisory Committees	<ul style="list-style-type: none"> ▪ There are currently 32 IACs pursuant to HAL's Constitution. Each IAC has <ul style="list-style-type: none"> ♦ Main committee which provides the HAL Board with recommendations regarding the strategic and annual investment priorities for individual industries ♦ Range of R&D, marketing and reference group sub-committees which provide advice on operational issues ♦ Range of consultants which deliver advice to sub-committees ♦ Chairs who are independent of PIBs 	<ul style="list-style-type: none"> ▪ Secretariat services for some IACs are provided by PIBs or by HAL
Across Industry Committee (AICs)	<ul style="list-style-type: none"> ▪ Provides advice to the HAL Board on investments in all-of-industry or across-industry projects ▪ AIC comprises representatives of Members 	<ul style="list-style-type: none"> ▪ IAC and AIC membership shared
PIBs		
Members	<ul style="list-style-type: none"> ▪ Prescribed by the Commonwealth Government as those organisations who represent the interests of producers (growers and other in the supply chain) in an identifiable sector of the Horticulture Industry ▪ HAL's Constitution allows for three categories of membership: <ul style="list-style-type: none"> ♦ "A" class members – PIBs of those industries who contribute statutory levy funds to HAL (28 PIBs in 2014) ♦ "B" class members – PIBs who collect or arrange for their members to contribute voluntary levies or contributions which are paid to HAL (15 PIBs in 2014) ♦ "C" class members – Persons who pay an industry contribution, but whose main activity is not to provide services partially or wholly funded through HAL (0 PIBs in 2014) 	<ul style="list-style-type: none"> ▪ Some PIBs provide secretariat duties to IACs ▪ Some PIB members are members of IACs ▪ PIBs manage and deliver project funding allocated by IACs
Non-members	<ul style="list-style-type: none"> ▪ Represent the interests of producers (growers and others in the supply chain) in an identifiable sector of the Horticulture Industry 	<ul style="list-style-type: none"> ▪ Represent producers (grower) who may or may not pay levies to HAL

Stakeholder	Roles and functions	Relationship to other stakeholders
Research institutions and service providers		
Universities, research institutions, research consultants	<ul style="list-style-type: none"> A number of organisations provide R&D services to HAL. These include CSIRO, State Government Departments, universities, private providers and PIBs Services are delivered through IAC approved projects and programs of work 	<ul style="list-style-type: none"> Research providers deliver both HAL and PIB commissioned projects and programs
Rural research networks	<ul style="list-style-type: none"> HAL is involved in a number of rural research networks, including: <ul style="list-style-type: none"> National Horticulture Research Network Rural Industries Research and Development Corporation Australian Centre for International Agriculture Research Wine Research and Development Corporation HAL works with these (and other) research networks to improve the efficiency and effectiveness of horticultural R&D 	<ul style="list-style-type: none"> Rural research networks provide the researchers and services who deliver HAL funded R&D and extension projects. Rural research networks also shape research agendas through formal and informal advice to IACs and HAL staff
Other providers	<ul style="list-style-type: none"> A number of organisations deliver marketing and extension via HAL funded projects and programs Services are delivered through IAC approved projects and programs of work 	<ul style="list-style-type: none"> Service providers deliver both HAL and PIB commissioned projects and programs
Government		
Commonwealth Government (Department of Agriculture)	<ul style="list-style-type: none"> Administer the legislation and Funding Agreement between HAL and Government 	<ul style="list-style-type: none"> Provide matched funding for R&D and extension, but not agri-political activities
State and Territory Governments	<ul style="list-style-type: none"> Provide funding to support HAL initiatives, project and programs Provide R&D and extension services on behalf of HAL Participate in or provide input to HAL activities 	<ul style="list-style-type: none"> State and Territory Governments represented on IACs
Supply chain		
Wholesalers, packers, retailers	<ul style="list-style-type: none"> Supply chain stakeholders provide influence HAL strategies and operations through PIBs Some supply chain stakeholders collect levies on behalf of producers and growers 	<ul style="list-style-type: none"> Supply chain stakeholders represented by PIBs who may or may not be HAL members
Growers		
Producers of horticultural products	<ul style="list-style-type: none"> Bear the cost of levies (may not directly pay levies) Are the intended beneficiaries from research, development, extension and marketing Vote on levy amounts Participate in industry events (extent of participation varies considerably across industries) May or may not be members of the relevant industry PIB 	<ul style="list-style-type: none"> The people for whose benefit the HAL system is meant to operate

Source: Various public documents and websites.

3 The case for change

This chapter summarises the feedback received through various stakeholder consultation channels with respect to whether there is a case for change in HAL. It draws heavily on the feedback received through targeted consultation, stakeholder forums and the information contained within written submissions.

Additional detail relating to the information contained in this chapter is provided in the appendices to this report.

3.1 Support for change

Overall, the stakeholders who were consulted for this report displayed quite strong levels of support for changing the governance, operations and performance of HAL. However, it is important to note there were varying levels of support expressed by each stakeholder group.

A summary of the feedback gained through targeted consultation and stakeholder forums is presented in Table 2. More detailed summary information that supports this table is provided in Appendix B, Appendix C and Appendix D.

Table 2 shows that stakeholders from governments, the research community and growers displayed, on average, the highest levels of support for change. By comparison, feedback from PIBs (especially those who are HAL members) demonstrated little appetite for change without significant demonstration of the benefits arising from the proposed changes.

Table 2 **Support for change (by stakeholder group)**

Stakeholder	Level of support	Comment / observation
Commonwealth, State and Territory government	Supportive – highly supportive	Almost all government stakeholders were strongly of the view that there was a need for change
PIBs (HAL members)	Not supportive - supportive	Generally, these PIBs showed a high level of caution about changing the current HAL model
PIBs (non-HAL members)	Not supportive – highly supportive	The large majority of these PIBs expressed high levels of support for change, but this was not universal
Research institutions and researchers	Supportive - highly supportive	The large majority of researchers expressed high levels of support for change; group included some of the strongest proponents for change
Growers and producers	Supportive – not supportive	These stakeholders expressed a diversity of views which were highly contingent on the type of change being proposed (see below)

Source: Summary of feedback gained through targeted consultations and stakeholder forums.

The results shown in Table 2 are largely consistent with those from the written submissions to the Independent Review. A number of submissions were highly supportive of change, for example:

As someone who has worked in Horticulture for three years, we do need to look to making key changes to the way HAL and key industries do business for the domestic markets and for our exports...

Simon Boughey submission

The Australian horticultural sector faces significant challenges and opportunities by way of an increasingly global market and the competition that accompanies such market exposure. Whether it is dealing with competition from imports or benefiting from expanding consumer demand both locally and in South East Asia, the HAL model does not provide an environment in which individual producers can freely operate in this market.

Costa submission

We are grateful for the opportunity to provide some input to the independent review of Horticulture Australia Limited. Our reading of the Consultation Paper and our various interactions with HAL and its processes highlight a number of issues of concern which we believe need to be addressed.

CSIRO submission

A number of other submissions highlighted stakeholder apprehension about changes to the HAL model, even though they were supportive of change. For example:

The Australian Chestnut Industry... believes that for the chestnut industry and Australian Horticulture in general the HAL model is the best model for achieving a return on investment for both grower contributions and the matching Australian Government funds.

Chestnut Australia Inc submission

Fruit West appreciates the complexities HAL faces dealing with a large number of Peak Industry Bodies (PIBs), a large number of horticultural commodities and the dynamic and diverse nature of horticulture in Australia. It is important to recognise that whilst the sector overall is growing, there are a number of commodities and production regions which are consolidating.

Fruitwest submission

3.1.1 Contingent nature of support

While most stakeholders who attended targeted consultations and stakeholder forums supported change, it is important to note the contingent nature of their support. Most stakeholder support for change was contingent on whether the changes would lead to improvements in the efficiency and effectiveness of HAL. As such, no stakeholders supported the implementation of change for 'change's sake'.

All support for change was also contingent on the level of representation given to stakeholders through the proposed changes. For example, very few stakeholders were supportive of changes that impacted negatively on HAL's ability to make targeted and high quality investments within and across industries. Appendix B provides examples of the qualifications expressed by stakeholders at forums.

The following quotes, taken from written submissions, show examples of how change was articulated by some stakeholders:

PMA A-NZ is keen to see a vibrant, forward-looking and successful fresh produce industry, all of which depends on a successful and well-organised horticulture sector (the production base for the industry), which includes investment in valuable research and development (R&D).

PMA Australian and New Zealand submission

We recognise HAL operates in the context of a highly fragmented industry by a plethora (43) of peak industry bodies while being bound by specific terms of reference. Regardless of the inherent challenges associated with collaborating with such a diverse audience, operations of HAL are firmly supported by industry....

Within the context of full industry support and recognition of HAL's tireless effort, AUSVEG submits a number of structural and operational changes that we believe will make the organisation more effective in delivering its charter while also improving the efficiency and value for money from co-investment between industry and the Australian Government.

AUSVEG submission

...In saying that we also believe that there are components of the HAL model that can be improved to make the process of funding research, development, extension and marketing activities more efficient and cost effective but any improvements should come from within the model.

Hazelnut Growers of Australia Inc submission

3.2 Desired purpose of HAL

All stakeholder groups consulted for the Independent Review expressed views about the desired purpose of HAL. The nature of these views was highly contingent on the type of change being proposed, as well as stakeholder perspectives about the appropriate role of HAL as a RDC for the Horticulture Industry.

As such, the feedback received from stakeholders about the desired purpose of HAL was diverse, with no significant patterns emerging from recognised stakeholder groupings. For example, the views ranged from:

- The importance of HAL as the strategic leader for the entire Horticulture Industry. This was a view commonly expressed by researchers and service providers, state government, but not all PIBs or growers/producers.
- The need for HAL to focus on industry specific issues and support investment decisions that meet the needs of individual industries. This was a view shared by some PIBs and growers/producers.
- Reducing HAL's role to a levy collection agency (with no strategic functions) for the Horticulture Industry. This was a view expressed by some PIBs and growers/producers, but not shared by governments, researchers or other stakeholders.

The range of views on this issue is also evident from the written submissions to the Independent Review. For example, when stakeholders responded to the question of: *What do you see as the primary purpose of HAL*, the following perspectives were given:

- To receive levies, Voluntary Contributions and matching funds relative to the construct known as “Horticulture”.
- To oversee the efficient and effective investment of funds to deliver tangible benefits to levy payers and the broader industry.
- To ADD VALUE where a collective opportunity exists. That is, to deliver R&D and Marketing services those industries cannot achieve in isolation.
- To lead on agreed and identified issues that are common to the “horticulture industries” e.g. water; biosecurity and staff capacity.
- Survey results from a survey of nursery levy payers undertaken by NGIA indicated that 79 % of levy payers thought that NGIA was better placed to understand the nature of risks and opportunities within the nursery industry.

Nursery and Garden Industry Australia submission

- To receive levies, VCs and matching funds.
- To oversee the efficient and effective investment of funds.
- To add value where a collective opportunity exists. Do what industries cannot do individually in the R&D, marketing and industry data and information space.
- The current model provides accountability to levy payers through their PIB.

Custard Apples Australia Inc submission

We see two main roles for HAL:

- *Efficient investment of levy and Commonwealth funds for R&D.* The overhead costs of the current system are very high in comparison to other RDCs...
- *Strategic leadership in horticulture research.* The current HAL model means that HAL program managers have a largely administrative role in reporting and contract management. HAL needs to have the mandate to negotiate more strategic programs and play a stronger leadership role in influencing research directions.

SARDI submission

4 Governance

This chapter examines stakeholder feedback about the current governance and ownership model of HAL. It draws heavily on information collected during the stakeholder forums and targeted consultations. It also draws heavily on the information provided through formal submissions to the Independent Review and includes analysis of the online survey results.

Only the most significant themes that were identified as important to stakeholders are discussed in this chapter. Other issues are discussed in more detail in the appendices to this report.

4.1 Conflicts of interest

The issue of conflicts of interest was discussed at length during targeted consultation sessions and stakeholder forums. There was general consensus amongst stakeholders that conflicts are inevitable in small industries because there are a limited number of people willing to participate in IAC or in HAL processes. However, views were divided as to whether conflicts of interest represented a significant governance problem. The split in views was most evident in the formal submissions to the Independent Review.

The stakeholders who considered that conflicts of interest are inherent to the HAL model did not provide a consensus view as to whether conflicts represented a governance problem for HAL. For example, when asked to respond to the question: *What do you think about the existing governance arrangements*, three submissions suggested:

The potential for conflict of interest with PIBs being represented on the board is acknowledged, however, is in some senses unavoidable given that HAL exists to service its members. The members therefore should have a voice in HAL's running.

Bayer Cropscience submission

- Some of the larger PIBs seem to have too much influence over the governance of HAL and selection of HAL Board members;
- HAL Board members should be independent of the PIBs and selected for their expertise;
- The larger PIBs appear to have significant influence on expenditure and placement of projects;
- There needs to be clarification of what marketing actually represents as the lines have become blurred with respect to what is classed as marketing and what is research; and
- The HAL Board should take a strong lead on coordination of across industry projects.

Vegetables Victoria submission

We reject the notion that PIBs exercise more power in the governance of HAL than other stakeholders... Furthermore, in the case of the vegetable and potato industries, AUSVEG has a role in providing feedback to HAL on behalf of the industry, though ultimately the decisions of HAL sit with the Board and management. AUSVEG does not consider it has excessive influence over decisions made by HAL.

AUSVEG submission

Some stakeholders (such as PIBs at the Adelaide and Melbourne forums) suggested that many conflicts are the result of HAL being over governed, and more streamlined arrangements would resolve these issues. There was particular concern from these stakeholders that conflicts of interest were also important drivers of the growth in administrative processes and a one-size-fits-all approach to HAL decision making. For example, one submission noted:

There has been significant effort by HAL to increase governance procedures. At times these have dominated the process for delivering good outcomes.

Nursery and Garden Industry Australia submission.

4.1.1 Simplification of governance arrangements

For other stakeholders (such as, growers, researchers and non-HAL member PIBs), the introduction of arrangements which enforce the principles of 'good governance' were seen as important ways of improving HAL's accountability and performance. In particular, a number of stakeholders saw the implementation of streamlined governance arrangements which seek to de-conflict members of HAL's Industry Advisory Committees (IACs) and entrench their independence from PIBs as highly desirable. For example, two submissions suggested:

[HAL's governance arrangements are]... Largely excessive, heavy handed and causing unnecessary wastage of limited industry resources that in small industries are often conducted voluntarily.

Chestnuts Australia Inc submission

HAL needs to be seen as an independent assessor, allocator, and reviewer of projects funded by these matched funds. There is considerable industry disquiet, mentioned in the consultation paper, that the current Governance model does not, and is not seen to be, discharging its role in an impartial and consistent manner.

Irrigation Australia submission

4.1.2 Conflicts have no material impact on HAL's performance

There was also a selection of stakeholders (at each forum) who did not see HAL's current governance as problematic. These stakeholders (often PIBs who support IACs, as well as delivered projects on behalf of HAL) did not accept there are risks in the structure of HAL where members own, manage, and are paid to provide services using levy and matched government funding. According to one submission:

APAL notes that a lot has been done or is in place to improve the governance and independence of the key industry advisors to HAL, including:

- The appointment of PIB representatives on the IAC and its sub committees is made by HAL not the PIB. Whilst the PIB may make recommendations to HAL, HAL is free to accept or reject such nominations.
- All candidates for IAC and advisory committee roles are required to match prespecified selection criteria.
- The Chair of the apple and pear IAC is a graduate of the Australian Institute of Company Directors and, as an experienced company Director, is well versed in governance.
- HAL has recently appointed independent officers to most of the large commodity IACs. The independent officer is tasked with ensuring that governance standards are met.
- HAL has recently restructured many of the IACs to remove dominance by PIBs. In the case of the apple and pears IAC, the R&D sub-committee and the marketing subcommittee have all been "de-conflicted".
- Establishing a process for the registration of any conflicts of interest as part of the IAC and its sub-committees. In accordance with good governance principles protocols require that members with a direct conflict in relation to an investment proposal are removed from decision making.

APAL submission

These stakeholders did not think that conflicts (or the perception of conflicts) inhibited HAL's performance or its ability to effectively represent levy payers.

Independence of IACs

Many of the stakeholders consulted noted that HAL has sought to implement a number of changes to its governance arrangements which deal with the issue of conflicts. According to PIB and IAC (current and former) stakeholders, the most significant of these changes involves the separation of PIBs from HAL's governance, including the introduction of independent IAC chairs in some industries. A number of submissions noted:

In Growcom's case, there are no members of the IAC who are members of the PIB Board and this has always been the case. The IAC is totally independent of the PIB and PIB Board. The IAC is at complete liberty to select the service provider of their choice for all projects.

Growcom submission

De-confliction of the IAC from the PIB in bananas was led by ABGC before it was on HAL's radar.

Prior to the inaugural Banana IAC meeting, in November 2008, ABGC commissioned an independent consultant... to assist it with the selection process for both the Independent Chair's position and for the non-PIB positions, i.e. for both grower and wholesaler positions on both the IAC and its two sub-committees.

HAL has since endorsed ABGC's reforms with the Banana IAC. HAL has agreed to ABGC's suggested major changes to the IAC structure twice now in its five-year history: In early 2012, ABGC recommended (among other reforms) that the ABGC Board representatives be in a minority on the IAC and on both its sub-committees. Then, late last year, ABGC's recommendation to have only two Board (PIB) representatives on the seven-member IAC, was adopted. Also adopted was for the Board to appoint two of the six members on the Scientific sub-committee and two of the seven members of the Marketing sub-committee.

Australian Banana Growers' Council submission

AUSVEG contends that the influence of PIBs on decision-making within HAL's Board is minimal and appropriate.

AUSVEG submission

4.2 HAL's ownership model

A key governance theme of consultation was HAL's ownership model. For a number of stakeholders (especially, governments and growers/producers), there were misgivings about or opposition to a corporation owned by members (PIBs) and a preference for one directly owned by levy payers.

For these stakeholders, HAL's current ownership structure reinforces the needs of individual industries, over those of the broader Horticulture Industry. According to one submission:

IAL has experienced a HAL drift away from genuine cross-sectoral funding. The predominance of funding being allocated to individual PIBs weakens the strength of the industry and risks innovations being discovered in one sector, not being shared across all sectors. This trend also risks entrenching a competitive environment where each PIB seeks funding to research similar initiatives and the PIBs then setting up in competition with each other to achieve the same objectives.

Irrigation Australia submission

For a selection of stakeholders (i.e. growers), the ownership model also diminishes direct accountability to levy payers. According to these stakeholders, it is important for HAL to take on a more independent role by providing greater leadership and ultimately accountability

directly back to levy payers. A selection of government stakeholders consulted with during phase 2 thought accountability is strongest where all levy payers, and not just PIBs, are shareholders of HAL. However, this is a minority view not widely held by most stakeholders. A number of stakeholders expressed a view that the governance problem would be solved if the HAL Board were more forceful with the PIBs.²

For other stakeholders (such as PIBs) the current HAL model works to support the interests of the 43 PIBs who own HAL. For example, the ability of HAL to allocate project funding to the industries from which project funding is collected, is seen to be a significant strength of the current ownership model.

These views are supported by survey results which demonstrate a strong preference for industry specific investments (see Figure 5), and stakeholder feedback which support the current ownership model:

APAL also contends that [direct levy payer membership of HAL], while an option, the effectiveness of HAL would not necessarily be improved if levy growers themselves were to become the members of HAL rather than the peak industry bodies. Instead we could see a number of potential problems, including:

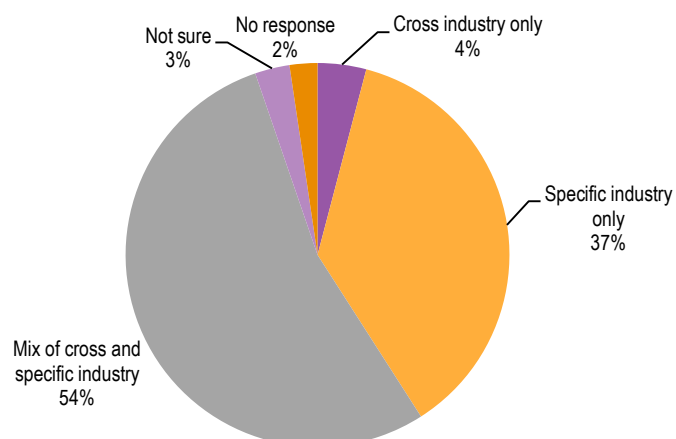
- Difficulties in seeking active (rather than passive) membership.
- It is likely that only large well-resourced corporate businesses would take membership. This in turn means that the views of the majority of small family focussed businesses would not be heard.
- It would not reduce overhead costs or remove the legitimate need for HAL to use the peak industry bodies to communicate with all levy-payers.

APAL submission

In the current model PIBs have the capacity to hold HAL to account. Should the future structure move to levy payers being the “owners” and members of HAL, there would be representative bodies who would via “proxies” be engaged with HAL just as happens in the business environment with shareholders etc.

Nursery and Garden Industry Australia submission.

Figure 5 Allocation of funding: industry specific vs. cross industry



Note: 1. n = 171. 2. Question 8. How should HAL allocate marketing and R&D funds between industry specific and cross industry projects?

Source: ACIL Allen Consulting survey 2014.

² ACIL Allen's view is that this is slightly naïve as very few Boards of corporations who are placed in this position would take a courageous stance against its owners, and risk being sacked.

Furthermore, those stakeholders who supported the current ownership model were divided on whether the number of PIB members should be rationalised, maintained or even grow. Most PIBs supported the status quo (i.e. the preservation of a 43 PIB membership structure):

There must be an effective mechanism to direct investment to meet the specific needs of each industry sector. The question should not be about the number of PIBs or HAL members, but structures and management that delivers the best outcomes for levy payers in each industry sector. There is no evidence provided that suggests the number of HAL members is limiting the effectiveness of HAL programs.

It is logical to assume that it would be more costly to manage a large number of individual industry programs than a single industry program. However, cost reduction should not be pursued at the expense of effectiveness. AAL believes that any forced amalgamation of industry sectors that does not deliver better investment outcomes for levy payers should not be pursued.

Avocados Australia submission

TFGA strongly believes that it is not the business of government, HAL, or indeed anyone else to comment on whether there are too many or too few PIBs.

Where a group of growers come together to address issues of common interest; and they choose to form an association of some type, that is their collective right. Such groupings may be local, regional, state, national, issue specific, commodity specific or by production method or style.

Tasmanian Framers and Graziers Association submission

Other stakeholders called for a significant rationalisation of PIBs:

The current number of IACS [and PIBs] (43) is unwieldy and doesn't maximise the use of resources...

SARDI submission

Effectively engaging with 43 PIBs and 32 IACs is simply inefficient and results undoubtedly in significant duplication of effort on both sides. We endorse the NHRN suggestion of fewer aggregated IACs, providing broad representation from all the affiliated industries. This rationalisation would:

- increase efficiency
- reduce duplication
- foster more transparency and objectivity in deciding on RD&E investments.

The number and complexity of industries in the current structure also make it very difficult for research providers to communicate effectively with industries individually or as a collective around priorities or contributions that research can make.

CSIRO submission

5 Operations and performance

This chapter examines stakeholder feedback about the performance and operations of HAL. It draws heavily on information collected during the stakeholder forums, analysis of formal submissions, and an online survey.

Only the most significant themes that were identified as important to stakeholders are discussed in this chapter. Other issues are discussed in more detail in the appendices to this report.

5.1 Allocation of funding

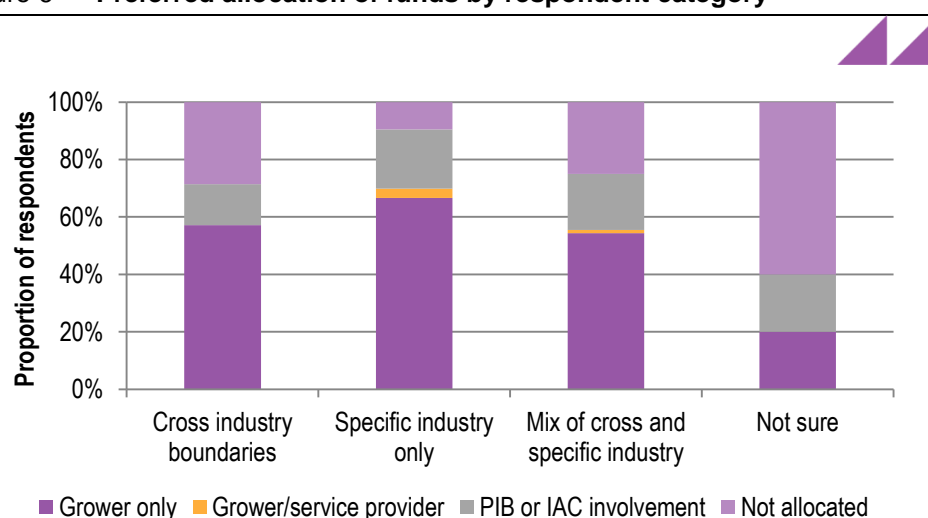
This section examines stakeholder feedback about HAL's investment activity through the allocation of funding.

5.1.1 Industry specific vs cross-industry funding

The allocation of funding for industry specific versus cross-industry (or multi-industry) purposes was a hotly contested issue during the consultation process. Perspectives were spilt on the need to increase funding allocated to cross-industry initiatives.

For example, survey results showed that of the 37 per cent of respondents who thought funding should be allocated to industry specific investments, the large majority of these respondents were growers – the breakdown of those stakeholders who responded this way are depicted in Figure 6. Similarly growers also showed high levels of support for funding marketing and R&D investments that crossed industry boundaries. By comparison, PIB respondents showed equal levels of support for allocating marketing and R&D funds between industry specific and cross industry projects.

Figure 6 Preferred allocation of funds by respondent category



Note: 1. n = 167. 2. Question 8. How should HAL allocate marketing and R&D funds between industry specific and cross industry projects? 3. Non respondents not included in this analysis.

Source: ACIL Allen Consulting survey 2014.

5.1.2 Transparency and accountability of the approval process

While also an issue of governance, a number of stakeholders identified the need to improve the level of operational transparency and accountability supporting the approval process. For example, two submissions commented:

NSW Farmers believes that there needs to be greater transparency in the approval process potentially in the form of more detailed feedback to project funding applicants. This would be in line with best practice for research advisory committees operating in Australia. The Australian Research Council (ARC) which manages the National Competitive Grants Program was subject to a performance audit in 2006 by the Australian National Audit Office (ANAO). Findings concerning the ARC's management of research grants by the ANAO are relevant to the current management practices of IACs for project funding as the ARC is considered to exhibit best practice in the area of research grant approvals.

NSW Farmers submission

Critical need for more transparency – TFGA believes there is a very strong need for more transparency around HAL's decisions and processes. The lack of such transparency often leads to suspicion and doubt, yet this need not be the case.

Tasmanian Framers and Graziers Association submission

5.1.3 Understanding of past research

A significant stakeholder issue in HAL's allocation of R&D funding was the perceived lack of understanding of the past research undertaken and its outcomes. Stakeholders at two stakeholder forums and a number of targeted consultation sessions identified that a lack of understanding about past research often led to sub-optimal allocation decisions by HAL and its IACs/AIC. According to the stakeholders who commented on the issue, this causes or results in:

- potential duplication of past research results or past projects
- poor or inappropriate scoping of research proposals/projects. Without sufficient knowledge of what research methodologies, techniques and applications have/have not worked in the past, there is potential for research to be poorly scoped and poorly executed
- insufficient use of past research results in a cross industry context. Few industries understand the implications of research undertaken and delivered in other industries, and as a consequence project funding is being allocated on a sub-optimal basis.

5.2 Costs and burden of administration

Stakeholders at all targeted consultation sessions and forums expressed concern about how much it costs to run HAL. In particular, stakeholders expressed deep concern about the level of HAL's administration costs relative to other RDCs and other corporations.

A number of explanations were offered by stakeholders for the rise in administrative burden. They include:

- HAL's funding formula which calculates administration costs as a proportion of total annual expenditure. This model was not seen by PIBs or growers (at several forums where it was raised, and in some comments to surveys) to provide sufficient incentives for constraining the administration and overhead costs of HAL.
- Lack of transparency about the way in which HAL uses funding for administration.

- Project size. For example:
 - Researchers expressed concern about the mismatch between project size and the actual costs of delivering a project. For example, a 1-year research project of \$50,000 does not cover the salary costs of a post-doc researcher.
 - Government stakeholders questioned whether 1000 small projects could be effectively monitored by HAL, and that many opportunities were being lost as a consequence.
 - Other PIBs questioned the duplication costs associated with many small projects. These PIBs felt project size was a significant factor in rising administration costs and compliance burden being placed on service providers.
- A one-size-fits all approach to project management, compliance and reporting. Many service providers consulted during phase 2 were concerned about the growing level of compliance being placed on providers, regardless of their performance and track record in delivering HAL projects/programs.

5.3 Communication with levy payers

There is wide-spread recognition amongst stakeholders about the difficulties of directly consulting with growers and producers who bear the costs of levies (it was widely recognised that in many horticultural industries growers do not directly pay the levy – however, they are the parties who bear the costs even if the levy is paid by a processor or manufacturer). Some stakeholders viewed HAL's communication arrangements as appropriate for connecting with growers and other stakeholders:

The AMS is firmly of the opinion that the current model is both the most effective and most efficient. No viable alternative has been suggested other than HAL undertaking this role. The PIB's are the organisations that have managed the establishment of the relevant industry levies in the past and undertake any reviews. The PIBs are clearly seen as the bodies accountable for the levy programs by the vast majority of levy payers (they refer to it as the AMS, AusVeg, etc levy, even at the ACIL consultation meetings) and PIBs are the only ones with credible lists of levy payers.

Australia Macadamia Society Inc submission

Consultation with levy payers should be via the Peak Industry Bodies (PIBs). This is because individual growers relate better to their own industry rather than general horticulture. Communicating via the PIBs is more efficient as it achieves the maximum effect and enhanced understanding by levy payers and/or growers. In establishing HAL it was a requirement that ALL levy payers have an avenue to voice their concerns with the direction and management of their industry - hence the Annual Levy Payers meetings. The PIB is the place for levy payers to voice their concern/s and Government/s should only countenance complaints from growers once they have failed to get satisfaction through that process. Furthermore, Governments should seek the PIB's response as to how the matter has been addressed and only then, if they feel it has not been addressed correctly make an issue of it. We should stress that there is a mechanism in place for all levy payers to be heard.

Australian Table Grape Association In submission

HAL does a good job of communication with multiple parties through written materials, the R&D Showcase events and direct communication from senior HAL staff. We have no particular concerns about communication to CSIRO.

CSIRO submission

Other stakeholders, including a number of growers and non-HAL PIBs, felt there was a strong case for improving HAL's communication arrangements:³

HAL is unable to communicate directly with levy payers as it does not have access to details of who the levy payers are unless levy payers communicate directly of their own accord. Currently all communication is through the PIB who also does not have access to all levy payer details.

Victorian growers are concerned that they are unable to communicate directly with HAL unless it is at a Levy Payer meeting however even when these meetings are advertised growers are only aware of them if they receive communication from the PIB or VGA Vic directly.

Vegetable Growers Association of Victoria submission

Communication is performed primarily through the PIBs however not all PIBs are equal in their capacity to communicate to growers across the country. Western Australian growers often feel quite isolated from their PIBs and sometimes feel that information has an Eastern States focus. State organisations can often assist with this shortfall by adding the regional feel and focus to communications but often find they are limited in capacity, funds and direct access to HAL final reports.

Fruitwest submission

Other stakeholder comments about specific aspects of HAL communications are summarised in section 5.3.1 and section 5.3.2.

5.3.1 Strategic and operational plans

Figure 7 provides survey results which identify stakeholder views about HAL's key strategy and planning documents. The figure shows that the majority of respondents view HAL and IAC planning and reporting documents to be effective mechanisms for guiding the operations and investments of the organisation.

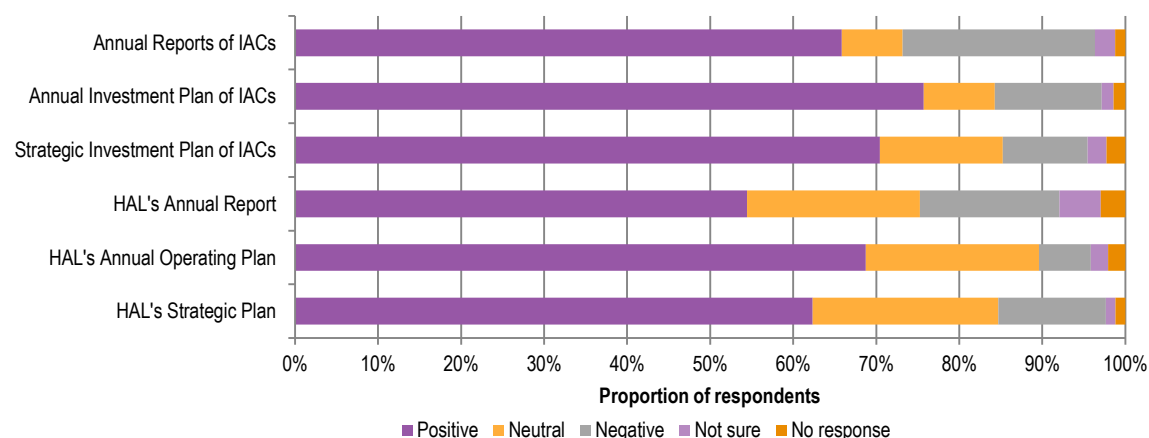
The results in Figure 7 are supported by responses to open-ended survey comments, which include:

- Reporting is generally good.
- The industry annual reports are exceptionally informative and comprehensive, and combined with the Annual levy Payers meeting provide levy payers with all information in easy to digest format. In addition, the R&D updates (e.g. farm walks, grower R&D meetings) provide the practical information for early adopters.
- It is extensive and comprehensive for those who take the time to read the reports.
- The macadamia industry's IAC, strategic investment plans & R&D programs are output not outcome focussed - i.e. we spent the funds available & produced reports rather than achieved specified outcomes that benefit growers & the industry & deliver value for money for the levy & government funds expended.

Survey respondents

³ In addition, some stakeholders went as far as to say that the communication approach from HAL's Head Office (in Sydney) was out of touch with growers.

Figure 7 Effectiveness of HAL and IAC planning and reporting documents



Note: 1. Question 6.1. To what extent do you agree that HAL's Strategic Plan effectively details strategic direction for the investment of marketing and R&D funds? [Strongly agree, Agree, Neither agree nor disagree, Disagree, Strongly disagree, Not Sure] (n = 85); Question 6.2. To what extent do you agree that HAL's Annual Operating Plan effectively details the annual expenditure required to achieve strategic outcomes? (n = 48); Question 6.3. To what extent do you agree that HAL's Annual Report effectively reports the outcomes from marketing and R&D? (n = 101); Question 6.4. To what extent do you agree that the Strategic Investment Plans of IACs effectively detail strategic direction for the investment of marketing and R&D funds? (n = 88); Question 6.5. To what extent do you agree that the Annual Investment Plans of IACs effectively detail the annual expenditure required to achieve strategic outcomes? (n = 70); Question 6.6. To what extent do you agree that the Annual Reports of IACs effectively report the outcomes from marketing and R&D? (n = 82). 2. "Positive" = Strongly agree + Agree; Neutral = Neither agree nor disagree; Negative = Disagree + Strongly disagree.

Source: ACIL Allen Consulting survey 2014.

However, during stakeholder forums a number of stakeholders expressed the view that key planning documents are not effective communication tools of HAL. These concerns were supported in some of the submissions that commented about the way HAL undertakes strategic and operational planning. For example:

We would contend that the current system is overly bureaucratic, expensive and ineffective with parochial interests that have no real expertise having far too much say in the system. Levy payers who have the expertise and are comfortable in organising their own R&D and marketing have little or no say in how their monies are spent and have little influence in having their monies directed to addressing issues that will give the best return to their businesses.

Jasper Farms submission

They are also evidenced from responses to open-ended survey comments, which include:

- The strategic plans are a mish mash of ideas without any real purpose or direction. The annual plans are ok for detailing where money will be spent though misguided by weak strategic plans. The annual reports are similarly a well prepared list of individual projects seen through the views of the service providers of those projects though does little to provide an overview of the direction of the industry.
- Generally it is of good quality however I feel that it could be simplified to appeal to a broader range of industry stakeholders.
- The HAL Strategic Plan was developed with minimal consultation with industry. Therefore, it is only an overarching generic document. Information about detailed strategies are included in the individual industry strategic plans which reflect the specific priorities for the different industry sectors. The reporting on the HAL investment generally reports on outputs rather than outcomes. This is because there has been insufficient effort to properly evaluate investment outcomes. Some industries have done more in this area than others. There has been work done on simplistic numerical BCAs, but such analysis fails to provide meaning information on the real benefits. This is a failing of HAL management, not the investment programs per se.

5.3.2 Publication of results and reporting

In a majority of the forums stakeholders suggested the current HAL model suffered from lack of performance and outcome information. Such information is seen by participants as important for building confidence in HAL's investment decisions. For example:

- In at least four forums, levy payers expressed a lack of confidence in HAL's projects and investments to deliver against strategies. Levy payers did not have confidence that investments in R&D, marketing and extension represented value for money. This is despite the presence of Cost Benefit Analyses – which were generally poorly understood by growers and producers.
- Researchers and service providers felt they do not have adequate access to past research and project outcomes. This meant that researchers were not able to effectively leverage past research to deliver more significant research outcomes to levy payers (see above). This was supported by one submission quoted in the box below.
- HAL funds research, but many research results are not made public until a researcher has it published in a journal or peer reviewed publication. This is out of touch with common approaches to research management.
- Research and research outcomes are not being communicated to growers on a consistent basis. There are many examples of research outcomes and implications being communicated inconsistently to different industries.

Box 1 (below) provides a series of quotes from stakeholders about various aspects of HAL's reporting of results and communication with stakeholders.

Box 1 Stakeholder quotes about reporting

Another area where improvements could be made is in relation to management and access to completed research reports for both levy payers and service providers – although I understand that some progress is being made in relation to this issue. In addition there is a need to provide some higher level context or mapping of research at an industry level to maximise understanding and the potential benefits of the investment for those that are not intimately familiar with the long term industry programs.

Confidential submission

No analysis on value for levy and tax payers' money and the assessment of the project outcomes against the specified contract.

Marketing reports are rarely evidence based and Rand D reports are very general with no ability I know of to get more detail. HAL is almost like a secret society and acts like it is under siege. It is very difficult to get information and right from the telephonist through are unhelpful.

HAL reporting on individual projects is out of date by the time milestones are submitted. The industry organisation (APTRC Inc.) is in close regular contact with all key contacts for individual projects relevant to the industry, hence reporting is done on a regular basis, and does not rely on the reports provided by HAL.

Survey respondents

5.3.3 Extension and marketing

Efficiency and effectiveness

In at least five stakeholder forums, participants offered broad support for improving the efficiency and effectiveness of HAL's consultation processes. This feedback was especially strong where HAL communication relates to the extension and application of R&D at the farm level. See, for example, the comment from Jasper Farms' submission quoted on page 21.

In addition, some researchers indicated that scientifically inaccurate information has been distributed by HAL. These researchers raised concerns that HAL's R&D and extension staff have on occasions disseminated information in a style and format that is too simplistic, and sometimes inaccurate or misleading. Material documentary evidence of this was provided following one forum, and a specific example was cited with supporting details at another forum.

Marketing was one area in which many stakeholders expressed dissatisfaction with the performance of HAL and the subsequent investments in this area. At the Lismore stakeholder forum it was explicitly highlighted that HAL does not perform well in terms of the marketing function. The NSW Farmers' submission also highlighted:

...a complete lack of transparency in the marketing activities of the IAC Marketing Sub-committees for the various commodities which have a marketing levy.....There is also a lack of evidence to demonstrate the return on investment for each of the various activities in the marketing program.

NSW Farmers submission

Although many submissions did not explicitly identify the performance issues of the marketing area of HAL, it was indirectly raised by stakeholders nominating an approach which would result in HAL not having a marketing function in the future:

APAL's preferred approach is for marketing funds to be passed to APAL directly or via service providers with the appropriate accountability.

Board of Apple and Pear Australia Limited submission

Finally, there was a strong level of feedback from stakeholders (who participated in forums and provided submissions) about HAL's ability to deliver extension, marketing and industry access support that is efficient and effective. For example, two submissions noted HAL's ability to deliver these services:

In the area of extension activities, it makes sense for the PIB to be the service provider so as to retain the corporate knowledge and experience in one organisation. It is our experience that extension officers have a 2-4 year average tenure. Engaging different organisations/personnel on such a regular basis would lead to unnecessary overheads, inefficiency and a reduction in the overall corporate knowledge. A PIB is also able to provide the necessary office and technical infrastructure to support the extension officer. The provision of these additional support services does not fall within the scope of the consultation agreement and can be provided by the PIB within the normal scope of its operations as a service provider.

Growcom submission

HAL already does and should continue to consult with levy payers through the relevant PIBs who have the infrastructure and networks in place to do this efficiently and effectively.

Nursery and Garden Industry Australia Ltd submission

Two other submissions, suggested:

The costs... of consultation need to be reviewed so waste is identified and efficiencies applied.

Confidential submission

The internal R&D and marketing efforts by AAL are highly questionable..... An independent review of the marketing spend also initiated through a letter to the federal Minister recommended major change because the wrong demographic was being targeted. These recent examples demonstrate, what can only be described as “the level of ineptitude” that can operate with PIBs in targeting R&D and marketing.

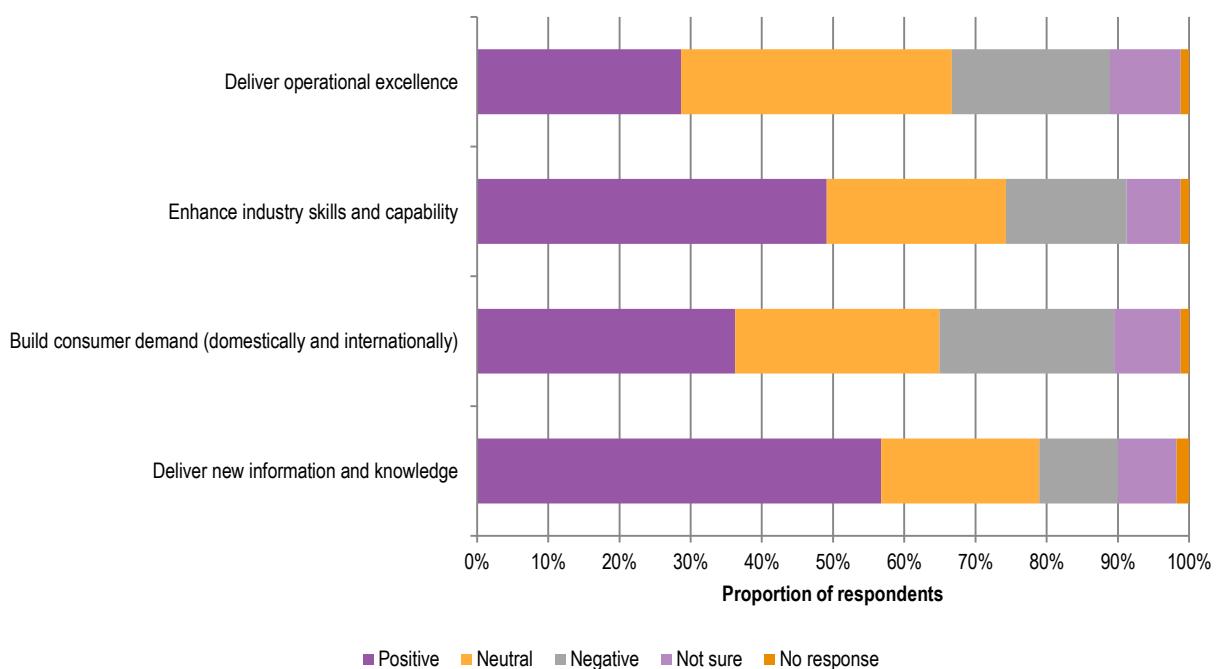
Jasper Farms submission

Alignment

Stakeholders were also asked to identify whether HAL’s extension and marketing activities were aligned with industry needs and the objectives of HAL. Figure 8 provides results from the survey about the issue of alignment. The results suggest some stakeholders view HAL’s investments in marketing and extension (such as, those in the areas of operational excellence and consumer demand) to be poorly aligned with its stated priorities.

These results provide further evidence which support stakeholder concerns about the effectiveness of HAL’s marketing and extension activities.

Figure 8 Extent to which HAL activities in R&D and marketing is aligned with HAL priorities



Note: 1. n = 171. 2. Question 13. HAL has 4 strategic priorities. To what extent do you agree that HAL’s activities in marketing and R&D have aligned with these priorities?

Source: ACIL Allen Consulting survey 2014.

6 Horticulture levies

This chapter examines stakeholder feedback about the current levy system for horticulture. It draws heavily on information collected during an analysis of formal submissions and an online survey. It also draws on feedback, to a lesser extent, from the stakeholder forums and the targeted consultations undertaken for phase 2.

Only the most significant themes that were identified as important to stakeholders are discussed in this chapter. Other issues are discussed in more detail in the appendices to this report.

6.1 Support for a 'horticultural levy'

It was clear from the phase 2 consultations that there is strong stakeholder support for the maintenance of levy arrangements for the Horticulture Industry. For example, several submissions noted:

AUSVEG strongly supports the ongoing maintenance of the levy systems and views it to be fundamental to the ongoing development and international competitiveness of the vegetable industry.

The long term investment required on an ongoing basis for an industry to remain at the forefront of competition combined with the recognised market failure that exists within the sector necessitate the continuation and support of the compulsory levy system.

AUSVEG submission

The current system of mandatory levies is fundamental to the success of the system. For example, compulsory levies mean all growers contribute to funding and prevent a "free-rider" situation and the possible under-investment that would arise.

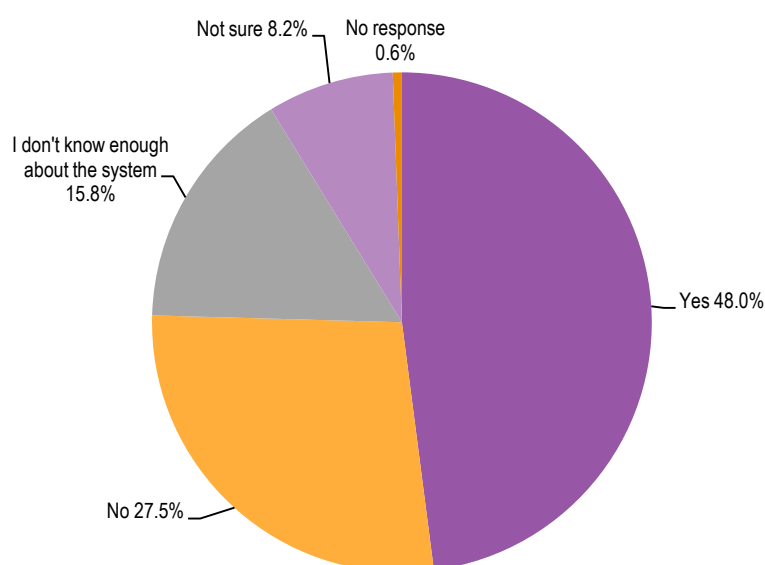
APAL submission

The failure of the voluntary system in 2000 was the reason that the statutory levy came into being in 2002....We have witnessed the widespread benefits in the industry.

SA Mushrooms submission

Support for the levy system was, to a degree, reflected in the results of the stakeholder survey. Figure 9 identifies that most respondents (48 per cent) expressed satisfaction with the current levy collection system. Nevertheless, the percentage of respondents dissatisfied with the levy arrangements (27.5 per cent) does indicate that there is a case for improving the existing arrangements.

Figure 9 Satisfaction with current system of levy collection



Note: 1. n = 171. 2. Question 10. More than 50 different HAL-related levies are collected by the Department of Agriculture. These levies vary by measurement unit and active rate. Are you satisfied with the current system of levy collection?

Source: ACIL Allen Consulting survey 2014.

There were, however, a very small number of stakeholders who called for the existing levy arrangements to be made 'voluntary'. For example, two submissions noted:

No marketing levies should be compulsory.

R&D levies should either be abolished or if they are maintained producers should have the right to interact directly with R&D service providers and organise bona fidi research themselves.

Levy payers who opt to go it alone could apply for matching funds if they choose to with a government organisation that administers matching funds.

Jasper Farms and Delory Orchards submission

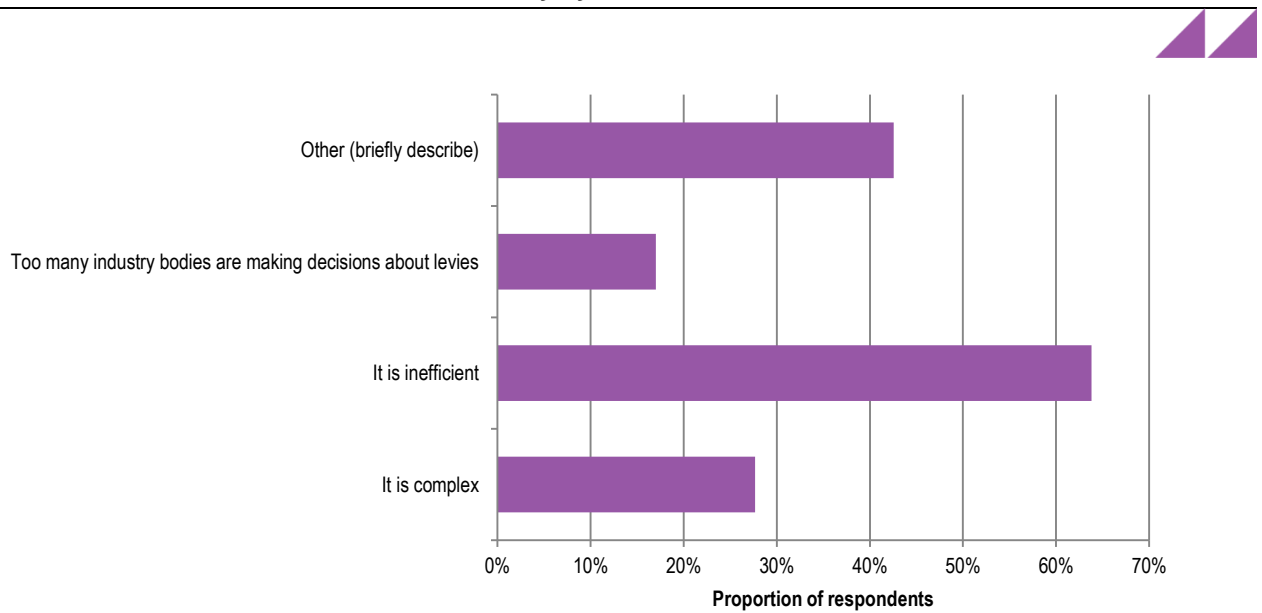
Absent any meaningful reform of the levy system as described above [proportional representation whereby voting rights are determined primarily on volume/output], all levies should revert to being voluntary.

Costa submission

6.2 Complexity of levy arrangements

There was a clear consensus among stakeholders that the existing arrangements for preparing new levy proposals or changing the levies are unnecessarily time consuming and costly for industries. This was reflected in the online survey whereby nearly 30 per cent of respondents who were dissatisfied with the existing levy arrangements responded that the levy arrangements were too complex. This feedback was also provided to the review team during the course of the stakeholder forums held across Australia (see Appendix B).

Figure 10 Causes of dissatisfaction with the levy system



Snapshot of online survey comments...

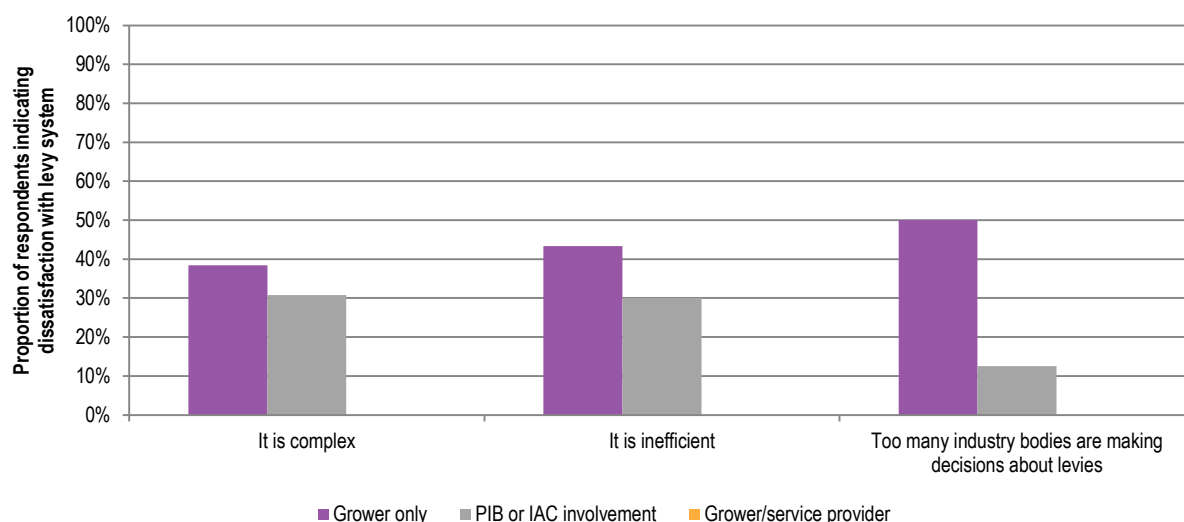
- HAL, like all other RDCs operates within the framework of the LRS and Levy system. The 11 step process is cumbersome, expensive and creates a barrier to change. We require a more flexible review mechanism that will enable us to effectively consult, manage and invest grower funds into areas of R&D and Marketing that respond to the strategic needs of our industry.
- At the packing shed rather than at a market level. Many growers deal directly with importers now and may not be paying appropriate levies. Previously growers dealt with wholesalers in the markets...now there are so many other direct supply arrangements and I'm certain the industry would be missing out on levies in a lot of these cases.
- Sometimes there is a disconnect between HAL and the department and there can be significant differences in both the value of the levy collected and in the levy collection charges that are reported to industry. HAL will not assist an industry to investigate discrepancies. The department's updates do not align well with investment planning cycle used by HAL.
- The system is too complex and should involve all sectors of the industry including retail.

Note: 1. n = 47. 2. Question 10.2. Why are you dissatisfied with the current system of levy collection?

Source: ACIL Allen Consulting survey 2014.

The survey also highlighted the reasons stakeholders are dissatisfied with the existing levy system. Figure 11 provides the reasons for this dissatisfaction by stakeholder group.

Figure 11 Reasons for dissatisfaction with current levy system



Note: 1. This question was only answered by those respondents selection "No" in Question 10. 2. Question 10.2 Why are you dissatisfied with the current system of levy collection? ["It is complex" (n = 13); "It is inefficient" (n = 30); "Too many industry bodies are making decisions about levies" (n=8).

Source: ACIL Allen Consulting survey 2014.

In highlighting the complexity and costliness of the current system for proposing and revising levy arrangements, many stakeholders (especially PIBs, growers, and researchers) recognised the importance of also changing the processes used to establish, raise and change levies within different industries. In particular, stakeholders saw considerable benefit could be derived from introducing more flexibility into these processes. For example, six submissions noted:

There is a need to change the current process of establishing, raising and changing levies. ...the twelve Levy Principles are unnecessarily complex and costly where trivial changes are sought.

Management of levy payer databases is one key area where levy arrangements could be improved.

APAL submission

...we recognise that

- Levies are difficult to change, particularly if the change is an increase; and
- Under the current levy rules, small groups of producers can readily block a change to levies.

National Horticultural Research Network submission

There is also a need to change the process for establishing, raising and changing levies. The Productivity Commission Review of Rural RDCs recommended a streamlined application of the Levy Principles and recommended that levy ratios should be more easily amended. NGIA supports these recommendations.

Nursery and Garden Industry Australia Limited submission

I think the [levy] system is clunky to say the least and there needs to be considerable discussion between HAL, DOA and industry on ways to improve the system, for example:

- Look at the collection of levies as to more effective approaches especially now as DOA are doing this on a cost recovery basis.
- Make it easier to change levies over time instead of the protracted process now. This would require legislative change too at the Federal level but has to occur but look at annual options through to CPI etc...
- Perhaps there should be single levy to cover each industry and this is matched \$ for \$ be it for Research and Development and Marketing as currently the process discriminates against Marketing.

Simon Boughey submission

DPI supports the view that efficiency and effectiveness could be improved by streamlining this process [the high number of industry bodies making decisions about levies].

NSW Department of Primary Industries submission

The ABA believes there is need for change to simplify the process of amending levies.

Almond Board of Australia submission

6.3 Efficiency of levy arrangements

Overall, the majority of stakeholders were concerned about the high levy collection costs relative to other commodities. This view was reflected in the survey responses as outlined in Figure 10 which illustrated that more than 65 per cent of respondents dissatisfied with the levy arrangements found the existing levy arrangements to be inefficient.

The issue of inefficiency was reflected in some of the online survey comments including:

- “A review should be looking at the collection system to see if change is warranted. Certainly some levies are expensive to collect and some may be out-dated. Levy collection remains the fairest way to ensure all growers contribute to the growth of their industry through projects funded by the levy and Government matched funding as well as VC contributions.”
- “HAL needs to do more work to decrease LRS costs on a number of industries. If levy collection for especially smaller horticulture industries is a problem then HAL needs to exert pressure on DAFF to make sure that any new industries have an efficient collection system.”
- “Collection and compliance is too expensive and not done well enough. Tendered to private might be a good way to go for a period, cheaper and more aggressive to get things under control and then back to government for a holding period. Too many people avoid it in some industries.”
- “The cost of collection takes a large amount of money out of R&D activities.”

Many of the submissions also reflected the relatively high costs of collections reporting:

Levy collection costs for the cherry industry are far too high – on average 10% of the levy.

Wandin Valley Farms submission

The collection of levies appears to be expensive and perhaps it is now opportune to explore new mechanisms for the collection of funds.

Despite these high collection costs, it remains impossible to obtain accurate levy statistics from the Department of Agriculture’s Revenue Levies Service. HAL is also unable to provide reliable statistics.

Confidential submission

APAL too is concerned about the comparatively high levy collection costs for horticulture compared with other commodities....However, whilst the complexity of the levy system adds to the burden, it is the number of collection points and compliance behaviour that primarily determines levy collection costs.

APAL submission

While acknowledging the inefficiency of some of the levies, some stakeholders also noted that the inefficiency of the levy arrangements is an issue for PIBs to address and that the new activity based costing system introduced by the department will highlight the issue to the relevant PIBs:

The Australian Macadamia Society Limited believes that the recent move to full cost recovery will apply pricing signals to address these cases or these industries may need to consider the voluntary contribution model.

Australian Macadamia Society Inc submission

For some industries they are [efficient], for others not. This usually depends on appropriate points in the supply chain. However this is an issue for the PIB to address. There is no evidence that a one size fits all solution would be more efficient and it would almost certainly be unable to be implemented.

The efficiency of levy collection in the table grape industry can be improved. Collection costs imposed by Levies Revenue service is too high and support from LRS to a more cost efficient method would be welcome.

Australian Table Grape Association Incorporated submission

6.4 Transparency of levy arrangements

From the stakeholder forums and submissions, it is clear that in effect all⁴ stakeholders are seeking greater transparency in how levy costs are calculated and determined. This issue has been a particular concern of stakeholders following the introduction of an activity based costing methodology for estimating collection costs by the department. These new methodologies have resulted in significant changes in the level of levy collection costs recorded against the different horticultural industries.

No [the levy arrangements are not efficient]. When LRS introduced the new cost allocation structure many large industries (who no doubt lobbied hard for the review of the previous cost structure) saw their LRS costs reduce and many smaller industries like chestnuts saw their increase significantly.

They [the department] claim that they can more accurately identify the activities undertaken and allocate costs accordingly. Detailed information has not been released to chestnuts to assist with the identification of activities that might be targeted by chestnuts to minimise levy collection costs.

Chestnuts Australia Inc submission

As the Nursery levy is on an input it is also difficult for LRS to identify potential levy payers and industry has to investigate potential areas of leakage and pass these onto LRS. It would be ideal if LRS communicated the outcomes of any investigations.

Nursery and Garden Industry Australia submission

The current system of collecting levies and the number of different levies is unwieldy and needs to be rationalised. Businesses acting as the 'first point of sale' collect levies with no reimbursement for the costs they incur.

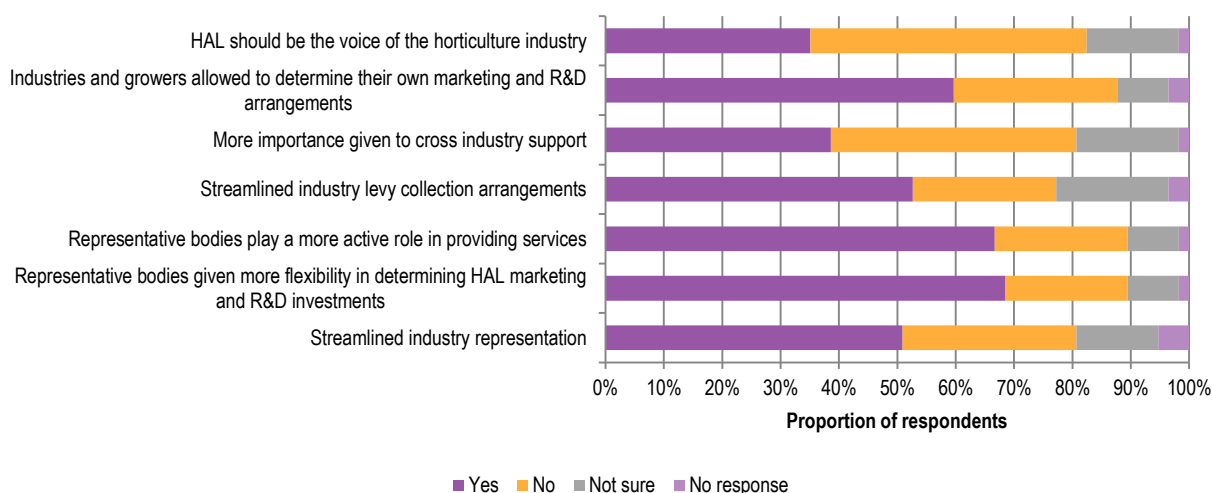
The Australian Chamber of Fruit and Vegetable Industries submission

⁴ As not every stakeholder made a comment we cannot be definite that the view was unanimous; it was, however, expressed numerous times, always to the same effect, and with supportive comments from other participants when raised at public forums.

6.5 Levy reform options

There was a consensus from stakeholders (forums and submissions) that the existing levy arrangements are complex and costly and that levy reform is required. The online survey supported this finding with more than 50 per cent of survey respondents indicating a need for change in relation to HAL specifically supporting more 'streamlined industry levy collection arrangements' – see figure below.

Figure 12 Support for change to levy arrangements



Note: 1. n = 57. 2. Question 16.1 There are a number of ways the current arrangements for HAL could change. Would you like to see any of the following changes in the future? [This question was only asked of respondents indicating the need for change in Question 16.]

Source: ACIL Allen Consulting survey 2014.

Despite the consensus that the current levy arrangements are inefficient and complex, there was a lack of agreement among stakeholders as to what reforms should be made. Some stakeholders proposed moving to a more singular uniform levy:

Maybe the levy should be tied to the value of the product return rather than the amount of trays as is the case in most fruit and vegetables. This would I think be very difficult to administer.

Chris Allan, Table Grape and Mango Grower, submission

As noted in the Consultation Paper the current system collects levies at many different rates and in many different ways. We support the NHRN [National Horticultural Research Network] suggestion of a simpler levy system across industry.

CSIRO submission

We see the current mixed model as inefficient and inequitable, and have proposed that a compulsory, uniform ad valorem levy be implemented across all horticultural sectors.

National Horticultural Research Network submission

...go to a single levy per commodity that covers:

- Research and development
- Marketing and promotion
- Plant health (as required)
- Export and trade (as required)
- Covers the HAL Corporate Cost Recovery
- Covers the LRS collection fee and
- Other aspects industry might like to include that are particular to their industry.

Look to reducing collection points and to be full electronic by 2016 across the whole of horticulture.

To take this further to go to a single levy per Industry Hub as mentioned in Question 4. So go to 10 levies only instead of the current 50 plus collected and new formulas worked out on measurement units and active rates for this to have the flexibility to be changed on an annual review linked to investment strategies and plans.

Simon Boughey submission

The current systems collect levies at many different rates and in many different ways. It would seem preferable to collect a levy at the same rate across all industries. However, any change to the levy collection system will require significant planning and negotiation.

The current systems appear to be inefficient with a large number of committees overseeing the investment and management of the 50 levies in place for horticulture. A simpler system with fewer IACs recommending the investment of larger amounts of money, would appear to be more efficient.

SARDI submission

On the other hand, other stakeholders (mainly PIBs) strongly opposed moving towards a singular more uniform levy:

The method of levy collection is an Industry decision as they are the ones paying for it.

A uniform levy collection system is out of the question as the cost to the strawberry industry with a perfect 100% collection rate is inexpensive. It is collected from the 4 runner growers (plans sold to growers at the rate of \$8 per 1,000) – is simple, clear and with a guaranteed income stream, and no change is sought or warranted.

- a. Nothing could be more efficient and lower cost to collect than the Strawberry levy.
- b. Possibly make it easier to –
 - i) Alter the levy split between R&D and Marketing; what we really want is just one levy that can be used, at the PIB's discretion, for R&D and/or Marketing
 - ii) Change the levy amount collected by a democratic vote of levy paying growers, and;
 - iii) If the levy collection process is changed – Strawberries Australia will actively oppose this move.

Strawberries Australia Inc submission

The current system where individual industries set individual levies, rates and collections systems that best suit their industry is the best system. No-one would advocate an all of agriculture single levy so why advocate an all of horticulture levy.

For CAA, a levy collection at first point of sale is the only feasible system but is very costly for a small industry with multiple collection points. The question is, why should it cost so much to collect this levy when most collection points are via computers!

Custard Apples Australia submission

Horticulture is complex and therefore it is understandable that there is such a wide range of collection methodologies in use, compared to other agri-industries.

That said, PMA A-NZ would welcome any review into how the levy collection system can be improved and made more cost effective.

The levy system needs to be modified so that a far higher proportion of taxpayer matching funds are directed towards agreed strategic priorities and across-industry R&D, particularly in areas such as information, biosecurity, market access, sustainability, food safety, new transformation technologies etc.

PMA Australia-New Zealand Limited submission

The suggestion of implementing a single flat rate levy for all of industry is not supported. Different commodities have different priorities in R&D and Marketing and require different levels of funding. Also, within the R&D framework, some commodities require a higher level of funding than a proposed flat levy.

The process of levy collection is expensive and poorly managed. Consideration should be given to out-sourcing the levy collection function to a private sector organisation with suitable incentives negotiated to reward both industry and the service provider for reductions in levy collection costs.

Growcom submission

There is no evidence that a one-size-fits all solution would be more efficient and it would be very difficult to implement.

Australian Banana Growers' Council Incorporated submission.

Other levy recommendations have also been made by stakeholders throughout the consultation process and include:

Costa believe that if a horticultural levy system is to remain in place, it must operate based on proportional representation whereby voting rights are determined primarily on volume/output, funds expended by an individual producer on R&D and marketing and also other key indicators, such as number of employees and geographical location.

Absent any meaningful reform of the levy system as described above, all levies should revert to being voluntary.

Costa submission

It is recommended that the various options available to reduce the extent of levy leakage and simplify the levy collection process are evaluated, and changes implemented.

The Australian Chamber of Fruit and Vegetable Industries submission

Proposals from private enterprises to collect the levies should be considered.

The current system in which individual industries set individual levies, rates and collection systems is appropriate. An all-of-agriculture levy is unworkable and the same applies to the heterogeneous horticulture levy. The current system allows for targeted effective programs.

Confidential submission

Noting that some commodities have both an R&D and marketing levy NSW Farmers believe it would be more efficient to have one commodity levy with the flexibility to split the levy according to the needs expressed in the 5 year strategic plan.

NSW Farmers submission

Levies should be based on a percentage of GVP that is subject to a rolling average reviewed annually. This would ensure a closer match between market value and also that there is some form of indexation in the system.

Dr Kevin Clayton-Greene submission

7 Options and other observations

This chapter summarises stakeholder feedback about the options for the future and the road to reform. It draws heavily on information collected during an analysis of formal submissions and an online survey. It also draws on feedback, to a lesser extent, from the stakeholder forums and the targeted consultations undertaken for phase 2.

Only the most significant themes that were identified as important to stakeholders are discussed in this chapter. Other issues are discussed in more detail in the appendices to this report.

7.1 Options

In examining the ways in which HAL can meet future challenges and maximise the value provided to the horticulture industry, the Independent Review sought to explore possible alternative models of reform during the consultations. The options proposed in ACIL Allen's consultation paper were designed to elicit feedback on the pros and cons of options, as well as identify alternative options for reform.

In some cases the early feedback from PIBs during the stakeholder forums did not engage with possible reform options or improvements which could be made to enhance HAL's performance. In fact, some PIBs were openly dismissive of all possible options, and hostile to any notion of change. An example of this feedback is highlighted by one of the PIB written submissions:

Avocados Australia does not support any of the proposed options.

Avocados Australia submission

Other stakeholders saw merit in change, but felt there was a need to merge or re-cast the options.

Moreover, stakeholders, such as growers without a direct role on an IAC or PIB, consulted during targeted meetings did not provide a consensus view about the way forward for HAL. As such clear options for reform were not expressed during these meetings.

The submissions and survey were the two consultation channels which provided much richer feedback on possible options: both in terms of proposing new options and/or explaining why retention of the *status quo* was the preferred option for the future of HAL.

7.1.1 Support for a HAL-type entity

Overall, feedback from stakeholders highlighted there was support for an entity like HAL to be maintained. As noted by a survey respondent to the NSW Farmers' survey, not having a HAL results in:

...the classic market failure outcome.

NSW Farmers submission (comment from NSW Farmers' survey respondent)

This industry support for a HAL-type entity was expressed across all channels of the consultation process regardless of stakeholder group:

- Only one submission called for producers being able to opt-out of the existing system (see Jasper Farms and Delroy Orchards submission) and called for the abolition of HAL with levy payers keeping in their own money to invest in horticulture RD&E and marketing.
- None of the targeted consultations resulted in stakeholders expressing serious support for the abolition of HAL.

7.1.2 Support for existing HAL model

Generally, PIBs who are Members of HAL did not support the options presented in the consultation paper prepared for phase 2. Most PIBs expressed support for the existing model:

While each model has inherent benefits and pitfalls, AUSVEG has formed the view that no model offers a significant enough improvement to warrant wholesale reform of HAL.

While AUSVEG recognise the existing HAL system can be more efficient, the decentralised nature of the industry is such that the other models would likely fail and not serve the long term interests of industry development.

Rather than wholesale change we have focussed our attention on reforming the existing model to make it more efficient and strengthen its leadership position within the industry.

AUSVEG submission

CAA reviewed these six options and do not support any of the options and believes the current model is preferable.

Custard Apples Australia submission

Minimal change, HAL works.

Chestnuts Australia Inc submission

In conclusion, SA Mushrooms believes the levy system has delivered significant benefits to the industry in general that have also benefitted our business. Our PIB is doing a good job of looking after levy payer interests and communicating information about levy investments. We believe levy payers get an opportunity for input into how the levy is invested.

SA Mushrooms submission

...the HAL model is the best for achieving a return on investment for both grower contributions and the matching Australian Government funds.

In saying that we also believe that there are components of the HAL model that can be improved to make the process of funding research development, extension and marketing activities more efficient and cost effective but any improvements should come from within the model.

Hazelnut Growers of Australia Inc submission

The AMS would like to propose an alternative model that highlights some of the improvements that might be possible without abandoning the successful aspects of the currently model and without the uncertainty of a completely new model.

Australia Macadamia Society submission

Several options for alternative operational model for HAL were suggested in the ACIL Allen consultation paper. None appear to offer any improvement over current system when measured against the key criteria – benefits to levy payers (growers and government).

White Prince Mushrooms submission

However despite wanting to maintain the current HAL model, many stakeholders (mainly PIBs) did suggest that reform within the existing structure and model could occur to improve the operational performance of HAL. Many of the proposed reforms at the margin focused on improving HAL processes to enhance the efficiency of the organisation. These included:

- changes to governance
- streamlining responsibilities and activities (of IACs and PIBs)
- changes to operations increased transparency (including allocation of funding)
- providing HAL with a set of administrative budgets over a period of time which are unlinked to overall project expenditure
- processes encouraging more sharing across industries and resulting in less duplication.

The following submission comments provide a flavour of the type and nature of the changes proposed by PIBs wanting the existing HAL model to remain, with the changes to occur from within this model:

Existing model with following reforms:

- Implement a permanent freeze on the establishment of any new PIB
- HAL actively encourage resource sharing initiatives amongst existing PIBs with a view to facilitating consolidation in the medium term
- Provide HAL with a set administrative budget unlinked to overall project expenditure.

AUSVEG submission

Within the existing model, more can be done to encourage greater sharing of initiatives and resources between similar industries (IE, nuts, berries, ornamentals, intensive, tropical fruits etc) and the industry SIPs must be used as the key or sole guide for levy and VC funding.

Turf Australia submission

Within the existing model, more can be done to encourage greater sharing of initiatives and resources between similar industries (IE, nuts, berries, ornamentals, intensive, tropical fruits etc) and the industry SIPs must be used as the key or sole guide for levy and VC funding.

Strawberries Australia submission

Some minimal changes to HAL's operation:

- HAL Board to take on responsibility for deciding across industry projects
- Reduction in administration fees
- Reduce duplication and repetition of projects
- Reduced project reporting requirements.

Vegetable Growers Association of Victoria submission

RABA considers the current HAL model is the most effective although improvements could be made in HAL governance and transparency.

RABA submission

- The APTRC believes the current HAL model is the most effective one, although improvements could be made in HAL governance and transparency.
- If consolidation or groups of IAC's was to occur, funds relating to individual industries would need to be placed in "silos".
- HAL could also improve the collaboration and sharing between industries.
- Support the One Voice for Horticulture concept for issues covering all Horticulture.

Australian Processing Tomato Research Council Incorporated submission

Maintain the current structure.

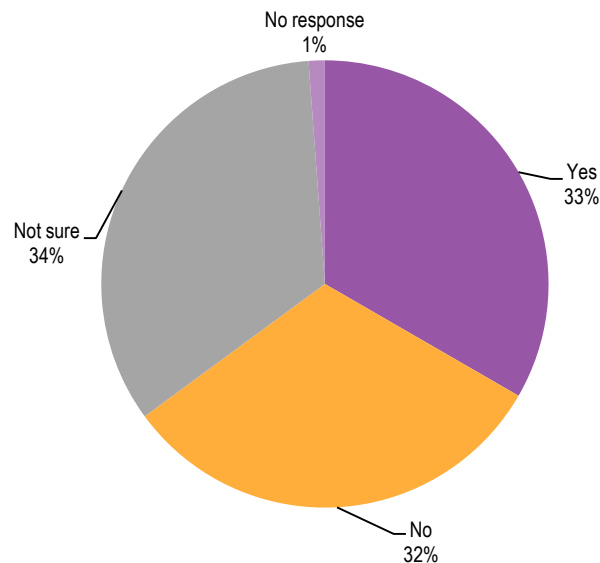
We do not agree with groupings of IACs as it reduces the input from individual crops.

Support the One Voice for Horticulture concept for issues relating to issues covering all of Horticulture.

Confidential submission

The survey results provided a different picture to the submissions and the stakeholder forums, in that more respondents (33 per cent) took the view that there was a need to change the current structure of HAL (see Figure 13).

Figure 13 **Need to change the current structure of HAL**



Note: 1. n = 171. 2. Question 16. Do you think there is any need to change the current structure of HAL?
Source: ACIL Allen Consulting survey 2014.

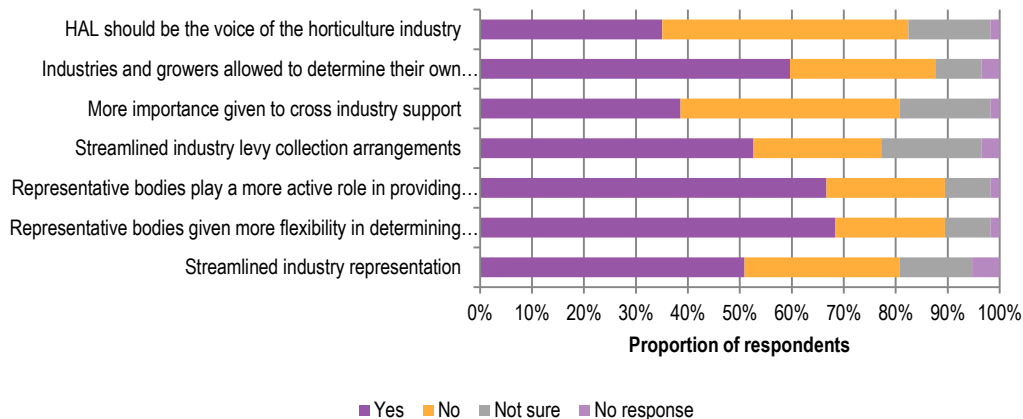
The survey was also used to test the support for changes to HAL, however it is difficult to explicitly relate the responses back to the options in the consultation paper. This was because the Independent Review team purposely did not want to limit respondents to thinking about only those alternative models listed when there are a myriad of possible reforms which could be proposed to improve the performance of HAL.

The following figure shows that stakeholders mostly support changes to HAL which will allow:

- Representative bodies to be given more flexibility in determining HAL R&D, marketing and extension investments.
- Representative bodies to play a more active role in providing services.
- Industries and growers to determine their own R&D, marketing and extension arrangements.

Some of this feedback was reflected in submissions and these aspects were often important for stakeholders expressing support for a particular option over others.

Figure 14 Support for potential changes to HAL



Note: 1. n = 57. 2. Question 16.1 There are a number of ways the current arrangements for HAL could change. Would you like to see any of the following changes in the future? [This question was only asked of respondents indicating the need for change in Question 16.]

Source: ACIL Allen Consulting survey 2014.

7.1.3 Option 1 – Streamline HAL

From the consultations, it was clear that this was a popular option (noting that for HAL member PIBs a minimal change option was the preferred option).

Some stakeholders stated that they did not support this option due to the poor prospect of merging complimentary industries. There was a regularly stated view that the strength of the HAL model is that it facilitates the involvement of many industries and this option would stifle that.

The other reason stakeholders gave was that streamlining the organisation did not address the perceived conflict of interest issue which has been raised.

ACIL Allen's Consultation Paper provides options for change. Unfortunately, they are changes to structure. ABGC notes that the management principle of 'form (structure) follows function' is relevant. For example, conflicts of interest would still be perceived if structure was changed but not governance. Similarly, if the company doesn't adequately measure success for stakeholders, it is difficult to see how a change in the company structure would address this.

ABGC suggest that corporate governance and data-based evidence, rather than structural change will deliver on the issues being considered in this Review.

Australian Bananas Growers' Council submission

All government stakeholders expressed support for reforms which deliver a significant streamlining of IAC and PIB responsibilities and activities within the HAL structure, however, when asked about how to do this, different options for achieving it were suggested.

Where stakeholders did explicitly support option 1, it was on the basis that it would reduce the costs of running and responding to HAL, and would allow the organisation to better focus on cross-industry/coincidental/like industry/multi-industry issues. Examples of the few submissions explicitly supporting option 1:

Costa supports a streamlining of Hal with a model that allows it to focus upon key issues that affect the horticulture industry nationally, including:

- Pest management such as the eradication of fruit-fly
- The enabling of greater export market access to regions such as South East Asia, especially Japan, China and South Korea
- Improving soil and water management
- Developing climate change prediction models and adaptation strategies.

Costa submission

Much of what has been covered in this submission agrees with this “streamlined HAL” option – reducing the number of organisations will reduce the level of duplication and the level of administrative overhead.

PMA Australia-New Zealand Limited submission

Bayer would support either Option 1 (Streamlined HAL) or Option 3 (Hybrid system), entailing a more limited number of PIBs, and a stronger focus on cross industry programs. Within this context, we would support the expansion of cross industry marketing and market access efforts with focus on near northern markets.

Bayer Cropscience submission

7.1.4 Option 2 – PIB autonomy

Few stakeholders expressed support for this option throughout the consultation process. Some support was expressed on the basis that option 2 provides industries with freedom and recognises the different capacities of PIBs while also highlighting that the PIB/HAL partnership would be retained.

Most comments on this option explicitly rejected this model. One main reason provided for rejecting this type of model was that smaller PIBs/industries would find full autonomy hard to live with – there was specific mention that the smaller PIBs may face higher costs. In addition, it was highlighted that there were uncertainties about how the smaller industry bodies with less extensive and complete governance controls would fare in this model. The accountability (or perceived lack of it) was the other major reason provided:

HAL would have little or no accountability to industry under this model. It essentially leads to 43 separate RDCs. There are however some elements of this model that could be incorporated into a model that recognises the different capacities of various industry bodies.

This option talks of HAL being an independent service company, authorised but not owned by government or industry. So who would own it? What governance would there be?

The AMS does not support this option.

Australian Macadamia Society Limited submission

7.1.5 Option 3 – the New Horticulture Fund

Throughout the consultation process, there was little support expressed in favour of this model. Where support was expressed, it was in relation to aspects of this model including:

- a more limited number of PIBs
- the ability to enhance cross industry marketing and market access efforts.

Some stakeholders criticised this option on the basis that it would be unfair to raise levy payments on those industries that currently had low rates and the difficulties in determining who would make decisions about investment (technocrats?) and governance (grower members?).

7.1.6 Option 4 – Hybrid model

After maintaining the *status quo* and option 1, this was the next most supported option. There were also a few submissions from PIBs in the nut sector that proposed an alternative model which provided for different levels of service. To an extent the alternative option proposed by the nut sector heavily drew upon aspects of this model.

Initially at the stakeholder forums, it was emphasised that the advantage of a hybrid type option was that it combined:

- PIB autonomy for those that had graduated in terms of proving their ability to be effective; with
- support for the remaining industries that could be serviced under the different grades of service that are variations to the old model.

A couple of submissions from research (CSIRO and SARDI) explicitly expressed support for this option but in combination with aspects of option 1 (fewer IACs). The PMA Australia-New Zealand Limited submission expressed:

This option is in line with our submission: a more streamlined HAL coupled with a contribution towards across-industry R&D. It is also our contention that matching funds from taxpayers need to be more heavily weighted towards clear strategic priorities and across-industry projects.

It was noted that issues regarding the Commonwealth matching contribution and its timing, and the nature of service agreements with HAL and the Commonwealth, were also outstanding matters that needed to be addressed before the model could be successful.

7.1.7 Option 5 – No HAL

As already indicated in section 7.1.1, there was a consensus that there was a need and value in having a HAL-type entity. This option was not supported by any stakeholder via any of the consultation channels used during phase 2.

When this 'No HAL' option was raised at one stakeholder forum, a stakeholder noted that some horticultural industries did not engage with HAL and the compulsory levy system at present. The stakeholder noted that some industries functioned with their own R&D and were typically large and independent. As such, this stakeholder saw benefit in a flexible model that allowed industries to opt-out if they chose to do so.

7.1.8 Feedback on alternative options

Few stakeholders provided feedback which resulted in options which were different from those alternatives proposed in the consultation paper. Of the few who did, the following quote summarises the alternative options raised:

The ABA joins the other PIBs in rejecting the options 1-5 and supports the alternative option of a tiered service delivery model where HAL could provide different levels of service to industries with different capacities and willingness to manage their own programs, subject to governance and other criteria including levy payer accountability, contestability etc.

Almond Board of Australia submission

The options put forward by stakeholders, which did not fall neatly under the proposed options listed in the consultation paper, often focused on improving HAL processes to enhance the efficiency of the organisation. In addition to this, some of these stakeholders' proposed options that would see the introduction of an 'ombudsman' to assist in settling disputes about strategy, investment and HAL operations.

- the implementation of a risk based accreditation for PIB's allowing those with a good track record and a less process driven management, allowing HAL to focus on the PIB's with a poor record and encourage them to meet the standards for accreditation, thereby improving the RDC model. This should be complemented with an ombudsman role to hand and follow up complaints.
- a greater focus on outcomes than process and ensure all R&D programs have an extension pathway, where appropriate look at larger programs rather than individual projects, for example industry development.
- allowing industries to manage their marketing programs.
- HAL be set a fixed three year budget rather than a percentage of funds managed.

APAL Australia Limited submission

7.2 Other observations

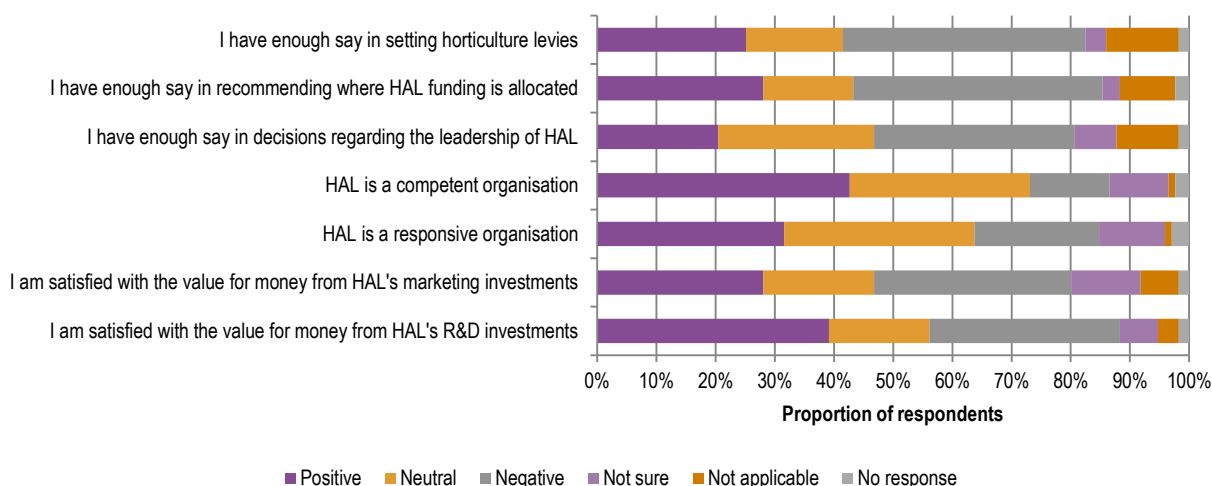
During the course of consultation a number of issues were identified by the HAL Review team. These issues relate to the way stakeholders engage with each other and HAL, and are identified as having a material impact on the way the HAL model operates. These issues are summarised below.

7.2.1 General satisfaction with HAL

It is important to note that during the course of a performance review, stakeholder feedback is most likely to focus on the areas of an organisation's performance requiring improvement. This focus naturally lends itself to a discussion about the problems, weaknesses and areas of under-performance which characterise HAL.

However, it is also important to note that during the course of the review, stakeholders did provide positive feedback on aspects of HAL's governance and operations, and the levy system. Figure 15 provides survey results which show the level of satisfaction expressed in relation to HAL's level of operational competency and its investments in R&D.

Figure 15 General satisfaction with HAL



Note: 1. n = 171. 2. Question 17. To what extent do you agree with the following statements?

Source: ACIL Allen Consulting survey 2014.

Other areas of achievement for HAL as highlighted from the consultation process:

- levy proceeds are being channelled back to those industries from which they are collected
- HAL provides industry with a sufficient say as to where the funds are invested (PIB response)
- HAL is good at the research and development investment function
- HAL's overall processes and project management are thorough (this feedback however was sector-dependent and also dependent upon the subject)
- HAL's interaction with the PIBs and assisting with IAC operations is effective and efficient.

7.2.2 The contract details of levy payers lie with PIBs not HAL

The process for inviting stakeholders to participate in the review (especially the stakeholder forums) was reliant on PIB support and cooperation. All invitations from HAL had to first pass through a PIB on its way to growers, producers and other supply chain stakeholders. This is because PIBs, and not HAL, have a mailing list that includes growers. However, many PIBs themselves noted that they did not have information about growers who were not members. In a number of horticulture industries levies were paid by middlemen (processors, packers or manufacturers).

ACIL Allen's experience in working through these arrangements was that in the early stages, some PIBs did not send out notices about the review. This made it difficult for ACIL Allen and HAL to invite individual growers and producers to stakeholder forums. It also made it difficult for ACIL Allen to verify whether the online survey was distributed to the number of growers and levy payers that were suggested by PIBs.

Nevertheless, there was a strong attempt made by HAL during February/early March to encourage PIBs to distribute the survey. A table provided by HAL showing the number of surveys distributed is located in Appendix C.

This highlights that the clear majority of levy payers had an opportunity to contribute to the review, even though only a relatively small number took advantage of the opportunity.

7.2.3 The location and setting of consultation is important to stakeholders

While only a small cross section of growers and levy payers participated in stakeholder forums, it is clear that locational factors are important in determining whether growers will turn up. Records of participation from each of the forums demonstrate a much higher level of participation from growers at locations where horticulture business usually takes place.

For example, the forums held at Costas in Melbourne and the Rocklea Markets in Brisbane received the largest turn out of growers. This compares to the forums held at research institutions which only attracted a small number of growers despite the same level of publicity that was undertaken for each form.

Appendix A Targeted consultation

A.1 Approach

The Commonwealth Department of Agriculture and all state and territory government departments of agriculture or primary industries, were provided the opportunity to consult with the HAL Review Team during phase 2. The list of departments consulted is provided in Table A1 below. Those state and territories not represented in the table, either participated at stakeholder forums or through formal submissions to the Independent Review.

Table A1 **Phase 2 consultations with governments**

Jurisdiction	Agency(s)	Number of attendees
Commonwealth	Department of Agriculture	5
NSW	Department of Primary Industries	4
VIC	Department of Environment and Primary Industries	4
NT	Department of Primary Industry and Fisheries	1

In addition, a number of consultations were undertaken directly with PIBs and other industry stakeholders at the formal request of the stakeholder. A list of stakeholders consulted for phase 2 is provided in Table A2 below.

Table A2 **Phase 2 consultations with PIBs and other stakeholders**

Stakeholder	Number of attendees
Apple and Pear Association of Australia	2
Representatives from the Potato Industry in South Australia and Victoria, and from the Cherry Industry in Tasmania (Non-Member PIBs)	9
PIBs (HAL members)	16
Growers and other representatives (multiple meetings)	8

Consultations with the stakeholders identified in Table A1 and Table A2 were held via face-to-face settings or through teleconference formats. Consultation sessions ranged from 45 minutes to more than 2 hours, depending on the number of attendees present at each meeting. Meetings followed a common format based on the themes and questions of the consultation paper developed for phase 2.

A summary of the consultation outcomes, by consultation theme, is provided in the section below.

A.2 Consultation outcomes

A.2.1 Case for change and the purpose of HAL

All stakeholders who participated in targeted consultations for phase 2 provided some level of support for change, however, there was disagreement amongst stakeholders about the degree of change that is desirable.

In addition, stakeholders expressed mixed views about what is the appropriate purpose of HAL. These views ranged from the strategic (i.e. the need for HAL to take a strategic leadership role) through to the operational (the need for HAL to focus on improving the administration of R&D, marketing and extension investments to industries).

A summary of stakeholder feedback is presented in Table A3 below.

A.2.2 Governance, performance and levies

Table A3 identifies some of the threshold issues that have been identified by stakeholders during the consultation process. There were high levels of consensus amongst Commonwealth, State and Territory governments, as well as non-HAL member PIBs, about the need to de-conflict IACs and PIBs when planning for and allocating project funding.

There was also consensus amongst PIBs about the need to improve the incentives for highly skilled and experienced industry representatives to participate in IACs. PIBs noted that participation in IACs processes often came at the expense of time that could be spent working on one's own farm and business.

With respect to the performance of HAL, all industry stakeholders were critical, to various degrees, of the technical skills and levels of industry expertise current present in HAL. They were also critical of emerging trends in the size and scope of projects being commissioned by HAL.

For PIBs there was also concern about the burden being placed on service providers and researchers for administration and reporting. Additional project administration and reporting was often at the expense of undertaking other project related activities – such as research.

Finally, there was a common concern expressed amongst all stakeholders about the inflexibility of current levy arrangements.

Table A3 Summary of stakeholder feedback through gained through targeted consultations (case for change and desired purpose of HAL)

Stakeholder	Case for change		Theme
	Level of support	Why change?	Purpose of HAL
Commonwealth, State and Territory governments	Highly supportive	<ul style="list-style-type: none"> To improve the performance of HAL and the Australian Horticulture Industry – “no change will be disastrous for the performance of Horticulture” To better meet the regional needs of industries. State and Territory Governments see a regional focus as critical to the success of agriculture and that regional capability in R&D is vital to that success Most stakeholders expressed the view that HAL focused too heavily on applied R&D, and not enough on investments that were transformational and strategic in nature 	There was a high level of consensus about the need for HAL to provide enhanced strategic leadership to the entire Horticulture Industry. All government stakeholders suggested that HAL’s dominant purpose it to deliver leadership in R&D, marketing and extension which supports regional needs. Capability and capacity development in regional areas was seen an important aspect of HAL’s future rationale.
PIBs (HAL members)	Supportive	<ul style="list-style-type: none"> To improve efficiency of HAL – in particular, reduce the burden of administration and controls being placed on PIBs and service providers To improve the technical capacities and industry knowledge within HAL 	<p>Mixed views about the purpose of HAL. Views ranged from:</p> <ul style="list-style-type: none"> The importance of HAL as the strategic leader for the entire Horticulture Industry The need for HAL to focus on industry specific issues and support investment decisions that meet the needs of individual industries Reducing HAL’s role to a levy collection agency (with no strategic functions) for the Horticulture Industry – i.e. to receive levies, Voluntary Contributions and matching funds To oversee the efficient and effective investment of R&D and marketing funds to deliver tangible benefits to levy payers and the broader industry To add value where a collective opportunity exists. That is, to deliver R&D and Marketing services those industries cannot achieve in isolation
PIBs (non-HAL members)	Highly supportive	<ul style="list-style-type: none"> To improve the governance, transparency and accountability of HAL To provide greater opportunities for grower (producer) input into HAL To improve the impact of HAL’s investments in R&D, marketing and extension at the farm level 	<p>Mixed views about the purpose of HAL. Views ranged from:</p> <ul style="list-style-type: none"> The importance of HAL as the strategic leader for the entire Horticulture Industry The need for HAL to focus on industry specific issues and support investment decisions that meet the needs of individual industries Reducing HAL’s role to a levy collection agency (with no strategic functions) for the Horticulture Industry
Growers and producers	Highly supportive	<ul style="list-style-type: none"> To improve the return on investment in R&D, marketing and extension funded from levies 	<p>Mixed views about the purpose of HAL. Views ranged from:</p> <ul style="list-style-type: none"> The importance of HAL as the strategic leader for the entire Horticulture Industry The need for HAL to focus on industry specific issues and support investment decisions that meet the needs of individual industries Reducing HAL’s role to a levy collection agency (with no strategic functions) for the Horticulture Industry – i.e. to receive levies, Voluntary Contributions and matching funds To oversee the efficient and effective investment of R&D and marketing funds to deliver tangible benefits to levy payers and the broader industry To add value where a collective opportunity exists. That is, to deliver R&D and Marketing services those industries cannot achieve in isolation

Note: Summary based on meetings

Table A4 Summary of stakeholder feedback gained through targeted consultations (governance, performance and the levy system)

Stakeholder	Stakeholder issues (by theme).		
	Governance issues	Performance issues	Levy system issues
Commonwealth, State & Territory governments	<ul style="list-style-type: none"> ▪ PIBS and IACs are heavily conflicted due to their dual role of service providers and participants in the IAC investment decision making process. These conflicts undermine confidence in HAL and discourage other service providers from participating the HAL processes ▪ HAL does not place enough emphasis on supporting cross industry research initiatives. More resources and investment activities should be focused on delivering transformational projects and outcomes which are regionally focused or multi-industry focused ▪ The strategic planning processes of IACs do not effectively support the development of investment portfolios focused on addressing regional issues. ▪ The level of transparency in HAL decision making is insufficient to give stakeholders assurance that resources are being invested efficiently and effectively 	<ul style="list-style-type: none"> ▪ The technical capabilities and industry knowledge of HAL divisional units are not insufficient to effectively support IACs through the strategic investment process. Some stakeholders have commented that some HAL industry support managers and project managers to not have the depth of understanding to ensure that the: <ul style="list-style-type: none"> ♦ Right projects are being commissioned by HAL. Some stakeholders have suggested that industry service managers do not have the depth of understanding to advise ICAs as to which projects will meet the short and longer term needs of industries ♦ Commissioned projects are being effectively executed by researchers and service providers. Some stakeholders have reported that HAL does not have the technical understanding to provide effective oversight of the research process, and deliver the flexibility and adaptability needed for managing research projects ♦ Outcomes of projects are being effectively translated and extended at the farm level. Some stakeholders have suggested that the outcomes of many research projects and their implications for industries (or across industries) are not well understood by HAL staff ▪ The size and scope of projects being commissioned by HAL are insufficient to meet the needs of industries. There was consensus amongst government stakeholders that small projects generate unnecessary duplication and administration. There was also consensus that small projects do not effectively address multi-industry challenges ▪ The publication of previously commissioned research needs to be improved so as to better capture the benefits of that research and to minimise the opportunity of duplicating past research. Government stakeholders also suggested that any steps to improve the publication of research would assist researchers to develop better and more informed research proposals/projects 	<ul style="list-style-type: none"> ▪ Improve flexibility in the way levies can be raised/changed. State and Territory governments suggested there is too much levy money being used to re-negotiate levies. The processes for making changes to existing levy arrangements is considered by these stakeholders as too cumbersome ▪ The complexity of levy collection is driving the costs of collection. Commonwealth, State and Territory governments expressed concerns that high collection costs reduce the level of resources available for R&D and other projects. This has the impact of reducing the scope, scale and the potential level of impact that can be derived from projects and investments

Stakeholder	Stakeholder issues (by theme).		
	Governance issues	Performance issues	Levy system issues
PIBs (HAL members)	<ul style="list-style-type: none"> The nature of some industries means that there is a limited pool of people who have the appropriate skills, experience and technical knowledge to fulfil positions on IACs. This means that some conflicts of interest between PIBs and IACs are inevitable, and highly unavoidable in many circumstances. In addition, the secretariat support provided by selected PIBs is a cost effective way of supporting the strategic planning and decision making of IACs PIBs were also concerned about the lack of incentives for individuals with the appropriate skills and experience to participate in IACs. PIBs expressed concerns that sitting fees do not adequately compensate experienced industry members for their time spent on IAC business PIBs expressed considerable support for PIBs to remain the representatives of levy payers as prescribed under legislation. These PIBs felt this was the best way to provide representation across a diverse range of commodities and industries under HAL 	<ul style="list-style-type: none"> PIBs have considerable industry knowledge, networks and technical capabilities. This means PIBs are sometimes best placed to deliver/manage projects – especially with respect to marketing, communication and extension activities. PIBs are therefore well paced to continue delivering projects on behalf of HAL The administration and reporting requirements being placed on service providers is seen to be a burden project delivery. Many PIBs have expressed the view that the reporting requirements for projects are not adequately tied to the size and scope of a project. They are concerned that a one-size-fits all approach to reporting is being implemented by HAL The ability of PIBs to communicate with all levy payers in a given industry is constrained by the extent to which levy payers become members of a PIB. PIBs have expressed concern that a consolidated list of levy payers is not available to PIBs. This inhibits the ability of a PIB to communicate the results of R&D and provide extension at the farm level 	<ul style="list-style-type: none"> Improve flexibility in the way levies can be raised/changed. All PIB stakeholders suggested there is too much levy money being used to re-negotiate levies. The processes for making changes to existing levy arrangements is considered by these stakeholders as too cumbersome The complexity of levy collection is driving the costs of collection. All PIB stakeholders expressed concerns that high collection costs reduce the level of resources available for R&D and other projects. This has the impact of reducing the scope, scale and the potential level of impact that can be derived from projects and investments
PIBs (non-HAL members)	<ul style="list-style-type: none"> PIBs and IACs are heavily conflicted due to their dual role of service providers and participants in the IAC investment decision making process. These conflicts undermine confidence in HAL and discourage other service providers from participating the HAL processes PIBs were also concerned about the lack of incentives for individuals with the appropriate skills and experience to participate in IACs. PIBs expressed concerns that sitting fees do not adequately compensate experienced industry members for their time spent on IAC business The level of transparency in HAL decision making is insufficient to give stakeholders assurance that resources are being invested efficiently and effectively 	<ul style="list-style-type: none"> The administration and reporting requirements being placed on service providers is seen to be a burden project delivery. Many PIBs have expressed the view that the reporting requirements for projects are not adequately tied to the size and scope of a project. They are concerned that a one-size-fits all approach to reporting is being implemented by HAL Non-PIB members have significant issues with the way HAL communicates with levy payers. Non-HAL PIBs feel levy payers who are members of no-HAL PIBs have very little opportunity to influence HAL decision making and investments in their industries 	<ul style="list-style-type: none"> Improve flexibility in the way levies can be raised/changed. All PIB stakeholders suggested there is too much levy money being used to re-negotiate levies. The processes for making changes to existing levy arrangements is considered by these stakeholders as too cumbersome The complexity of levy collection is driving the costs of collection. All PIB stakeholders expressed concerns that high collection costs reduce the level of resources available for R&D and other projects. This has the impact of reducing the scope, scale and the potential level of impact that can be derived from projects and investments
Growers and producers	<ul style="list-style-type: none"> Stakeholders are generally unsupportive of the current governance arrangements and are seeking fundamental change 	<ul style="list-style-type: none"> IACs lack the innovation and core capabilities to deliver what industries need Quality of R&D and extension is generally poor 	<ul style="list-style-type: none"> A selection of stakeholders do not support compulsory levies being collected by HAL

Note: Summary based on meetings

A.2.3 Options

Stakeholder engagement through targeted consultation highlighted considerable divergence in the future directions of HAL. All government stakeholders expressed support for reforms which deliver a significant streamlining of IAC and PIB responsibilities and activities within the HAL structure, but favoured different options for achieving it.

For example, some government stakeholders expressed the need to transition HAL from a member-owned industry corporation to a statutory company responsible to shareholder ministers. Other government stakeholders called for a significant reduction in the number of prescribed PIBs from 43 to under 10 in number. This consolidation is aimed at developing governance arrangements that better support strategic and/or, multi-industry investments in R&D, marketing and extension.

Generally, PIBs who are members of HAL did not support the options presented in the consultation paper prepared for phase 2. The options put forward by these stakeholders often focused on improving HAL processes to enhance the efficiency of the organisation. In addition to this, some of these stakeholders' preference options that would see the introduction of an 'ombudsman' to assist in settling disputes about strategy, investment and HAL operations.

For non-HAL PIBs, options which preference improvements the transparency of HAL decision making were themes of the consultation meetings.

Other stakeholders, such as growers, consulted during targeted meetings did not provide a consensus view about the way forward for HAL. As such, clear options for reform were not expressed during these meetings.

A.2.4 Other issues

The other issues raised during the consultation include:

- Concern expressed by State and Territory governments that voluntary contributions and matched funding was being used to support research activity that ultimately supported the development of research capacity in other countries. There was concern that projects with international research partners were inadvertently funding the development of research capability in other countries – especially when project funding was being used to support the salaries of researchers from overseas.
- Concern expressed by non-HAL PIBs that the mechanisms for reviewing the status of PIBs should be implemented. There is concern that without such a mechanism the current system locks out other PIBs from participating directly in HAL. These PIBs must become a member of a prescribed PIB in order to participate.
- Concern by a selection of stakeholders that the Key Performance Indicators (KPIs) for consultation are insufficient or absent. Many stakeholders identified the need to set KPIs that are appropriate for each industry and give confidence to a broad set of stakeholders that consultation funding is being efficiently and effectively used by PIBs.

Appendix B Stakeholder forums

B.1 Approach

Stakeholder forums were conducted in metropolitan and regional locations throughout Australia. Forums provided stakeholders with opportunities to deliver their views on the themes of the Consultation Paper, and any other areas seen to be important.

Forums were facilitated by a senior ACIL Allen staff member. Forums comprised of a short presentation from ACIL Allen which outlined the scope and focus of the review, and some key observations from phase 1. Participants were then provided multiple opportunities to engage in a question and answer style format for the remainder of the sessions. Forums were generally 2-3 hours in length depending on the number of participants at each session.

A summary of key details relating to each forum is provided in the table below.

Table B1 **Stakeholder forums (in order of when held)**

Location	Number of participants	Number of organisations represented *
Lismore	15	13
Bundaberg	19	18
Innisfail (morning and afternoon session combined)	12	8
Mildura	10	4
Wagga Wagga	9	7
Adelaide	13	9
Melbourne	19	16
Bunbury	11	11
Sydney	30	24
Launceston	12	10
Brisbane	19	14

Note: individual growers who attended are counted as separate organisations.

B.2 Consultation outcomes

B.2.1 Case for change and the purpose of HAL

There was wide-spread support for change from most participants who attended stakeholder forums. A large majority of participants supported change in the HAL model and HAL processes, where the change being offered was aimed at improving the efficiency of HAL's operations.

All other support for change was often contingent on the level of representation given to stakeholders through the proposed changes. For example, very few stakeholders were supportive of changes that impacted negatively on HAL's ability to make targeted and high quality investments within and across industries.

With these qualifications in mind, a high level summary of the stakeholder support for change expressed at workshops is provide in Table B2.

By comparison, there was considerable diversity in the views expressed by stakeholders at workshops about the desired purpose of HAL. For example, views about the purpose of HAL ranged from:

- The importance of HAL as the strategic leader for the entire Horticulture Industry. This was a view commonly expressed by researchers and service providers, state government, but not all PIBs not growers/producers.
- The need for HAL to focus on industry specific issues and support investment decisions that meet the needs of individual industries. This was a view shared by some PIBs and growers/producers, but not all of them.
- Reducing HAL's role to a levy collection agency (with no strategic functions) for the Horticulture Industry. This was a view expressed by some PIBs and growers/producers, but not shared by governments, researchers or other stakeholders.

B.2.2 Governance

The issue of conflicts within the HAL model of governance was discussed at length at all stakeholder forums. There was general consensus amongst the participants of forums that conflicts are inevitable in small industries, because there is a limited number of people willing to participate in an IAC or in HAL processes, however views were divided as to whether conflicts represented a significant governance problem.

The stakeholders who understood that conflicts of interest are inherent to the HAL model did not provide a consensus view as to whether conflicts represented a governance problem for HAL. Some stakeholders (such as PIBs at the Adelaide and Melbourne forums) suggested that many conflicts are result of HAL being over governed, and more streamlined arrangements would resolve these issues. For other stakeholders (such as, growers, researchers and non-HAL member PIBs) greater levy payer representation and more independent IAC members were seen as important ways of improving HAL's governance arrangements.

There was also a selection of stakeholders at each stakeholder forum who did not see HAL's current governance as problematic. These stakeholders (often PIBs who support IACs, as well as delivered projects on behalf of HAL) did not accept there are risks in the structure of HAL where members own, manage, and are paid to provide services using levy and matched government funding.

B.2.3 Performance

All matters of HAL's performance were discussed at stakeholder workshops. There was general consensus that any changes to the HAL model or HAL processes which improved its efficiency and effectiveness would be welcomed by stakeholders. However, there was little consensus as to the degree of the problems facing HAL.

Within this context, the following issues were identified as important to stakeholders:

- The scale and scope of projects received considerable attention at a majority of the stakeholder forums.
 - Most participants expressed views that HAL commissions too many projects on an annual basis. These participants believed that benefits could be derived from taking a more strategic approach to projects by commissioning more grouped projects that are multi-disciplinary (for example, cross industry research on fruit fly).

- The majority of researchers thought the scale and scope of many HAL projects was not sufficiently large to address the emergent needs of industries and deliver outcomes that transformational. For example, some basic research projects did not cover the salary costs of a researcher.
 - The sheer volume of projects commissioned each year was seen by many researchers, service providers, growers and non-HAL member PIBs to be driving the costs of delivering R&D, marketing and extension programs.
- Consultation with levy payers was also a significant theme of forums.
- In at least 5 stakeholder forums participants offered broad support to improving the efficiency and effectiveness of HAL’s consultation processes. Many growers would like to see improvements in the way project outcomes are translated to levy payers.
 - In all stakeholder forums HAL member-PIBs felt that consultation with levy payers was most effectively managed by PIBs with the resources and capabilities to deliver communication.
 - Researchers, governments and growers who participated at forums would like to see improvements in the way HAL selects projects. These stakeholders are seeking great consultation to ensure that the projects which are funded meet the local, regional and national needs of industries and Horticulture.
- There is general disquiet about the current level of HAL’s administration and the level of burden it places on stakeholders who participate in HAL processes.
- Researchers and service providers felt the burden of project reporting was too high and often did not reflect the size and scope of a research project. For example, some researchers indicated that project reporting requirements for a \$50,000 project were similar to those of a project that was considerably larger.
 - Growers raised concern about the level of HAL funding used for administration. These stakeholders expressed concern that high HAL overheads were too high, and these overheads were at the expense of R&D, marketing and extension activities.
- The HAL model suffered from a lack of performance and outcome information.
- In at least 4 forums levy payers expressed a lack of confidence in HAL’s projects and investments to deliver against strategies. Levy payers did not have confidence that many investments in R&D, marketing and extension represented value for money.
 - Researchers and service providers felt they do not have adequate access to past research and project outcomes. This meant that researchers were not able to effectively leverage past research to deliver more significant research outcomes to levy payers.
 - In all forums PIBs (member and non-members) supported any changes to the HAL model which reduced the level of compliance and controls over those PIBs who can demonstrate high levels of accountability, and benefit to industries.

B.2.4 Levies

Stakeholders expressed a number of common themes about the current levy system at all of the stakeholder forums. Most stakeholders expressed the views that the levy system was unnecessary complex and expensive to administer. However, there was little consensus at the forums about how the levy system could be streamlined and strengthened.

First, the processes of establishing and renewing levies are expensive and time intensive. Stakeholders expressed concern about the difficulty in building the support needed to raise a levy, and were concerned about the transaction costs associated with revising a levy.

Second, while there was some consensus amongst stakeholders about the need to simplify levy arrangements, forum participants did not generally support a single levy system. An exception to this was the Sydney forum, where some support was given by participants to a single levy with differential rates. This proposal was seen to meet stakeholder requirements for the introduction of a levy system that is both simple and flexible.

Third, concern was expressed by most PIBs and growers about the rising or high levy collection costs being levelled on industries. Most of these stakeholders were also greater levels of transparency about the Levy Revenue Service's cost and charging structures.

B.2.5 Options

As with the other channels of stakeholder engagement undertaken for Phase 2 of this project there was considerable divergence in the future directions of HAL. Some forum participants (especially, PIBs) rejected the Consultation Paper's options outright. Other stakeholders saw merit in the option proposed, but felt there was a need to merge or re-cast the options.

A selection of the feedback (from a selection of stakeholder) is outlined below as an indication of the diversity of stakeholder views.

— A selection of comments from the Lismore forum:

- Option 2 is preferable because of the freedom it provides industries, but accountability will be a problem.
- Option 3 and Option 4 have some merit because they provide a strategic pool of funding that can help industries to focus effort, but improved governance is critical to the success of these options
- Option 1 was rejected at the forum. No one spoke in support of it and many said it should be rejected. A major concern was that the presumed savings will be illusory as the mergers would still involve significant costs of discerning the separate needs of distinct industries. Many said that it will be impossible to logically group industries and that grouping industries would submerge the ability to actually represent the different needs of different growers.
- Option 2 attracted many positive comments at a particular forum. Features that were mentioned positively included recognition of the need to have specific industry representation. Several comments were provided that rejected that this model may be dearer to operate. It was recognised in many comments that the model may be very difficult for smaller PIBs/Industries to operate under. There were also uncertainties about how Voluntary Contributions (VC) arrangements would work under the cap on Commonwealth funding. So this option was given a tick, noting that there may be a need for some additional arrangements.
- Option 3 attracted no support for the New Horticulture Fund option at a particular forum. To the extent that anyone commented on it their views were negative and turned around the low chances of success in a bureaucratic or technical body to discern the needs of industry reliably, especially the different needs of different industry subsectors. There were also comments to the effect that the potential efficiencies would be achieved at the cost of pushing costs onto industry if there were any efficiencies.

- Option 4 was spoken of as a positive solution by many participants at a particular forum. Some forum members say that they will propose and support a hybrid solution in a submission that they intend to make. The hybrid solution mentioned often by a couple of stakeholders combined PIB autonomy for those that had graduated in terms of proving their ability to be effective, and providing support for the remaining industries that could be serviced under the different grades of service that are variations to the old model.
 - Option 5, 'No HAL,' was not supported in a number of forums.
- A selection of commentary from the Bundaberg forum:
- Option 0, 'No Change' was introduced as an option at one forum. Two growers made a specific intervention to say that the Consultation Paper had overlooked the no change Option and that this reflected predisposition on the part of the independent review team towards finding fault with what is an essentially good model. There was not universal support for no change.
 - Option 1, 'Streamlined HAL or PIB mergers', was not supported at the particular forum. A number of comments were made about the poor prospect of merging complimentary industries. There was a regularly stated view that the strength of the HAL model is that it facilitates the involvement of range of industries and this option would stifle that.
 - Option 2, PIB autonomy, attracted several comments in support at the particular forum. Features that were mentioned positively included recognition of the need to have specific industry representation for each industry and the possibility of enabling the PIBs to consult and invest funds with less controls seemed attractive. Several comments were provided that rejected that this model. It was recognised in many comments that smaller PIBs/Industries may find full autonomy hard to live with – there was specific mention that the smaller PIBs may face higher costs. The model is attractive to some PIB representatives because it brings the transaction costs more to the fore and raises transparency. There were uncertainties about how the smaller industry bodies with less extensive and complete governance controls would fare in this model.
 - Option 3, the New Horticulture Fund option, received some support during a particular forum. One large grower noted that it was time to get serious about a proper levy that raised sufficient money to make serious investments. The levy could be raised on value rather than per kilo and so could be set at an efficient rate that applied across the industry. Others spoke directly in contradiction to support of this option pointing out that it would be unfair to raise levy payments on those industries that currently had low rates and the difficulties in determining who would make decisions about investment (technocrats?) and Governance (grower members?). Others noted that the scope to increase industry wide investments could be enhanced in this option, but that this can be achieved in any case with changes to the existing cross industry activities. Support for this model was not widely based.
 - Option 4, a Hybrid model, was spoken of as a positive solution by many at a particular forum. Some forum members said that they will propose and support a hybrid solution in a submission that they intend to make. The hybrid solution mentioned by a couple of stakeholders combined PIB autonomy for those that had graduated in terms of proving their ability to be effective, and providing support for the remaining industries that could be serviced under the different grades of service that are variations to the old model. Issues about the Commonwealth matching contribution and its timing and who gets to make

decisions about investment of it, and the nature of service agreements with HAL and the Commonwealth were also matters that needed to be defined before the model could be supported.

- Option 5 – ‘No HAL’ was raised and it was noted that some horticultural industries currently did not engage with HAL and the compulsory levy system at present. These industries functioned with their own R&D and were typically large and independent. The flexibility to allow industries to essentially opt out was recognised as a feature of the current model.
- A selection of comments from the Bunbury forum:
- Option 2 outlined in the Consultation Paper is worse than the current arrangements.
 - Option 3 outlined in the Consultation Paper ‘simply wouldn’t work’.
 - A hybrid model where growers can opt out of paying levy is a good idea. Growers could then do R&D by themselves or in small groups rather than going through the HAL model. This would still allow industries to claim matched government funding the R&D meets an approved or agreed standard.
 - Establish a dedicated levy for about biosecurity which applies to all industries
 - Implement a simplified levy arrangement that is based on the percentage revenue generated by an industry.
 - Take marketing out of the HAL model and allow industries to promote own products through their own marketing projects and programs.
 - Allow larger growers to opt out of the HAL model. Many larger growers invest in their own R&D which is currently not recognised in the HAL model.
 - Implement a system which better recognises regional issues and allocates projects to address them.
 - Streamline the level of HAL bureaucracy by focusing HAL resources on less efficient and capable PIBS. HAL could consider some form of accreditation for PIBs.
 - Allow industries to opt out of HAL marketing, but continue to participate HAL R&D.
 - Improve the transparency, accountability, regional accountability, regional flavour in IAC decision making and HAL Board governance.
 - Improve the way HAL publishes research results through the establishment of national library that researchers and service providers can access prior to submitting project proposals.
- A selection of comments from the Launceston workshop
- HAL should do more in extension using perhaps the CSIRO review and extension model.
 - HAL should do more on market access.
 - HAL should take more responsibility for cross industry issues – referred to as coincident interests – including research capacity to meet the needs of industry groupings.

- A selection of comments from the Mildura forum:
 - Improve HAL processes, guidelines, and improve HAL’s strategic leadership.
 - Each industry should operate on its own with little government intervention – i.e. HAL should only provide the money and industries should be left to determine how it is spent.
 - Develop some practical options for consolidating industries so that people could see what it looked like, know who the winners and losers were.
- There is merit in a hybrid of options one and two
 - A selection of comments from the Wagga Wagga forum:
 - A much ‘leaner HAL and consolidation of PIBs’ is desirable (e.g. all deciduous fruit brought together).
 - The mushrooms industry view is that each industry has needs which are very different. Rather than one size fits all, wants a contract model that would have a different contract for different industries. Base contracts should be focused on managing industry risks and not on a one-size fits all approach to compliance.
 - HAL needs to better demonstrate what benefits it delivers to the Australian taxpayer.

B.2.6 Other issues

There were a multitude of other issues and stakeholder concerns about HAL expressed at each forum. These include:

- Amalgamation of IACs and PIBs. There was considerable discussion at most forums about the costs, benefits and practicalities of merging IACs and PIB. There was no clear consensus view about whether this is required and how it can be implemented.
- Sitting fees of IAC members. Numerous former IAC members and growers did not feel sitting fees were appropriate for attracting the best qualified people to IACs.
- Technical skills and capabilities of HAL divisional staff. Numerous PIBs, researchers and service providers did not feel HAL staff had the appropriate skills and experience to deliver the support needed by IACs and service providers.
- Election of HAL directors. A number of PIB stakeholders identified the need for more directors to be appointed to HAL’s board through processes that are completely independent of PIBs and service providers.
- Implementation of a HAL strategy for all of Horticulture. A large proportion of workshop participants highlighted a preference for HAL to introduce a strategy for all of Horticulture.
- Simplification of the contractual arrangements for research projects. Researchers at two forums expressed concerns that contracts between HAL and service providers are too complex and not flexible enough to account for the uncertainties of R&D. This issue was raised by stakeholders as important to HAL’s ongoing operational performance at the Adelaide and Melbourne forums.

Table B2 Level of support for change (high level summary)

Forum	Stakeholder					
	Commonwealth, State and Territory Governments	PIBs (HAL members)	PIBs (non-HAL members)	Research institutions and researchers	HAL representatives (inc. IACs and Board)r	Growers and producers
Lismore	Supportive	Not supportive	Highly supportive	Supportive	Not supportive	Highly supportive – supportive
Bundaberg	Supportive – not supportive	Not supportive	Not supportive	Not present	No perspectives given	Supportive
Innisfail (morning and afternoon session combined)	Supportive	Supportive – not supportive	Not present	Highly supportive	No perspectives given	Supportive – not supportive
Mildura	Highly supportive	Supportive	Not present	Not present	Not present	Supportive
Wagga Wagga	Highly supportive	Supportive – not supportive	Not present	Highly supportive	No perspectives given	Highly supportive
Adelaide	Highly supportive	Supportive	Highly supportive	Highly supportive	No perspectives given	Highly supportive
Melbourne	No perspectives given	Supportive	Highly supportive	Highly supportive	No perspectives given	Highly supportive
Bunbury	Highly supportive	Supportive	Not present	Highly supportive	Not present	Highly supportive
Sydney	Highly supportive	Supportive – not supportive	Supportive	Highly supportive	No perspectives given	Supportive – not supportive
Launceston	Not present	Not supportive	Not present	Supportive	Not supportive	Supportive
Brisbane	Highly supportive	Supportive – not supportive	Supportive	Highly supportive	No perspectives given	Supportive – not supportive

Note: Scale: Highly supportive; Supportive; Not supportive; No perspectives given; Not present.

Appendix C Online survey

C.1 Approach

To extend the consultation process to as many horticultural stakeholders as possible, an online survey was developed. The targeted audience of the survey was primarily growers, however potential respondents included:

- growers who are members of a PIB which is a member of HAL
- growers who are members of a PIB which is not a member of HAL
- staff members or office holders of a PIB
- staff members of office holders of an IAC
- service providers to HAL, such as researchers, consultants
- government
- other
- any combination of the above.

The survey was drafted by ACIL Allen between 23 January and 17 February 2014. An online version of the survey was externally tested on 18 and 19 February 2014; one test subject was both a grower and member of the Review Steering Committee and the other test subject a staff member at HAL. Small changes were made following the testing and the final survey launched on 20 February 2014.

Distribution of the survey was requested by ACIL Allen from various Farmers Federations (national and state), HAL PIBs and other organisations with the HAL network. While it is difficult to estimate, it is understood that these organisations distributed the survey to as many as 10,000 grower email addresses across Australia. We note the cooperation of these organisations in distributing the survey to their membership. ACIL Allen requested that reminders be sent to the membership.

The survey was also distributed by HAL to its membership and stakeholders, including:

- 342 HAL members and IAC members on 25 February 2014. As of 10 March 2014, 122 opened email sent to them by HAL
- an additional distribution to 77 members on 3 March 2014 of which 37 opened the email
- PIBs, of which:
 - 20 (out of 28) A-class members were known to have forwarded the survey to their membership
 - four (out of 14) B-class members were known to have forwarded the survey to their membership.

The survey closed on 10 March 2014.

The following table summarises the details of the distribution of the ACIL Allen Consulting online survey.

Table C1 Details of survey distribution to PIBs

PIB	Have forwarded on survey to stakeholders	Number of growers receiving survey
A class members		
1. Almond Board of Australia	Yes	200
2. Apple and Pear Australia Ltd.	Yes	848
3. Australian Banana Growers Council Inc.	Yes	1435
4. Australian Lychee Growers Association	No answer	N/A
5. Australian Macadamia Society Ltd.	Yes	600
6. Australian Mango Industry Association Ltd.	Yes	800
7. Australian Mushroom Growers' Association Ltd	Yes	70
8. Australian Nashi Growers' Association Ltd	N/A	N/A
9. Australian Olives Association	Yes	1292 (producers and processors)
10. Australian Table Grape Association Inc.	No answer	
11. AUSVEG	Waiting reply	
12. Avocados Australia Limited	Yes	597
13. Cherry Growers Australia Inc.	Yes	500
14. Chestnuts Australia Inc.	Yes	194
15. Citrus Australia	Yes	200
16. Custard Apples Australia Inc.	Yes	114
17. Dried Fruits Australia Inc.	Yes	450
18. Growcom	Yes	600
19. Nursery and Garden Industry Australia	Yes	1500
20. Australian Onion Industry Association Inc	Yes	300
21. Papaya Australia Ltd.	Yes	100
22. Passionfruit Australia Inc.	Yes	90
23. Persimmons Australia Inc.	Yes	67
24. Potato Processing Association of Australia	No answer	
25. Raspberries and Blackberries Australia Inc	No answer	
26. Strawberries Australia Inc.	Yes	~ 620

PIB	Have forwarded on survey to stakeholders	Number of growers receiving survey
27. Summerfruit Australia Ltd.	Yes	600
28. Turf Producers' Association Ltd	Yes	300
B class members		
29. Australian Asparagus Council Inc.	No answer	
30. Australian Blueberry Growers' Association Inc.	No answer	
31. Australian Garlic Industry Association Inc.	No answer	
32. Australian Melon Association Inc.	No answer	
33. Australian Nut Industry Council Ltd.	Yes	
34. Australian Processing Tomato Research Council Inc.	Yes	
35. Australian Sugar Plum Industry Association	N/A	
36. Australian Walnut Industry Association Inc.	No answer	
37. Canned Fruits Industry Council of Australia	Yes	
38. Flower Association of Queensland Inc.	Yes	46
39. Hazelnut Growers of Australia Inc	No answer	
40. Pistachio Growers Association Inc.	N/A	
41. PMA Australia-New Zealand Ltd.	N/A	
42. Tasmanian Farmers and Graziers Association	Yes	5,000
C class members		
Bayer CropScience Pty Ltd	n.a.	
Botanical Resources Australia – Agricultural Services Pty Ltd	n.a.	

Source: ACIL Allen Consulting 2014.

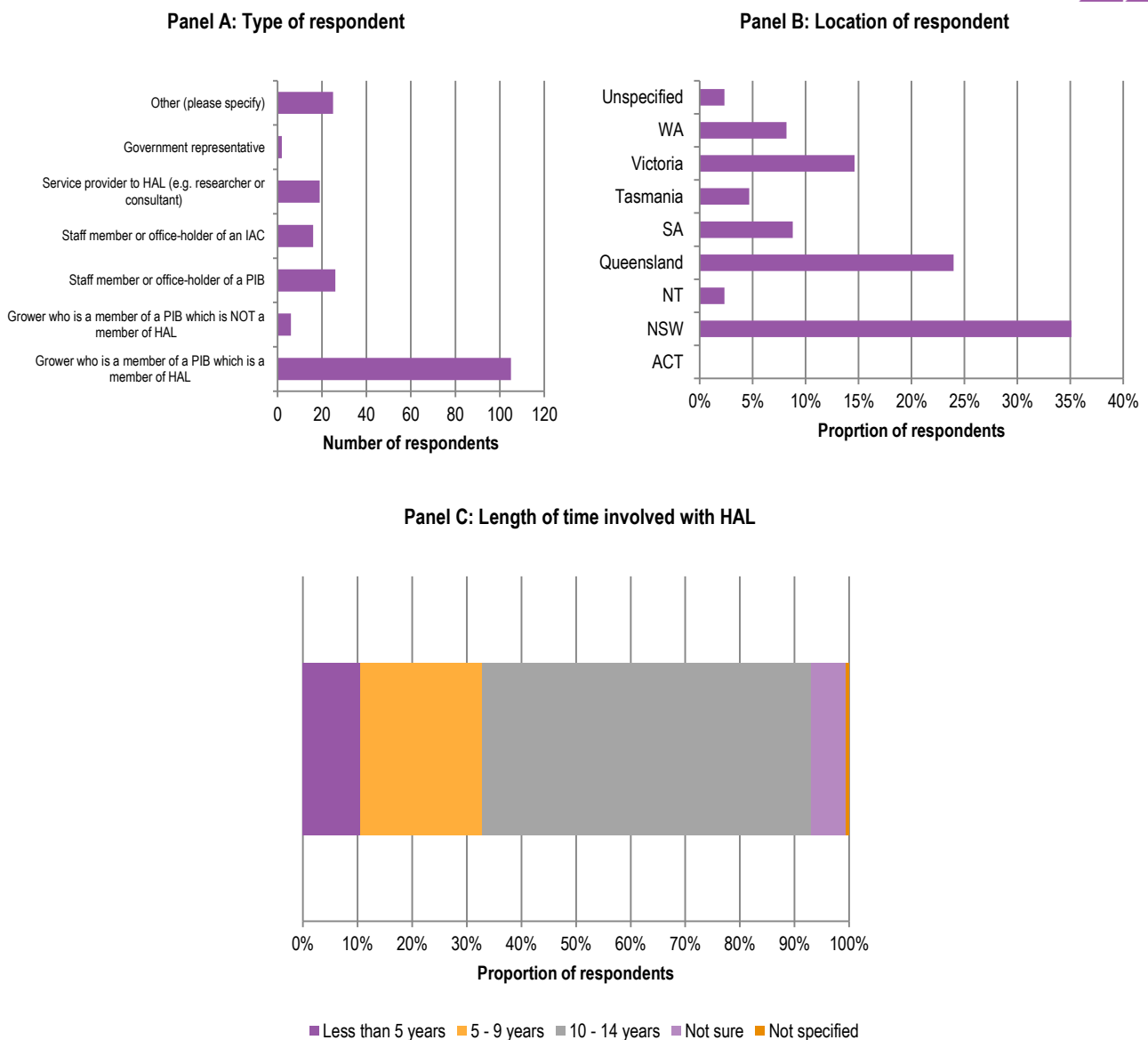
C.2 Characteristics of survey respondents

Interest in HAL

The questions in this section were used to collect general information about respondents, including:

- links to HAL, whether it be a grower, a member of a PIB or an IAC, service provider, government representative or some other role (Panel A)
- primary location of respondents (Panel B)
- number of years that each respondent had been engaged or involved with HAL (Panel C).

Figure C1 General characteristics



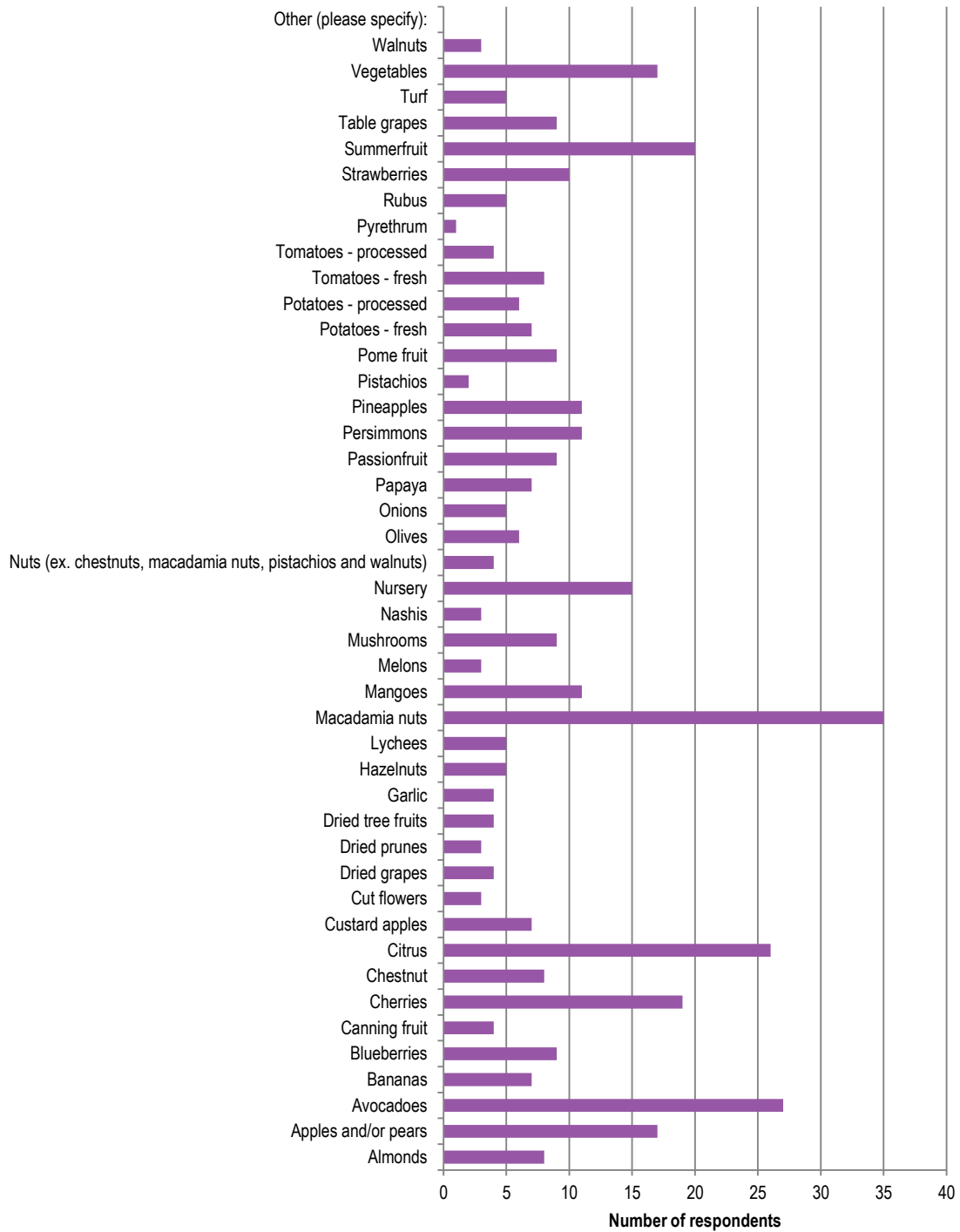
Note: **Panel A:** Note: 1. n = 171. 2. Question 1: I am a: (Select all that apply.) **Panel B:** Note: 1. n = 171. 2. Question 3. What is the postcode of your primary place of business? **Panel C:** Note: 1. n = 171. 2. Question 4. Approximately how long have you been involved with HAL? (Note: HAL was established in 2001.)

Source: ACIL Allen Consulting survey 2014.

Horticultural production

This question was used to determine horticultural sub-sectors were being represented in the survey.

Figure C2 Commodities produced by respondents identifying as growers



Note: 1. n = 111. 2. The question was only asked of those respondents indicating they were a "Grower..." in Question 1. 3. Question 2. What horticulture industry(ies) are you involved in? Select all that apply. (Note: Commodities are listed in alphabetical order of HAL industries. If your commodity(ies) is(are) not included in this list, please select "Other" at the bottom.)

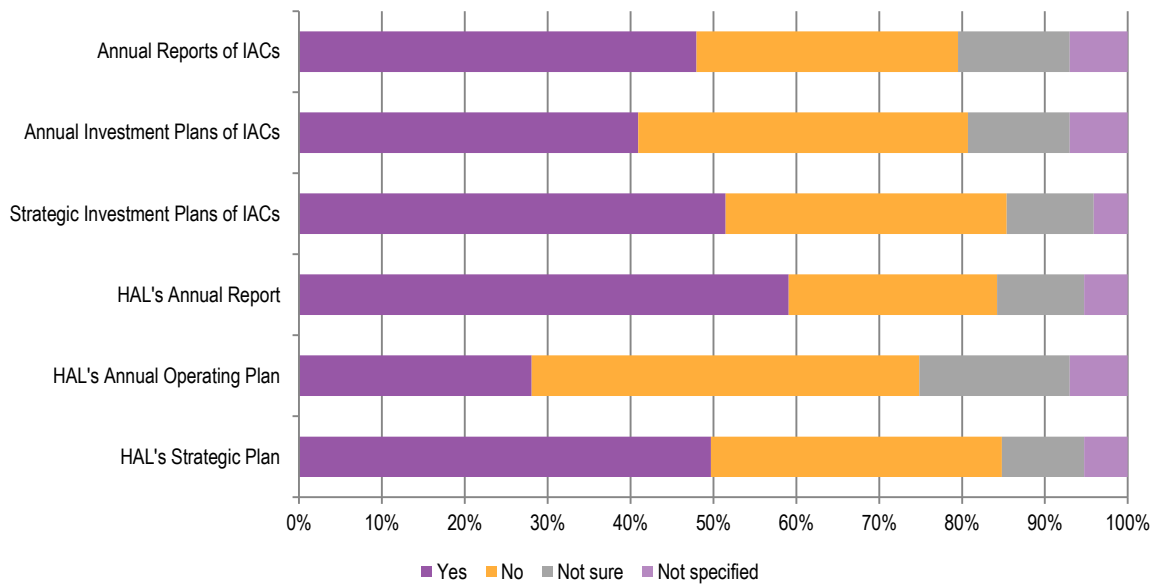
Source: ACIL Allen Consulting survey 2014.

C.3 Survey results

Awareness of HAL and IAC strategy and planning documents

This question was used to gauge whether respondents had actually seen the various documents prepared by HAL and the IACs before going on to rate the effectiveness of those documents in the following question. Respondents that had not seen a particular document were not asked to rate the effectiveness of that document.

Figure C3 Awareness of HAL and IAC planning and reporting documents



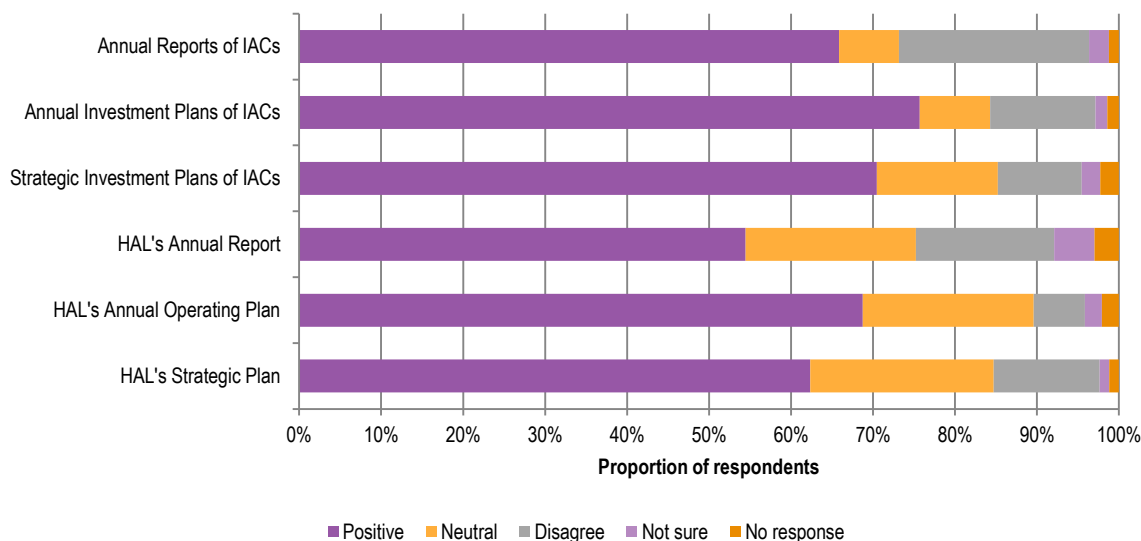
Note: 1. n = 171. 2. Question 6. Each IAC as well as HAL prepares a number of strategy and planning documents. Have you seen any of the following documents?

Source: ACIL Allen Consulting survey 2014.

Effectiveness of HAL and IAC strategy and planning documents

This question was used to gauge how effective respondents found the various documents, in terms of what the document was designed to deliver.

Figure C4 Effectiveness of HAL and IAC planning and reporting documents



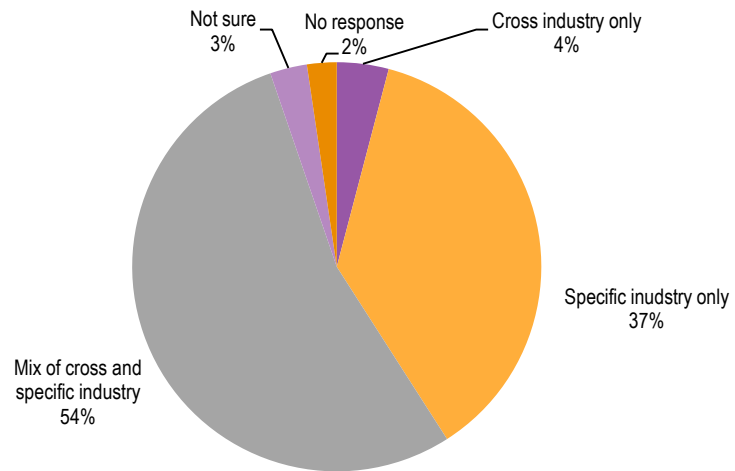
Note: 1. Question 6.1. To what extent do you agree that HAL's Strategic Plan effectively details strategic direction for the investment of marketing and R&D funds? [Strongly agree, Agree, Neither agree nor disagree, Disagree, Strongly disagree, Not Sure] (n = 85); Question 6.2. To what extent do you agree that HAL's Annual Operating Plan effectively details the annual expenditure required to achieve strategic outcomes? (n = 48); Question 6.3. To what extent do you agree that HAL's Annual Report effectively reports the outcomes from marketing and R&D? (n = 101); Question 6.4. To what extent do you agree that the Strategic Investment Plans of IACs effectively detail strategic direction for the investment of marketing and R&D funds? (n = 88); Question 6.5. To what extent do you agree that the Annual Investment Plans of IACs effectively detail the annual expenditure required to achieve strategic outcomes? (n = 70); Question 6.6. To what extent do you agree that the Annual Reports of IACs effectively report the outcomes from marketing and R&D? (n = 82). 2. "Positive" = Strongly agree + Agree; Neutral = Neither agree nor disagree; "Negative" = Disagree + Strongly disagree.

Source: ACIL Allen Consulting survey 2014.

Allocation of HAL marketing and R&D funds

This question was used to gauge how respondents felt HAL should allocate marketing and R&D funds, whether that be across industries projects, projects specific to particular industries or on a mix of cross industry and industry specific projects.

Figure C5 Preferred allocation of marketing and R&D funds: industry specific vs. cross industry

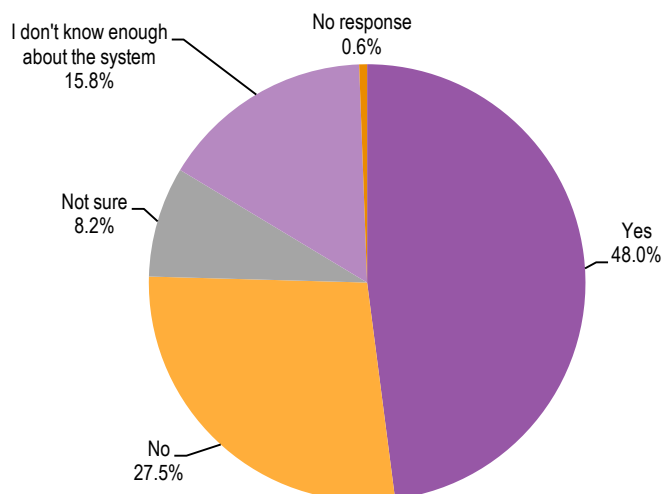


Note: 1. n = 171. 2. Question 8. How should HAL allocate marketing and R&D funds between industry specific and cross industry projects?
 Source: ACIL Allen Consulting survey 2014.

Satisfaction with current system of levy collection

This question was used to gauge how satisfied respondents were with the current levy collection system. This question filter respondents onto the next most appropriate question; all respondents were then asked to state why they were satisfied with the current system, or to identify reasons why they were not.

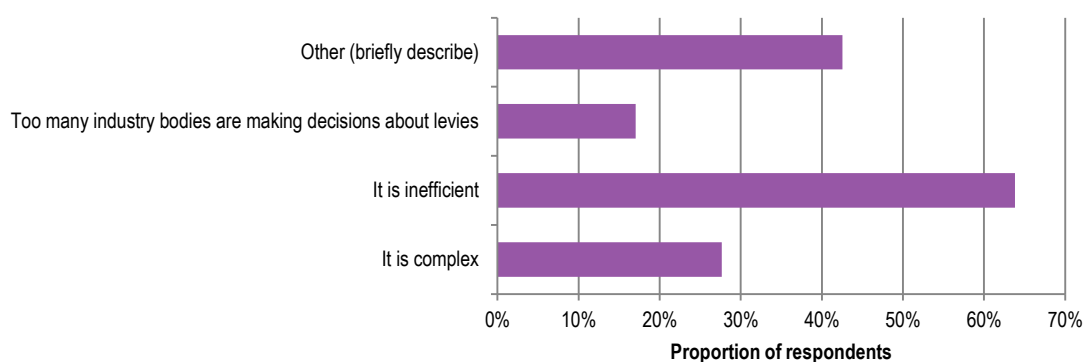
Figure C6 Satisfaction with current system of levy collection



Note: 1. n = 171. 2. Question 10. More than 50 different HAL-related levies are collected by the Department of Agriculture. These levies vary by measurement unit and active rate. Are you satisfied with the current system of levy collection?
 Source: ACIL Allen Consulting survey.

For those respondents that indicated they were dissatisfied with the current levy collection system, they were asked to identify why they were dissatisfied.

Figure C7 **Causes of dissatisfaction with the levy system**



Note: 1. This question was only asked of those respondents indicating that they were dissatisfied with the current system of levy collection (Question 10 (n = 47)). 2. Question 10.2. Why are you dissatisfied with the current system of levy collection?

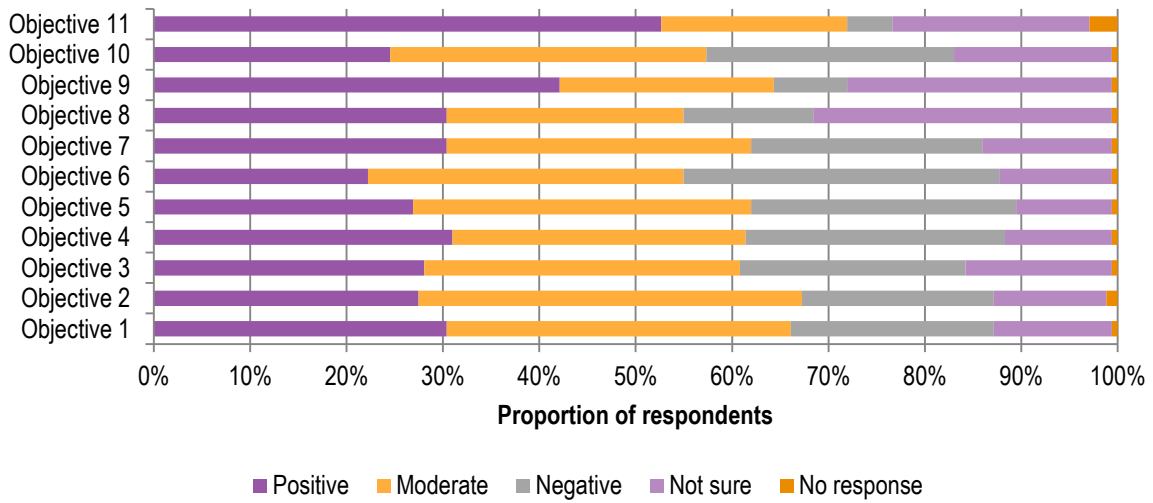
Source: ACIL Allen Consulting survey 2014.

Meeting objectives

This question was used to gauge the extent to which respondents believed that HAL was meeting its stated objectives. These objectives included:

1. Provide Industry leadership on marketing and R&D.
2. Harness knowledge of issues that affect Industry value and supply chains.
3. Use and build on external Industry structures, and provide Industry participants with opportunities to advise HAL.
4. Generate marketing and R&D programs for Industry: i) using a bottom up approach; ii) which deliver benefits to Industry.
5. Generate marketing and R&D programs which: i) promote innovation; ii) enhance Industry competitiveness; iii) promote environmental sustainability in horticulture.
6. Develop a culture of service delivery and effective marketing and R&D.
7. Deliver accountability and good corporate governance to Members.
8. Deliver on the Commonwealth Government's access and use requirements for Funds and Authorities.
9. Administer Commonwealth Funds and Authorities faithfully in accordance with the Commonwealth's requirements.
10. Facilitate dissemination, adoption and commercialisation of benefits resulting from HAL's activities.
11. Act lawfully to achieve HAL's objects.

Figure C8 Extent to which HAL is meeting its objectives

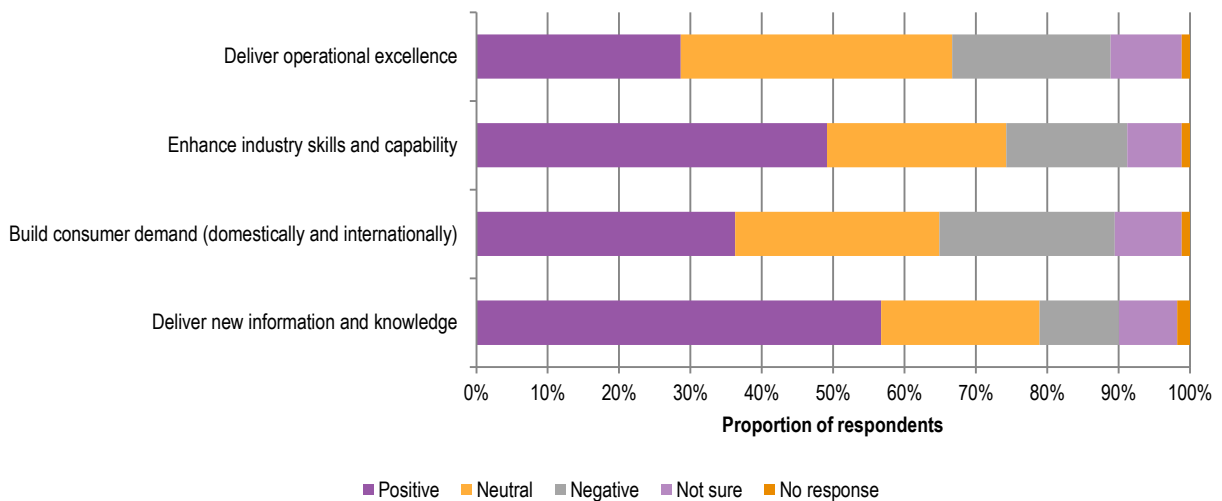


Note: 1. n = 171. 2. Question 12. HAL has 11 objectives. To what extent do you think HAL has met these objectives? [Very high, High, Moderate, Low, Very Low, Not sure]. 3. "Positive" = Very high + High; "Negative" = Low + Very low.
Source: ACIL Allen Consulting survey 2014.

Activities aligning with priorities

This question was used to gauge how HAL’s marketing and R&D activities were aligning with HAL’s four key priorities.

Figure C9 Extent to which HAL activities in R&D and marketing is aligned with HAL priorities

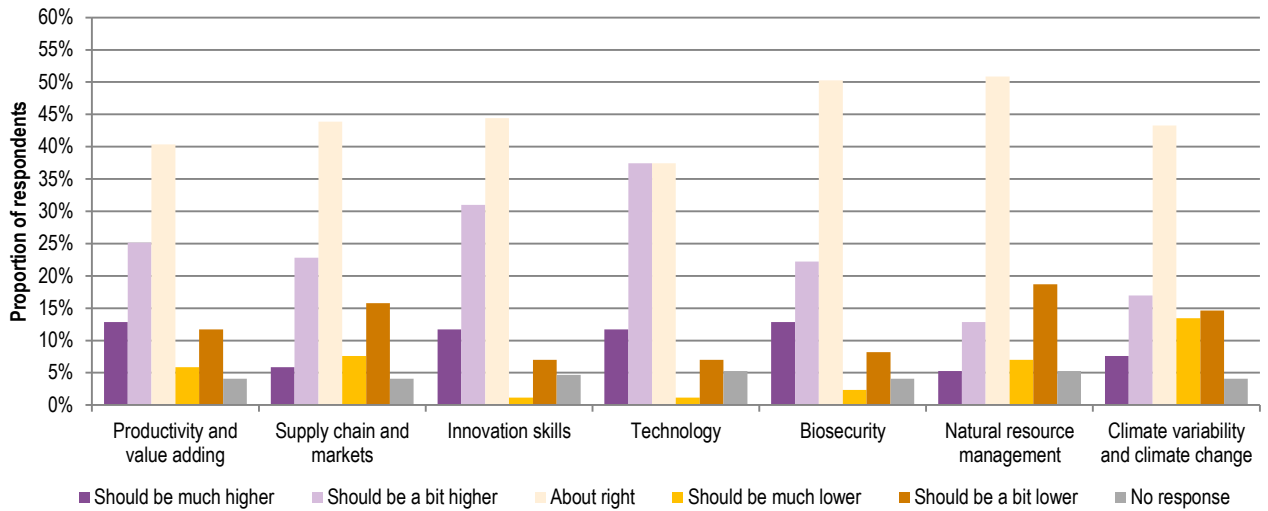


Note: 1. n = 171. 2. Question 13. HAL has 4 strategic priorities. To what extent do you agree that HAL’s activities in marketing and R&D have aligned with these priorities? 3. "Positive" = Strongly agree + Agree; "Negative" = Strongly disagree + disagree.
Source: ACIL Allen Consulting survey 2014.

Allocation of funds

This question was used to gauge how respondents felt the current allocation of HAL's R&D spending in terms of how this spending aligned with the Rural R&D Priorities. Respondents were asked to indicate for each Priority if the current level of spending should be higher, lower or if it was adequate.

Figure C10 Views on funding allocations to address different issues and challenges

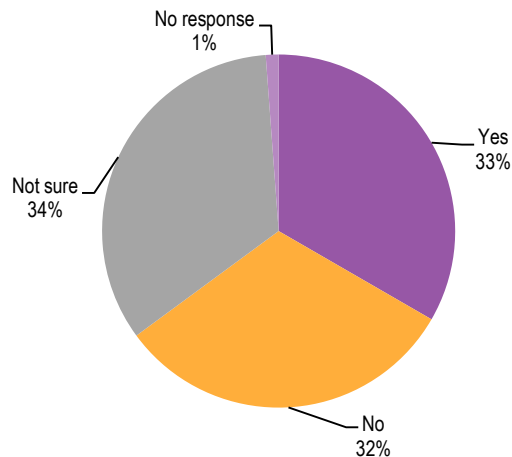


Note: 1. n = 171. 2. Question 14. What do you think about the funding allocations to each of these priorities?
 Source: ACIL Allen Consulting survey 2014.

Structural change

This question was used to gauge if respondents thought there was a need to change the current structure of HAL. Respondents indication "Yes" were then asked if they would like to see certain changes (in the next question).

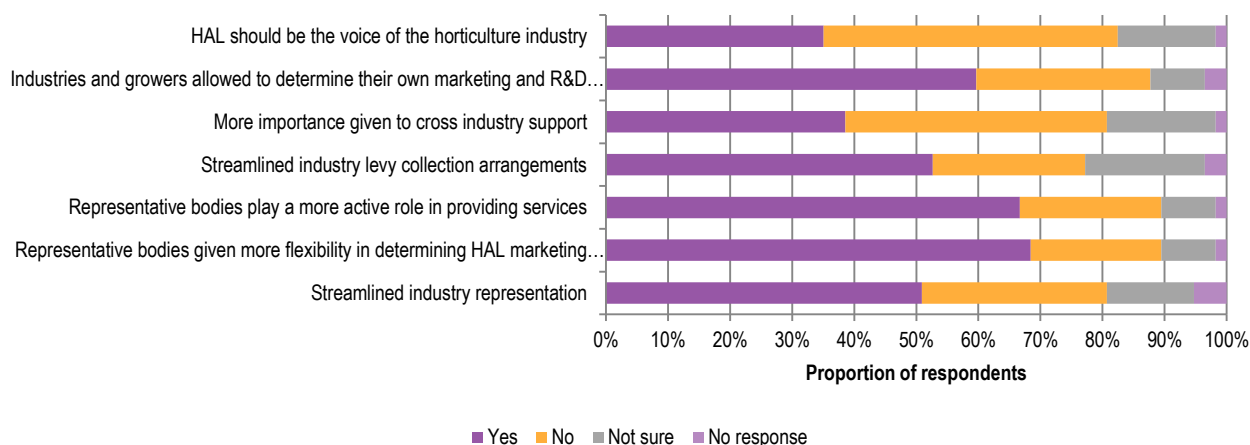
Figure C11 Need to change the current structure of HAL



Note: 1. n = 171. 2. Question 16. Do you think there is any need to change the current structure of HAL?
 Source: ACIL Allen Consulting survey 2014.

This question was answered by those respondents indicating that HAL's structure needed to change. It presented a number of ways by which HAL could change, with respondents asked if they would like to see any of the changes.

Figure C12 Support for potential changes to HAL

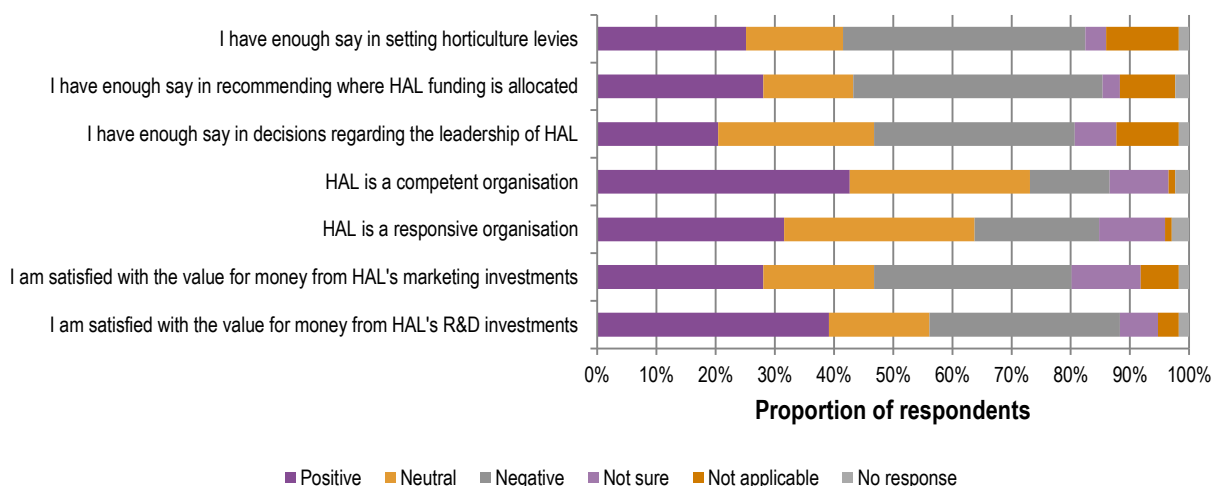


Note: 1. n = 57. 2. Question 16.1 There are a number of ways the current arrangements for HAL could change. Would you like to see any of the following changes in the future? [This question was only asked of respondents indicating the need for change in Question 16.] Source: ACIL Allen Consulting survey 2014.

General satisfaction with HAL

This question was used to gauge how extent to which HAL was functioning generally.

Figure C13 General satisfaction with HAL



Note: 1. n = 171. 2. Question 17. To what extent do you agree with the following statements? Source: ACIL Allen Consulting survey 2014.

C.4 Open ended survey questions

The following tables provide the de-identified raw responses to the open-end questions asked in the survey. The information contained within these tables relate to the survey responses provided by survey participants, and do not represent the views or analysis of ACIL Allen. The information is provided on a question-by-question basis and has not been edited: they are verbatim responses provided by survey respondents.

Please provide any additional comments about HAL's reporting?

Total Respondents: 69

Total Skipped: 104

Table C2 **Survey responses to the question: please provide any additional comments about HAL's reporting?**

Response No.	Response
20723854	The HAL plans mentioned above are not designed to communicate the strategic directions, levy investment or outcomes to levy payers. If they are this is an incredibly naive expectation that shows no understanding of how levy payers want to receive information. They are designed to meet. Statutory reporting requirements which they do as well as any other report of this nature from government of the private sector. The GRDC grower communication is a better example of reporting to levy payers but even this hugely expensive effort has limited penetration. And that is just for a few grains, not 43 different industries. The IAC plans do a better job as they are specifically directed. This makes them more effective. They are not perfect either for the reasons above but at least they talk about issue and challenges that a specific industry levy payer identifies with.
20724199	Strategic investment plans present well, but the interpretation and implementation of these plans are often questionable especially when attempting to deliver outcomes across a multiple commodity sector such as vegetables.
20724271	If this information is available I have not seen it as yet.
20724481	Reporting is generally good.
20724665	I have been an AWIA office bearer for only a few months, and HAL reporting has not been my focus. We have an R&D committee whose job this is.
20724747	Self serving nonsense a lot of the time.
20725987	Levy payers do not seem to have a clear understanding of the distinction between HAL and PIB responsibilities. Generally the PIB gets the criticism if something is not working and that is not always the PIB's fault.
20759961	The industry annual reports are exceptionally informative and comprehensive, and combined with the Annual levy Payers meeting provide levy payers with all information in easy to digest format. In addition, the R&D updates (e.g.) farm walks, grower R&D meetings) provide the practical information for early adopters.
20760018	HAL's reporting is effective and frequent.
20760566	Peak industry bodies are not a good way to reach average growers.
20760791	Its bulky and hard to digest with minimal conclusive commentary and little or no independent review process.

Response No.	Response
20760897	I find the information very useful.
20761817	The strategic plans are a mish mash of ideas without any real purpose or direction. The annual plans are ok for detailing where money will be spent though misguided by weak strategic plans. The annual reports are similarly a well prepared list of individual projects seen through the views of the service providers of those projects though does little to provide an overview of the direction of the industry.
20774415	HAL's reporting to me as a grower is secondary to the reporting of my two PIBs. I am a grower not a government official with plenty of time to read huge reports, my interests are my industries - my PIBs report this to me.
20775972	As a grower, often don't have much time to wade thru lengthy documents.... just look at the "bottom line".
20781905	Each of your questions above misses the point. You are asking "is it effectively detailed?" What you should be asking is, "Is the funding being well managed without any waste, and given the limited budget, is it well directed?"
20781947	While the reporting of PIB (CGA) and HAL's levy activities is improving slightly, there is still a total disregard for identifying (either pre or post project) the real tangible value for growers and the overall industry. Currently there is a plethora of R&D and marketing projects with little focus on reporting (or considering prior to approval) the direct benefits that the project will contribute. There has never been a stocktake of the levy projects undertaken over the last 10 years since the levy increased, this would in my opinion show a very poor benefit relative to the cost back to industry. I have been told that Cherry projects are in the vicinity of 150 for the last 10 years, most growers would be shocked to know of such waste – however this has never been quantified or summarised back to industry.
20792132	HALs reporting is fine. IAC is not good.
20796750	It is extensive and comprehensive for those who take the time to read the reports.
20797366	The problems with the IAC report is that it is formulated in conjunction with the PIB, and the PIB information is not regulated, as there is no structural uniformity in the PIB's to gather comparable information that reflects the requirements of the levy payers is being fairly and proportionally delivered. That the IAC then report to HAL, means that the IAC may only provide the information they received from the PIB. The intention in their structure is sincere, but unless the PIB reporting structures are standardised there is no assurance that PIB spending is fair or equitable.
20797672	Review outcomes of HAL STAKEHOLDER SURVEY by Currie Communications for further detail.
20798435	Using the PIBs to communicate results is reliant on the strength of the PIBs communications plans/projects/capacity. Not all are equal across the commodities.
20798566	The reports I have seen do not measure the success of the marketing expenditure.
20798571	I attempt to read all correspondence and appropriate industry information. Prioritising sometimes means reports such as these may be missed, for example in favour of more specific research results.
20798621	The macadamia industry's IAC, strategic investment plans & R&D programs are output not outcome focussed - i.e. we spent the funds available & produced reports rather than achieved specified outcomes that benefit growers & the industry & deliver value for money for the levy & government funds expended.
20798974	No analysis on value for levy and tax payers money and the assessment of the project outcomes against the specified contract.

Response No.	Response
20799173	Often in HAL's annual industry reports you can find projects industry IAC members have no clue about, so who is recommending the funding of these rather dubious things.
20799283	Since I now do not attend the AMS Conference, I get no feedback re HAL's reporting. I can continue my farming quite adequately without it.
20823141	Marketing reports are rarely evidence based and Rand D reports are very general with no ability I know of to get more detail. HAL is almost like a secret society and acts like it is under siege. It is very difficult to get information and right from the telephonist through are unhelpful.
20826670	I am well aware that HAL does the above reporting but I have not made it my business to read the reports.
20827859	The PPIAC strategic investment plan is not worth the paper it is written on A lot of history but very little plans for the future. Not sure how much was paid to the consultant but we should ask for our money back.
20828469	Generally it is of good quality however I feel that it could be simplified to appeal to a broader range of industry stakeholders.
20828593	Reporting is largely about governance not necessarily effective action.
20828950	Reports don't always tell about failures or poor quality milestones reports.
20852476	The new paperwork prepared by Stuart Burgess for the upcoming meetings in Perth are very clear and concise.
20857762	HAL is very reliant upon our PIB to provide the practical insight into communicating the outcomes of our levy programmes.
20873061	The information is available. As growers we can no longer expect "hand delivered" reports.
20897472	HAL reporting process is reasonable at a local industry level as this is the job of the Industry co-ordinator working with the independent Chair of the IAC. The real problem I believe is that Board of HAL is all things to all Groups it lacks strong leadership and effective deliver to services that add value to the levies paid by Growers. I believe that at Growers are not getting value for money for the levies paid. In the current economic climate many growers are contemplating existing the industry (which is their choice) but you need to understand - why? I have a view that many of the R&D& M project do not add DIRECT or relevant value to the bottom line of individual business.
20901317	HAL reporting on individual projects is out of date by the time milestones are submitted. The industry organisation (APTRC Inc.) is in close regular contact will all key contacts for individual projects relevant to the industry, hence reporting is done on a regular basis, and does not rely on the reports provided by HAL.
20925112	Not sure that levy-payers actually read the (IAC) Annual Report to levy payers. Should be repackaged to be more user friendly to audience. Presentation of dollar expenditure and investment is confusing at best. HAL Strategic Plan needs revision - greater identification of cross horticulture needs and specific strategies to address them
20928438	There is a need for greater transparency in the reporting about the investment process and the outcomes that arise as a result of these investments.
20931728	Not always grower friendly to interpret. Many projects have too much of an administration cost and not enough practical cost.
20963299	HAL should broaden its information through the internet, such as emails, facebook, twitter, etc to members generally. In this way, members or the public would be more informed and knowledgeable about HAL's function and objectives.

Response No.	Response
20977714	Reporting not getting to levy payers – growers.
20977854	IAC reports often don't convey the difficulties that have been encountered each year, especially achieving variations to projects, shortfalls in funding because of less than anticipated levies, or locating a service provider. Change over of HAL staff (especially industry service managers) at critical times and the consequent (often negative) impact of this is also not evident in these reports. There is a tendency to be 'nice' and not critical of HAL. A levy payer will have limited understanding of the annual expenditure as it is currently presented in the AIP unless they have taken a keen interest over many years. It wasn't until I took a role as R&D Chair in our industry that these statements started to make some sense. Additional explanatory notes would be helpful.
20978620	While HAL are focussed on a "corporate look" for reports the linkage to the Strategic Investment Plan is lacking. The reports should be electronic with opt in response if levy payers want printed versions.
20978907	The reporting is only for the purpose of need not for the detail of the reasoning behind the investments . growers are bored at the annual levy payers meeting because of the nature of the reporting.
20979119	The HAL Strategic Plan was developed with minimal consultation with industry. Therefore, it is only an overarching generic document. Information about detailed strategies are included in the individual industry strategic plans which reflect the specific priorities for the different industry sectors. The reporting on the HAL investment generally reports on outputs rather than outcomes. This is because there has been insufficient effort to properly evaluate investment outcomes. Some industries have done more in this area than others. There has been work done on simplistic numerical BCAs, but such analysis fails to provide meaning information on the real benefits. This is a failing of HAL management, not the investment programs per se.
20980808	No communication plan, some industries and grower groups are moving into non levy paying trading entities and escaping levy and the amount of uptake reported on past projects in non-existent
20981076	I think that HAL's reporting is generally poor.
21008172	Its over twelve months since I viewed the plans and that's my fault not nothing to do with the reporting.
21008571	The reporting of industry R & D spending is not clear and what achievements have been made and the return on investment. For growers the reports are not in a clear and concise format or in plain English. It is also wrong that levy payers cannot access electronic copies of final reports for free.
21009483	I find the format used to describe the funding/expenditure of projects to be complicated and confusing.
21012157	My main criticism is the lack of transparency of the budget / investment reports that serve to disguise the investment in PIB sponsored projects.
21030551	Poor question - do you mean annual reports or research reports? All research reports should be free to all levy payers, regardless of industry.
21072983	My concern is not so much about reporting per se, as much of the reporting is generalised and can be interpreted in numerous directions depending on the people concerned and what their objectives are. My greatest concern is in governance, independence & conflict of interest in allocation of R & D funds with maximum benefit flowing back to the producers contributing the levies - both producers & Federal government (paying taxes, employing people, developing markets & communities, etc.)
21076466	It always seems a bit fluffy to me. Lots of titles and feel good outcomes with lovely photos, but really just industry representatives just ticking the boxes and just trying to make it all look good. Often very glossy reports but somehow methinks there is often little substance. Perhaps this is due to the fact that these are only summary reports and there is often no real scientific review, nor comprehensive analysis about the quality of the reports that are submitted to HAL.

Response No.	Response
21093783	IAC have detail of expenditure and strategic directions and then run out of money and projects are asked to modify their programs and drop out key sections of research. Project officers who are key stakeholders in project outcomes are not given any say in how things should be run in the life of the program. Even though they set out the detail in the project proposal, the IAC then changes this detail in the life of the project.
21096787	Clear, concise and above all accurate.
21098088	Individual industries have their own challenges and opportunities. In the industry I work within, the industry Strategic Investment Plan (SIP) and annual operating plans provide an excellent strategic direction. I assume each industry also has a robust SIP. Any 'across horticulture' strategic plan by its very nature can only be generic or highlight certain issues or case studies.
21124784	It is comprehensive

Please provide any additional comments about HAL's investment activity?

Total Respondents: 71

Total Skipped: 102

Table C3 Survey responses to the question: please provide any additional comments about HAL's investment activity?

Response No.	Response
20723854	Of course there will be issues that cross industries that should be funded, but the second question here (which I have deliberately not answered) illustrates perfectly the problem with the current approach). There is not formula or set percentage. Cross industry initiatives sound be driven by a clear and identified industry need, not an arbitrary formula. ANIC operates in this way, funding only those areas where the clear majority of members have identified an opportunity.
20724199	I strongly believe that the scatter gun approach used for cross industry investment activities achieve little for the vegetable industry. I Believe that were ever possible investment initiatives need to be steered by individual commodity groups to ensure industry specific issues are being investigated.
20724271	As many issues facing Horticulture would be industry specific there needs to be the ability to use levy collection in these areas. However there are many issues which affect all commodities such as chemical permits, Biosecurity, worker availability and these should be identified so duplication of projects doesn't occur.
20724665	These are wild guesses, but there are some issues which are relevant to all horticulture, such as water use and chemical permits.
20724747	Where does one start? For some industries with strong and focussed PIB's, it is clear that the Investments are serving the constituent levy payers interests. Where the PIB is unrepresentative and disconnected from its levy payer base, the investment has been a dismal failure and a travesty of wasted opportunity.
20759600	All industries are different. Levy funds collected by an industry should be spent on that industry.
20759961	Regardless of cross/specific industry allocations, the real issue is about value of outputs for money invested. There is no magic formula relevant to allocation of cross/specific or strategic/applied research. If I was investing my money, I would expect most to be put where I get a payback in the short term.
20760566	Sharing depends on the national or international priority for the research.
20760791	Investments seem to be more like an old boys club - if you have funding you are fairly well set to continue to get additional funding.
20761651	Question 8 is overly simplistic. Surely the proportion of funds allocated to each element needs to be based on the potential value to the industry. I have seen no analysis that provides any basis for decisions about how the funds should be spilt between the two areas.
20761817	There is far too much overlap with individual spending that should be more effectively used across multi industry projects. The concept of market failure which HAL should be addressing is ironically built into the structure since any industry that does not think it will capture a benefit exactly in the proportion it invests can pull out of projects and in the end there is insufficient funding, remaining industries see non investors a "free riders" and in the end good projects fail to be taken up. 40 individual industries have too much say and overall direct funds to multiple small projects that serve their own interests and not wider horticulture. It is a shame that it came to this.

Response No.	Response
20764216	Impossible to give proportions. Each industry should prioritise projects from its point of view. Where projects can be most efficiently pursued in collaboration with other industries this should be done.
20774415	Most, albeit not all, should go for the purposes for which it was collected, i.e., R&D of the particular industry. There probably are some projects that can be more efficiently be done across the relevant industries. Note "across the relevant industries". There are few, if any, projects that run across all of horticulture.
20775972	Easy to disillusion growers if their money is being spent on a different commodity.
20780870	The mix of funding will depend on problems that arise- a particular pest for instance could require a larger measure of cross industry funding than usual while solutions are being examined.
20781905	In the case of Cherries, levy collections are extremely small, so distribution requires very careful thought prior to allocation. Waste of funds is a real problem, because the 'focus' has been lost. In the case of cherries, the primary focus of all spending should be on 'the consumption of fresh fruit'. So, whether we are talking about 'domestic' or 'export' programmes, we should not deviate from this.
20781947	You cannot pre-determine a percentage breakdown for cross-industry spend. The industry needs to determine its own projects on a needs basis which is unique to its own current industry environment. If there are cross industry projects which it needs to get results from, then it makes sense to be a part of those shared projects.
20784149	It is clear some problems cross industry boundaries, e.g. fruit spotting bug, Qld fruit fly, bio security. Q. 8.1 is silly because the % could change from time to time.
20796750	Allocation is always going to be a difficult subject and good independent thinkers are needed to ensure cross industry projects need to be funded properly e.g. market access, QFF etc.
20797366	Funding should be acceptable to other industry bodies and government bodies other than just PIB's. Or if PIB's are to remain the distribution mechanism that determines how funding is allocated, then the PIB structure has to meet a core set of principles that acknowledges 'a structure where proportionate levy contribution is apportioned to a proportional option to determine the allocation of where those levies are directed. This currently is not the case, and there is no structural mechanism to force PIB's meet these requirements.
20797672	Simple question requiring a more detailed response. Key issue to ensure that investment across boundaries is not subsidising research. HAL is not the only 'driver' for allocating marketing and R&D funds - IAC's and the broader industry need to be considered in this.
20798435	HAL should only be involved with marketing for up-and-coming commodities. Once a commodity is big enough the HAL marketing just confuses between brands, states and individual businesses and it is not a fair allocation between levy payers. HAL should focus more specifically on R&D.
20798571	Agreed guidelines for apportioning of spending between R&D, marketing etc, cross industry must be clear and adhered to.
20798621	Levies are a compulsory tax on growers who should benefit directly from the funds allocated to marketing & R&D.

Response No.	Response
20799173	The % mix should not be fixed but negotiated by industry service managers and IAC's on a needs basis, for efficiencies.
20799283	We are never asked.
20799298	The 5% is only if there will be an outcome for that industry, the industry (IAC) also needs to be consulted before the money is allocated.
20799447	HAL services too many portfolios.
20823141	8.1 is very subjective and marketing and research should be addressed separately, for instance on certain projects and in given years I would be happy to see a greater %spent on cross industry research but would not want to see that happen in marketing.
20823926	PIBs do not represent the interests of the majority of growers and have been hijacked by special interest groups.
20824503	Why should an industry's levies be spent on something else?
20828593	The percentage is not necessarily the key but there is certainly much opportunity to effect across industry and also across RIRDC money. EG Soils are soils and whilst the use to which they are put may vary many issues are common to all agriculture. The other issue is that capability needs to be maintained and the current structure does not necessarily reflect this.
20831487	Specific spending that will benefit several industries with common issues e.g. same insect pest causing crop losses.
20866865	Not fully 'cross-industry' but clusters of related industries - e.g. for R&D orchard fruits that have closely related production systems.
20873061	As some industries pay significantly higher levies than others (and have agreed to do so) then unreasonable to expect them to carry the burden in addressing cross industry issues when other industries (e.g. stone fruit) are not prepared to pay "adequate levies.
20925112	Split is a guess. There is no magic number. It must be derived from a full stocktake of current research and a needs analysis - what does horticulture need to achieve the strategies outlined in an updated strategic plan.
20928438	This needs to be accompanied by a focus on developing projects aimed at achieving step change outcomes. Governance arrangements that require the AIC to focus on these types of projects are likely to develop outcomes that have spill overs across industries.
20963219	More could be done by HAL regarding cross-industry programs. HAL should actively seek to bring industries together where HAL can identify synergies in R&D between industries for example, fruit fly research, cold treatment of flies for export markets, flying fox mitigation.
20963299	There should be accountability and transparency on HAL's investment activities and such information be divested to members or the public who are interested.
20969675	Cross industry and industry specific spending should not be viewed in terms of exact percentages. The percentage should change as priorities change and every industry is different.
20977854	Our industry is rarely contacted with respect to cross industry projects. Need to devise a better way to flag potential projects.

Response No.	Response
20978620	HAL needs to provide leadership in areas which are common to ALL of Horticulture e.g., water, biosecurity and access to qualified staff. All other issues are industry specific or multi industry specific.
20978907	The issue of across industry funding is complex. One of them is the choice of projects, another is the level of details that the committee (mostly not composed of growers but industry representatives) who either have no real knowledge of the problem in terms of urgency, need or likelihood of success. These are all exacerbated by "so called experts" peddling projects that get them work. There appears to be no real reviews of the success of the cross industry funding projects due to the lack of involvement of growers (similar to R&D committees) that are pressing the PIB for outcomes to solve problems.
20979119	There are two parts of cross-commodity investment. 1. The Across industry program which deals with truly whole-of-horticulture issues and 2. multi industry projects where two or more industries co-invest in a project with mutual benefit. Collectively, these two areas make up more than 10% of HAL investment already. Cross industry projects occur where it makes sense to do so. The assumption that more cross industry projects will deliver greater efficiency or effectiveness can be tested through a proper analysis of the cross industry investment in the past (across industry and multi industry).
20980179	Funding should also be given to groups that currently undertake industry marketing initiatives at a local level. Too much doubling up and not an efficient use of marketing funds.
20981076	Stake holders, not just PIB's through the IAC's, should have a greater say in the funding of R&D projects.
20982439	Across industry or multi industry projects should not be mandatory and should be "opt in" only. If the IAC deem the multi industry project to be beneficial to their industry then the IAC can choose to support it. It should not be a HAL decision.
21008172	Only a small proportion should go to cross industry funds.
21009483	There should be no specific percentage but rather if a project covers a number of specific industries those industries should share the costs. If the project is not going to benefit an industry then they should not be made to fund any of the costs.
21012157	The IAC arrangements and incontestability has skewed the investment of R&D funds towards quasi R&D projects managed by the PIB's. Given the Australian Government provides matching funds and that there is a positive return on investment for levy payers it is both fair and sensible for increased across industry and real R&D projects run by qualified research providers.
21012401	Funds collect from juice oranges should NOT be spend on Marketing fresh oranges and the same with R&D funds collected from juice oranges should be spend on juice and funds collect from fresh oranges be spend fresh oranges marketing.
21072983	Cross industry initiatives vary in importance between industries & time but are vital to maximise benefit. So 10/90 split is arbitrary but is indicative.
21075833	Promoting fruit and vegetable intake as a whole as well as R & D industry specific initiatives.
21076466	The PIB should be able to direct where they would like to direct their efforts, without any over-riding direction from HAL. The PIB, should be the IAC as these are the real people that are trying to drive the direction of their industry... and THEY ARE VOLUNTEERS - especially in the smaller industries.
21093783	Where cross industry is relevant then it should be attempted such example include fruit spotting bug. Could do this also for weevil, phytophthora etc.
21094832	I only grow Rhubarb. I pay my levies .Rhubarb is a very minor crop, to the point there is no modern up to date data on the nutrient levels for leaf testing of Rhubarb. How much R&D money has ever been spent solely on Rhubarb?

Response No.	Response
21097727	Allocation of money should be industry specific to ensure there are adequate funds available to achieve conclusive results.
21098088	A limited and very small number of issues affect all 43 industry at a similar level of priority. As a result, we should not be trying to shoe horn across all horticulture projects all the time. However, there are many like industries that have some similar challenges and opportunities and could share common R&D and Marketing investments. Strategic resourcing a sharing of these investments between select/like horticulture industries is required.
21099335	Any cross industry activities should need to be agreed by each industry that they wish to participate as their growers may have more pressing issues to invest their money that they see would return a better ROI
21124832	Cross industry activities should be under a different umbrella.
21125072	Money must stay with the industry that has paid the levy.
21125199	Any funds used should be shown by HAL to be of good use for the industry.
21125478	The point about investment is that there needs to be much more rigour and transparency about HAL's investment decisions. Only that will remove the suspicions and widespread concern. Regarding Across-industry and Multi-industry projects, the budget allocated to these should be the product of a rigorous process of identifying and evaluating such projects. There is definitely a place for them, but not as a product of some pre-determined, fixed % of total spend.

What do you like about the current system of levy collection?

Total Respondents: 65

Total Skipped: 17

Table C4 Survey responses to the question: What do you like about the current system of levy collection?

Response No.	Response
20723854	It can be designed to fit each industries requirements and situation. The most effective levy collection occurs where there is a narrow point in the supply chain such as spawn producers in mushrooms, processors in Macadamias, runner growers in strawberries. Some industries struggle to find a sufficiently narrow point such as turf. This is not a fault of the levy collection and requires more creative thought by those industries. Recent changes to cost recovery will help drive this. If you try and rationalise the levy collections you run the risk of a lowest common denominator approach that will cost everyone. This will not be effective and may only be efficient for the department.
20724481	Catches most production. Cost efficient.
20725987	For bananas a very efficient collection system. Minimum number of collection points but with enough flexibility for smaller growers who may supply niche markets to pay direct to LRS.
20759792	it is streamlined when it comes to our industry.
20759961	In most industries, all sectors contribute equitably. There are some difficulties in collecting levies in particular industries with many small producers (e.g., table grapes), but there is also the reward vs time issue.
20760018	Levy collection at first point of sale captures a large percentage of the crop when sold at the wholesale markets.
20760501	It works as long as those that pay get the benefit.
20760566	Simple and has been operating for many years.
20764216	It works, for our industry. It has made possible very significant growth in demand (partly due to marketing but also more reliable quality, through R&D) to match significant increase in production and therefore maintain prices and industry viability.
20771886	It is equitable.
20774415	I pay two different types of contributions for the two industries in which I am a grower. Both are appropriate for these industries.
20775972	Each system has been derived with consultation of the commodity group. if there was an easier /fairer method, it would have been established at the outset.
20780794	Seems efficient, all inclusive.
20784149	I assume that the collection of levy from each industry is similar. I would not like an industry which collects a more generous levy pays for one that pays a less generous levy.

Response No.	Response
20792132	Seems simple enough.
20797672	Horticulture is complex - a levy on TURF cannot be applied to NURSERY which cannot be applied to FRUIT. An ad valorem levy for the nursery industry is inefficient and would result in a significant increase in collection costs.
20798571	Seems to be a reasonably equitable system. Level seems appropriate.
20799128	Simple & cost effective collection
20799173	Some industries have negotiated higher levies they can support on the basis of need. Its too diverse and industries at different stages of evolution for a one size fits all.
20799283	Simply that there is a levy per kilo of our nuts when they go through the Processor.
20799298	Industries choose their own levy on their needs.
20801033	Transparent.
20801469	My processor collects.
20816565	It works well, but makes a significant indent in our profit when the last 4 or more years have been particularly tough.
20816623	Deducted automatically from sales.
20816646	fair system paying on the amount you supply.
20823141	It is clear to most stake holders in apples and pears and any change would create confusion.
20824746	Been happy with representation.
20826173	I think the present levy [on the macadamia industry] is probably fair and not onerous. HAL has an established system for collecting levies that industry might find hard to duplicate.
20827859	I don't like the costs involved for the processing potato industry because it is collected by the processors so no cost much to the LRS
20828415	Difficult to devise a different & cost-effective alternate system.
20828538	Grower that pay the levy has input on how the will be spent through the AIC investment plan.
20828950	Ease of operation.
20831487	1. Good use of tax money. 2. Efficient collection system. 3. Accountable.
20866865	Simple through pack house & market agents.

Response No.	Response
20868566	Centralised collection by processors ensures majority of levy is collected with minimum involvement by grower and low cost to PIB.
20870543	Easy to do.
20873061	Those industries that are prepared to invest in their future, by paying higher levies, should not be penalised by having to use a system that satisfies the LCD (lowest Common denominator).
20897472	It works – might not be the most efficient, but if a private entity had to collect it would cost 3 times as much to administer. there need to be an element of public good by the Government.
20931785	FAIR.
20932446	Relatively small amount of total sales.
20933039	Seems fair.
20934292	Centralised and accountable.
20934558	Works.
20963219	Its product specific and the funds collected for a certain industry are relative to that industry and go towards that industries objectives. For example, \$2 per tonne on a product worth \$100 per tonne is a lot more than \$2 per tonne on a product worth \$2,000 per tonne. It would be difficult to use a one size fits all approach.
20963299	The current system is considered to be fair and equitable.
20978620	LRS needs to be more customer focussed and identify with Prescribed Industry Body how their collection system could be improved. There needs to be more transparency from LRS.
20979119	It allows industry sectors to put in place a levy mechanism and rate that works best for that sector.
20981076	It works for avocados.
21011425	It is representative of the industry through compulsory levies rather than voluntary. If allocated appropriately benefits are available to all contributing growers.
21011843	It catches most of our industry.
21030551	All growers contribute. The high rate means that significant research can be undertaken.
21030595	Pot Levy accurately netts funds.
21072983	Levied on production & so identifiable & less costly to collect. However, ad valorem is fairer to contribute & Maybe provide better reward.

Response No.	Response
21075833	It is taken at the market payment stage.
21094832	I don't have to deal with it.
21096787	Strawberries Levy System is PERFECT. We collect 100% of levies from growers by the use of the Strawberry Nursery industry (Runner Growers) and its a very inexpensive system to collect. All growers in the Strawberry Industry DO NOT WANT A CHANGE for to do so would be a retrograde step.
21099335	The mushroom industry levy is very cheap to collect based on spawn and ensures no leakage of revenue. It is equitable as this is an essential raw product that is used at a fairly consistent rate across industry.
21124784	The Mushroom levy is efficient and extremely cost effective.
21124832	First point of sale is effective generally in capturing most of the levies due. Some will always be missed.
21125072	It works well and there is no leakage.
21125152	Governed by statute.
21125199	Its simple, cheap to administer and there is no leakage.
21125478	It is tailored to the specific needs and characteristics of each industry.

Please provide any additional comments about HAL's levy arrangements.

Total Respondents: 76

Total Skipped: 97

Table C5 Survey responses to the question: Please provide any additional comments about HAL's levy arrangements.

Response No.	Response
20723854	If the levy costs are too high and the resources required too much, modify behaviour with price signals and then some assistance to design better collection points. Do not throw out a system that delivers ownership and effective and quotable funding for each industry.
20724271	A review should be looking at the collection system to see if change is warranted. Certainly some levies are expensive to collect and some may be out-dated. Levy collection remains the fairest way to ensure all growers contribute to the growth of their industry through projects funded by the levy and Government matched funding as well as VC contributions.
20724665	AWIA pay voluntary contributions. This has suited us well till now, although there has been a decline in the number of members paying I believe. Getting a levy up looks like a bureaucratic nightmare and one of our members is unwilling to go with the levy system.
20724747	Given the diversity of commodities and the supply chain for each of them it is not difficult to see how this has become very complex over time. I believe a periodic review of levy rates and methods with a vote by levy payers is required. There is no current mechanism that I am aware of for levy payers to amend or remove levies. Additionally HAL should actively be involved in trying to rationalise the levy arrangements to reduce systemic cost loads for the collectors of the levy which are not only the LRS, but in the case of vegies, the first purchasers e.g. retailers and wholesalers and processors.
20725987	HAL needs to do more work to decrease LRS costs on a number of industries (see your report). If levy collection for especially smaller horticulture industries is a problem then HAL needs to exert pressure on DAFF to make sure that any new industries have an efficient collection system.
20759600	The department's cost recovery charge is way too expensive.
20760018	Cost of levy collection has increased markedly over the years and is a huge burden on small industries.
20760051	In today's environment the relevance of DAFF collecting the levy (via Levy Revenue Services) is no longer a requirement. HAL is capable of being the agency that collects and distributes the levy therefore a certain level of duplication is eliminated.
20760122	LRS take far too much of the levies for their services as do HAL - the loss can be as much as 25%
20760501	Industries willing to invest in their future through levies should not be subsidising those industries that do not pay enough levies to make a real investment in their own future.
20760791	Its effectively collected but not sure its value.
20760897	The system is too complex and should involve all sectors of the industry including retail.
20761651	I am a small grower that sells many different lines direct to consumers. I spend far too much time working out the cost of the levy, to support a body that seems to have little interest in small growers and to pay for research that has little or any relevance to my situation

Response No.	Response
20761817	It is not may area specifically though know enough about this after many years of working with levy funds. Apart from the multiple levies, it is unfair that very large industries (e.g. citrus) have very small levy rates and then expect as much services as smaller industries with high levy rates. In the end the large industries with small levy rates have insufficient funds to support across industry projects even though they are the ones to benefit most - and small industries prepared to fund across industry projects pull out when they see others crying poor "no funds" and then get a free ride.
20771886	Farm gate sales can slip through – un-levied
20774415	The levy arrangements are not "HAL's levy arrangements". They are arrangements negotiated by industries through their PIBs with the government of the day. HAL is the recipient of those levies.
20780870	The mix for avocados seems to be producing tangible benefits and is not onerous on growers- don't know about other industries.
20781947	LMU take far too much money out of a relatively small pool for their supposed cost recovery for the collection service. I think for last year it was around the \$100k mark for a levy of around \$1M. This year the cherry crop is estimated to be down by 40-50%, therefore the collection cost could blow out in the vicinity of 20% of the actually levy!
20797366	It would be MORE efficient if each industry body had control of how to spend their proportionate levy contribution - but only if key structural guidelines are met within each industry body that ensure the industry body acknowledges proportional say in how your levy contribution is to be allocated.
20798566	I think that levy payers should have voting rights somehow associated with the amount of levy that is paid. Also there should be a maximum amount of levy that should be paid to help offset the inequality that exists.
20798621	Levies should be voluntary. Levy payers should have the ability to contribute & vote on t eh allocation of funds to marketing & R&D programs. The macadamia industry IAC should be composed solely of elected levy payers & not AMS board members (even with an "independent" chair)
20798974	Regarding the Macadamia levy the levy expense has varied from 9% to 2.5% depending on the farm gate price of macadamias during the past 8 years compared to income tax that is paid according to income.
20799173	Collection and compliance is too expensive and not done well enough. Tendered to private might be a good way to go for a period, cheaper and more aggressive to get things under control and then back to government for a holding period. Too many people avoid it in some industries.
20799298	The question is invalid as HAL has nothing to do with levy collection.
20823926	The levy system should be abandoned and government should directly fund research.
20825238	There is no data for none payments & there is nothing in place to chase up none payment.
20826173	Levies are important for providing funds for research, marketing and development for an industry. If there were no statutory levies there would probably not be enough funds for these important activities.
20826597	It would be better if these levies were tax deductible for the levy payers.

Response No.	Response
20827902	There are probably many small growers who don't contribute.
20828593	The levy needs to be more broad based. At present it is all paid by growers who are only a part of the supply chain. Thought needs to be given as to more flexible means of collecting levies and their application. This is particularly the case with R & D related to market research etc.
20857762	HAL, like all other RDCs operates within the framework of the LRS and Levy system. The 11 step process is cumbersome, expensive and creates a barrier to change. We require a more flexible review mechanism that will enable us to effectively consult, manage and invest grower funds into areas- R&D and Marketing that responds to the strategic needs of our industry.
20868156	It needs to be simplified.
20869095	A lot of levies could be based on a percentage of the gross at the first point of sale
20872113	I regard levy collection as a tax. There must be an opting out provision for it to be a levy
20873061	Information on who pays levies would be very beneficial to industries but costs appear to be prohibitive.
20925112	Whilst not difficult to convert all levies to ad valorem it will be impossible to determine a rate that meets the needs of all industries. The amount of dollars collected is the important factor – how much money is required to fund the projects necessary to meet the needs of each industry and meet the needs of horticulture in general. Nevertheless collection costs are dependent upon the number of collection points and the risk of those collection points – this has nothing to do with the number of levies imposed nor the type of levy (per kg, pot numbers etc).
20928438	It would appear that the Levy Collection Service is at this point in time not using a cost benefit analysis on the collection of levies, and overcommitting resources on the collection of small levy amounts.
20931728	Needs to be more transparency and accountability between LRS and industry size to ensure it is fair.
20933167	The cost of collection takes a large amount of money out of R&D activities.
20934292	Market place needs more awareness of levy collection requirements.
20962811	Collection costs for the turf levy are too expensive - mainly because levy funds are being collected from individual growers.
20963219	Due to the fragmentation of markets now it might be simpler to collect the levy at the packing shed rather than at a market level. Many growers deal direct with importers now and may not be paying appropriate levies. Previously growers dealt with wholesalers in the markets...now there are so many other direct supply arrangements and I'm certain the industry would be missing out on levies in a lot of these cases.
20963299	The collection of the levies should be made accountable and transparent.
20977714	Vegetables are grouped including many different crops. Consideration should be given to join others into larger groups such as nuts, fruits etc to simplify system.
20977854	Sometimes there is a disconnect between HAL and the department and there can be significant differences in both the value of the levy collected and in the levy collection charges that are reported to industry. HAL will not assist an industry to investigate discrepancies. The department updates do not align well with investment planning cycle used by HAL.

Response No.	Response
20978907	It should be an ad valorem levy to solve the diminishing income over time since the levy was last set. The levy rate is likely to be different for each commodity as the value of the individual selling unit is different for each industry.
20979119	Industry sectors that have highly inefficient mechanisms should consider what options are available, but for many, particularly the larger industries, the collection system is working cost effectively
20980808	Unfair and probably unconstitutional that some veg bodies are non levy paying yet the growers in that industry are represented at 2 different producers levies. Why should one part of industry be taxed and not another such as green house growers?
20982439	HAL should be able to collect a small% of the levy from all industries directly to fund it's activities
21009483	The levy collection costs for the chestnut industry seems to be very high on a percentage of revenue basis. However, it's difficult to know if this is justified because of the way the HAL report levy collection costs to the industry. Every time they tell us the amount it has changed from the previous notification - with constantly changing info it's hard to know exactly what's going on or if the costs are justified.
21011425	The level of funding from grower levies and matching government funding, by world standards, is falling quickly and therefore additional funds needs to be secured sooner rather than later for the sustainability of our industries.
21011843	This seems to be the simplest way to collect the levy.
21012157	HAL as with other RDCs has no control over the levy collection arrangements.
21030551	Unfortunately there is no register of levy payers so how does one communicate with them directly. A system should be set up so that all levy payers can vote on research projects.
21072983	Levy collecting costs need to be minimised as does the HAL administration fee.
21073288	It is also costly under current system to collect levies - this needs streamlining.
21076466	It seems ridiculous that the wholesalers can make lump sum levy payments on behalf of growers, within the periodic payment periods that wholesalers make, but there doesn't seem to be any recording to the levies board of who the actual growers are.
21093783	Fuzzy edges with some industries taking voluntary levies. This makes it hard to prioritise research needs.
21096787	The only change in the Levy System (from Strawberries perspective) would be an easier way to vary the amount and the possible splitting of the levy money collected into both R&D as well as Marketing.
21098088	In the Turf Industry, the collection costs are too high and compliance levels too low.
21099335	Levy Caps should be removed as this gives the largest players who have arguably the greatest revenues the lowest levy cost per kilo of production. In effect this has the smaller producers subsidising the largest producer/s. If there was no cap than the same levy could be raised with a lower charge per unit hence saving money for all producers other than those who are larger than the cap which is far more equitable. The statutory levy system is envied by all other growers in the world of mushrooms as it has grown the business with everyone contributing.

Response No.	Response
21120669	The levy collection process is extremely expensive.
21124963	Daily price reports from each state would be good. Persimmon agents would be good at Brisbane markets, considering the amount of persimmons grown in Qld compared to other states.
21125072	It is cost effective to collect.
21125199	Its a great system except for the unfair levy cap.
21125478	Levy collection is at full cost-recovery. Therefore, if an industry is happy with the collection cost, so be it.

Please provide any additional comments about HAL's objectives and priorities.

Total Respondents: 42

Total Skipped: 131

Table C6 Survey responses to the question: Please provide any additional comments about HAL's objectives and priorities.

Response No.	Response
20723854	I have not answered the question because it is not the right question. Arbitrary. %s are not the way to deliver strategic outcomes. For every allocation to one area there are 10 good reasons why it should be different. The key thing to not here is that this allocation is based on strategic industry plans, developed with broad consultation and input across each industry, just as HAL is supposed to do. If they do not align well enough to government priorities, let understand why, rather than just pressure HAL to spend more in one area and less in another.
20725987	Our industry is already oversupplied and therefore need to spend less in this area
20761817	I've never agree entirely with this list and feel that there are really only two key areas - productivity (all about improving efficiency, growing better and overall reducing costs - include bio security and resource management and climate change) and market development (all about generating market demand - promotion, market research, understanding target markets, market strategies - include innovation, also market access and anything needed to build a platform to facilitate trade)
20764216	Not possible to comment from top down. Depends on situation of each industry at any given time.
20775972	Seems to be more "sales" driven, than R&D driven.
20780870	The way agricultural research facilities and professionals have been emasculated by Governments over the past generation has substantially reduced the capacity to undertake agricultural research in Australia. Advanced research into the application of genetics to rootstock improvements for soil borne disease resistance could deserve substantially more funding if facilities were available.
20781905	Where 'cherries' are concerned, far too much emphasis is placed on 'supermarkets'. The big two, really don't care what the Industry does, so long as they can use them when and how they want. As an Industry we need to focus on cooperation with market sectors that do respond and work collaboratively, and not waste our time and money with these.
20781947	HAL should not be a service provider. They should only an administration body only and a very streamlined and cost effective one at that. The idea that HAL provides production, innovation and marketing leadership is an insult to the best farmers and commercial people in our industry - it has always been and will continue that these are the people that cost effectively seek out, implement and encourage innovation within an industry as it is commercial success which drives this.
20796750	The priority of these levies is principally about maintaining and improving producer profitability. Is Biosecurity really the domain of these funds? The same with Natural Resource Management.
20797366	My argument is that 'Productivity and Value adding' are the result of the rest of the categories from all of the above.
20797672	Does HAL 'deliver new knowledge' or 'facilitate the delivery' of new knowledge?

Response No.	Response
20798621	As growers, we carry the industry's risks - climate, biosecurity & disease, currency, price etc. HAL's priority should be to address levy payer issues of sustainability (including profitability) & leave non-grower commercial stakeholders (processors, marketers, consultants etc) to fund their own marketing/R&D activities.
20799173	HAL does Research objectives well but Marketing quite poorly and lines are often blurred between projects that help and facilitate marketing that are really covered under research anyway. Mixing them to gather is problematic as is supply chains and marketing, most factors in supply chains should be under R&D. Leads to more administrators and higher overheads, if its R&D its R&D even if its market R&D.
20816652	Independent successful farms don't need assistance with productivity and value adding, or supply chain and marketing. They need their levy money to be spent on innovation, skills, technology and biosecurity. We have some of the best producers and marketers in the world. It's technology, innovation and biosecurity that we need more immediate results in.
20823926	If this system is to continue then HAL must ensure that PIB are run efficiently and in the interests of primary producers.
20828593	Not sure what is meant by innovation skills. HAL should be providing or adding to information for the private sector where there is market failure or lack of skill. The mass reduction in capability in most jurisdictions make this even more imperative.
20866865	Labour cost in picking & packing is the biggest cost (~90% of sales value) - this will become more of a problem - need R&D for innovations and technologies to overcome this.
20873061	The levy payers priorities must always be considered as well as government priorities as both are investing. Growers are likely to be more concerned about short/medium term issues rather than longer term issues such as climate change.
20928438	This breakdown fails to actually deliver more specific information on the types of investment in these areas by HAL. This would enable a better consideration of whether the investment is in the right stage of the innovation development implementation spectrum.
20963219	Costs of labour are making it difficult for labour intensive horticulture industries to remain viable. This situation will almost certainly get worse. The main concern being industries where the product is harvested by hand. HAL and industry need to invest in harvest technologies to decrease the labour cost per unit of output and reduce the reliance on manual labour.
20963299	HAL should emphasize on more effective research, sustained development and improved marketing.
20978620	These figures are the sum of industry focus on these priorities. As Horticulture is so diverse the needs of each sector vary in priorities. The timing of research outcomes will also impact on what is in focus ie. a drought and water restrictions places greater focus on NRM. A good production year will see a drive for market access. Horticulture is reliant on seasonal conditions and reactionary.
20979119	The government priorities of Innovation skills and Technology are supporting priorities. It doesn't make sense to include them as a specific area of investment. Would be interesting to see how the other 5 priorities look. The Objects in Q12 are not exactly what is in the HAL Constitution and the abbreviation causes some ambiguity.
20980179	HAL should work better with industry players, not just grower groups.
20980808	If they lower spending then should lower levy or else broaden the base and pick up all industries
21008172	Climate change should be a national responsibility for funding not out of our funds. What's missing in the plan is support of fundamental research that will benefit us further into the future and also support what's left of our scientists. This comes about by the IAC system that concentrates on basic research and short term problems. Biosecurity is a sleeper that could drastically effect us all if we don't get more surveillance and become better prepared.

Response No.	Response
21009483	My ratings are based solely on my experiences in the chestnut industry so it's difficult to make across the board comments regarding funding allocations, etc.
21012157	The objectives are OK the failure is in delivery.
21072983	My great concern is with governance by HAL, IAC & PIB in the citrus industry as this is the one that I am most interested in.
21076417	Emphasis should be on projects that enhance production, efficiency, technology and most of all skill building. NRM should be a low priority. More efficient transfer of knowledge from projects to ALL levy payers.
21096787	Overall, they are about right.
21099335	This needs flexibility between commodities as all are very different, it is this that needs to be steered by the producers/PIB to ensure it fits their commodity.
21124832	With our wage structure and costs of doing business in Australia, the overarching need is for us to be at the leading edge of innovation and technology.
21125478	These shares presumably reflect the emphases detailed in the industry SIP's. Therefore, they must be the best fit for industry and the requirement HAL must meet.

Are there any other changes you would like to see? Briefly describe these changes below.

Total Respondents: 31

Total Skipped: 26

Table C7 Survey responses to the question: Are there any other changes you would like to see? Briefly describe these changes below.

Response No.	Response
20723854	It is very difficult to give sensible Y/N answers to these simplistic questions. Everyone could either be an improvement or a backward step depending on how they are implemented and what exactly they mean. For example, representative bodies playing an more active role in service provision is not a philosophical position, it is a response to a withdrawal of service by DPIs, a growing capacity and maturity of PIBs and, it has to be said, a realisation that often, PIBs are the most effective service provider in areas such as industry development and communication. Statements like HAL should be the voice of horticulture don't mean anything. These are complex issues that deserve a more thoughtful analysis.
20759961	Streamline the bureaucratic processes associated with convincing Government that the R&D is well administered - I think there is too much attention to process and too "little marketing" of the considerable R&D achievements and their benefits to different horticultural industries.
20760791	To reduce regulatory cost burdens on growers and to provide a vehicle for growers to improve income through improved income generation and a reduction on their cost base.
20781947	As previous, HAL should govern levy spend only, not be the service provider; at a fraction of the current services agreement cost. There should be more checks in place to ensure there is adequate conflict avoidance so that levy payers have a fair and democratic means of controlling levy spend – as opposed to the CGA which self-appoints its own IAC to control spend at present.
20797366	Mandatory Guideline requirements for uniform PIB structures that acknowledge proportionate input into levy contribution and determining how levy is spent.
20823141	There are far too many grower organisations within given industries that HAL attempts to deal with and they must be forced to deal through a particular structure so that HAL does not have to deal with so many groups .It will do 2 things, make HAL more efficient administratively and better able to communicate, and do every grower in Australia a favour by reducing the waste of money having too many organisations all operating inefficiently and confusing growers over who represents what and how.
20823926	Yes as stated the whole system should be abandoned. The PIB that represents my industry does not have wide spread support indeed I know only one grower who is a member. Agriculture in Australia can no longer support 'dead wood' and government employees. Macadamia NIS is the same price it was 15 years ago, I am aware that many agricultural products are in the same situation. Radical change is needed as a matter of the utmost urgency if agriculture is to survive in this country.
20827902	HAL has to operate to Government standards of accountability and management, while interfacing with industries that require a far more streamlined approach and greater flexibility. I think blending the two cultures is the biggest challenge for HAL. In short they need to streamline bureaucracy.
20828469	Less of a process driven culture and micro management of investment. Trust those who are put in place at an industry level to do their job.
20925112	HAL should be policy voice but not political voice. Industries should be given flexibility to undertake own marketing but not R&D HAL should disband the Across Industry Committee - that is what the HAL Board is tasked to do. Personal view (not APAL) that PIBs should be rationalised but this is not to suggest IACs should - the levies need to remain in industry silos and IACs are not capable of deliberating on multiple industries unless there are multiple R&D and marketing sub-committees.

Response No.	Response
20963219	The options provided above are too restrictive and are open for misinterpretation. Seems to be a case for some streamlining amongst the smaller industries. Whilst Representative bodies could be given more flexibility HAL must provide oversight to ensure that the taxpayers and growers funds are invested in line with industry priorities in a transparent manner. HAL must stand between Government and Industry. They provide certainty for Government and provide strength for horticulture industries. HAL cannot take an agri-political role otherwise the Horticulture Industry risks losing its funding model. Matched funding and government support is critical to the sustainability of our horticulture industries.
20978620	HAL needs the internal operating systems that can provide streamlined project management and give the Board the metrics required to effectively manage a complex R&D suite of projects. Effective costing analysis is required as there are inefficiencies in some external providers which do not add value. HAL operationally should be focussed on adding VALUE to the investment from producers and government.
20978907	The above questions only would be true if HAL had a bit more knowledge in the areas of productivity for the industries they represent. HAL could not be the voice of horticulture as many things raised would be political and HAL could not be involved in any agri-political activities.
20979119	Any changes need to take proper account of the difference across industry sectors. Any changes need to take account of the important role that PIBs can and do play and the degree to which they currently represent levy payers. Any changes need to deliver equivalent or better outcomes to levy payers. Cost reduction should not be the primary driver of change.
20980179	Funding for industry groups that are currently on the ground undertaking marketing programs. We do quite well with no Government support but with assistance from HAL, we could do so much more.
20981498	Independent analysis of efficiency of HAL service delivery. Investigate options for reducing HAL bureaucracy via possible groupings of similar commodity groups e.g. tree crops, vegetables, intensive horticulture etc.
20982439	HAL should definitely be the voice for the horticulture industry and should have allocated a proportion of the levy from all industries to fund activities such as market access and trade missions to developing markets and representing industry at high levels to state and federal governments. This could be based on the Horticulture New Zealand model.
21008571	The IAC's need to have an independent chair not involved in their industry and have a broader range of members representing different sectors of the industry. For example have people from research providers, consulting firms, growers, packers and marketers.
21011425	More transparent organisational structures and IAC structure. A significant reduction in the costs of doing HAL business should be addressed urgently to ensure the % of levy funds used in administration is kept to an absolute minimum.
21012157	The major problems are: Firstly the merger of the former HRDC and AHC is a failure and has generated cultural tensions within HAL. Secondly many of the larger PIB's would prefer HAL to simply be a bank and allow the PIB's more control over levy funds and program delivery - this would be fine except most PIB's are quite unrepresentative of levy payers. The smaller PIB's are more dependent on HAL services. HAL needs to establish PIB performance / representation benchmarks to match the level of independence sought.
21073288	HAL has a national focus in these areas but increasingly dismisses the value of state bodies in preference for PIB's. However it is the state bodies who access the grass roots issues and feeds relevance back into the PIB's and while not relevant to this IR, it is at the state levels much of the political outcomes are achieved. While this change is not overt, it is noticed around the number of state based projects not being approved. There is too much HAL control around the marketing dollars and inflexibility to work cooperatively on projects which while being state based will assist in achieving national outcomes. In short the one size fits all approach is not always relevant.

Please provide any additional comments about HAL that are pertinent to this Independent Review.

Total Respondents: 53

Total Skipped: 120

Table C8 Survey response to the question: Please provide any additional comments about HAL that are pertinent to this Independent Review.

Response No.	Response
20723854	<p>These kinds of questions really do a disservice to the Review seeking simple Y/N answers to complex issues.</p> <p>Is this about a strategic analysis of the model and it's effectiveness or is it about a popularity poll? This is like asking people if they get value for money for their taxes.</p> <p>What about looking at the new practice adoption across some industries and the value this has delivered? There would not be a single grower in the Australian macadamia industry that is not benefiting from some R&D done through the levy. I am happy to give examples if requested.</p>
20724271	<p>As a levy payer I have very little knowledge of the way HAL operates. The main thing we hear about is R&D projects which pertain to our industry and whether they are accepted or declined. Levy payers should have some more influence but there is a problem then with dilution and distortion because of the number of individual levy payers. Better representation is done through the PIBs who represent the interests of their commodity groups more clearly. Levy collection should be solely for the purpose of enhancing the future of horticulture. Increasing farm gate returns is the aim of HAL but how does it go about trying to achieve that aim?</p>
20724665	<p>HAL should be commended for managing such a diverse range of portfolios; much more difficult than just rice, or wheat or wool. Horticulture has grown immensely since HAL began. It doesn't matter if their governance is 'old-fashioned' - it works. I suspect that HAL or DAFF would like more power. But knowledge and experience reside with PIBs. HAL should be there to help equitably.</p> <p>Maybe HAL has too many members - expensive to run? I know HAL like to cover all Australian horticulture, but some members could be combined. Australian horticulture badly needs an agri-political body I (know this is not in HAL's remit- maybe an independent committee could be formed? Or use Single Voice?). Not sure if HAL requires this, but every HAL-funded project should expect some effort at outcome measurement. Outcomes are hard to measure, and some may appear years after the project that produced them. Eg AWIA 2013 China visit- ongoing interactions with Chinese re machinery & knowledge transfer.</p> <p>HAL's governance has improved over the 10 years since AWIA joined, but communication to AWIA re handover of a portfolio to new HAL staff is too slow. Please improve accessibility of staff to members. PIBs should remain members of HAL, not growers, but PIBs have major responsibility to communicate from HAL to growers. Having all growers as members would be hugely expensive & inefficient. Also, a HAL representative should attend and present at grower meetings once or twice a year to enable communication between growers and HAL. AWIA R&D chair says that HAL has a good system of project support, sending reminders about deadlines & project responsibilities which are helpful; HAL is understanding about late reports. HAL's strategic services are very useful to AWIA. Smaller industries benefit from this support.</p> <p>HAL doesn't need a new system or structure, just some minor tweaks, e.g with communications. Less bureaucracy would be good. 28% spent on overheads: not surprising as Sydney is a most expensive city. Good that overheads are declining.</p> <p>Re x-horticultural spends, don't try to fund across all horticulture industries, fund projects across a group of like industries. Need a co-ordinator to find synergies between some industries and pull strands together. Suggest</p> <ol style="list-style-type: none"> 1. Creation of a simple data management tool which growers could use. We have difficulty knowing numbers of orchards, acreage, tree numbers, output, etc. ABS are not up to date. 2. funding for a successful bird control project would improve productivity for many industries. 3. how to deal with supermarket dominance: currently growers are 'price takers, not price makers'. 4. provide extension services to replace the decline in DPI staff 5. Provide a highly skilled facilitator to get PIBs co-operating with each other on like-group projects.

Response No.	Response
20725987	The structure as it exists is fine. However HAL has to be proactive and improve their governance so that a few PIB's/industries do not drag the competence and reputation of HAL down. HAL rules have to apply evenly to all industries e.g. if HAL requires PIBS to be in a minority on IACs then that has to apply to all IACs.
20759961	HAL is doing a good job in trying to satisfy Government bureaucrats and politicians (maybe too much time dealing with these people but unfortunately they need to be informed and agree with HAL's business processes). However, the thing that HAL does really well is support industry investment, R&D processes, and marketing opportunities for horticultural products. There is no doubt that horticulture and agriculture is a strength of Australia's economy, and this is due to a long and successful history of innovation and adoption. Without HAL, horticulture would suffer the same fate as our car industries.
20760018	HAL has been reviewed several times since its inception and there have been many changes to improve efficiencies and comply with constantly changing Government requirements. The model we have now with HAL is working well so there is no need to change the general format.
20761651	Where is the analysis that attempts to demonstrate the industry benefit from particular areas of research? How can one be satisfied that there is value for money without this analysis?
20761817	Thanks for the opportunity to respond. I just think that HAL was in a great position to lead the horticulture industry through difficult times yet those opportunities have been rolled by powerful industry leaders and CEO's who are seeking their own interests - not even of their industries. It is not necessarily HAL's fault that the organisation has become what it is today and there is a 3 way power struggle between the agri political industry leaders, the HAL management and Board, and the government which funds 50% of HAL (R&D) with matching funds. I think the "experiment" to create a grower owned company to service its own needs has failed and that the way forward is regrettably going backwards a bit to the statutory models (The department still has several existing) for government to have more control over large research projects with wider economic benefits funded by a more industry wide equitable levy, establish effective market intelligence for the wider industry and then let industry bodies take control of their own marketing (with export support from Austrade EMDG or similar) without being constrained by unsustainable low levies
20764216	I believe it would be more efficient if separate IACs were set up for marketing and R&D respectively, in each industry. The concern about conflict between PIBs and HAL/IACs has over complicated decision making and muddled communication between industry participants and decision makers. Look at a streamlined conflict management process to handle cases of actual conflict of interest rather than distort IAC composition. Or set up a levy payer-owned PIB to do all except agripolitics. Some industries could operate more efficiently on their own, without HAL, but there are some benefits at times from collaboration. The system should aim to get best outcomes for each industry, not administrative convenience for DAFF.
20774415	HAL does a fair job in complex circumstances. My experience of the two PIBs in which I am involved and I observe in the other nut industries is that it is the PIB that does the job of delivering results to growers like me, with the financial assistance and occasional technical expertise of HAL. Handing the levy funds to super bodies such as combined industry IACs or worse, an all powerful HAL Board which would effectively be run by Canberra would be a disaster.
20781947	The current structure of Cherry Growers Aust. and the Cherry IAC needs some very careful scrutiny. At present the state members who are supposed to control CGA are effectively vetoed by CGA's own appointed representatives. This has become evident with the CGA President recently self-appointing himself to the IAC as a co-Victorian representative, when he was duly un-elected at the Victorian Cherry Association AGM in Oct 2013 - this is against the democratic wishes of grower members of the VCA. The cherry IAC has now 6 of the 11 positions on the IAC are either CGA board, or CGA sub-committee plus 2 HAL staff where there is service provision, plus the CEO. This leaves only 3 positions as non-CGA board, democratically elected state representatives. So CGA controls levy spend, not the state members of CGA and therefore not the grower members (levy payers). This is all under the supposed watch and guidelines of HAL, such a huge conflict of interest and a poor display of governance supposedly upheld by HAL and the independent chair.

Response No.	Response
20796750	I believe we require HAL as a co coordinating body to help direct and report on Research and Development in the Horticultural Industries. With the withdrawal of State Government funding from agricultural R & D HAL's importance should grow if anything.
20797366	The HAL structure needs to have a more direct line of communication between levy payers and those persons determining levy spend, to better examine/review that IAC and PIB's are doing their job properly.
20797672	A detailed industry submission will be provided.
20798571	Aside from reading the regular magazine I have no interaction with HAL. The Aust Macadamia Soc however does. I recall that they're generally positive about their interactions with HAL. I hope that means my levies are yielding a suitable result.
20798621	As macadamia growers, we have effectively NO say in the allocation of compulsory levies
20799283	To me HAL is a statutory body with whom I have no contact. I do know that our levies are spent on Marketing and R&D projects but we get no say in what they should be spent on. Only once did I suggest a project, however, it did not get past the AMS. It seemed to me that growers knew nothing.
20816623	Levy payer access to benefits of innovation and research not reaching all growers in the custard apple industry. Not sure how this can be overcome by HAL as it is reliant on the various industry bodies for spreading the benefits without favour.
20823926	The current system is failing growers. It must change!
20826173	I believe that the present split of levy allocation for the macadamia industry is unbalanced. My understanding is that the split is 50/50 between R&D and Marketing. I would like to see this change to 60/40. There are many important issues for the industry that need research funds (such as understanding pollination processes).
20826597	HAL is overly bureaucratic and some of the program managers are overly pedantic. the delivery of information to growers is at best dry. It needs to be re-invigorated and in a form that growers identify with.
20857762	Setting of levies and importantly the review is stifled by the cost, time and complexity of making changes.
20868566	The system for changing levies needs revamping. It is insane that it takes up to 2 years to implement a simple change like a split between marketing and R&D.
20872113	In the PIB avocado industry a business with 6 avocado trees pay minimal levy, with the same voting rights as me with 70,000 trees and paying \$100,000s in levy fees. It is not the responsibility of large producers to subsidise small growers. Productivity growth and innovation will come from the large efficient producers. (ultimately growers are all competitors with each other). I would employ technical people if this HAL tax did not apply, crippling my R+D and marketing resources. HAL consumes 34% of fee collection in administration. Unacceptable, with much of the funding going to irrelevant projects. Let the market sort out on a voluntary basis who should receive industry funding for R+D and marketing. Government has no role to play in R+D and marketing. It has a role to play in bio security.
20873061	HAL has many masters! Some growers/levy payers will always prefer not to pay levies. Either they think they can solve the issues themselves or they just look at their bottom line and see a sum of money going out each year over which they perceive they have no control. Reality is that they can be involved in the decision making process if they want to. Those industries (growers) that have been prepared to invest in their future e.g. avocados, bananas, persimmon are "harvesting the benefits of that investment. Others such as summerfruit who have not been prepared to invest have struggled to "kick any goals" and many of their growers still expect " the government will help them" !!
20903928	If recommendations from the review cannot improve results for levy payers why change? HAL do quite a reasonable job in the current structure, staff are helpful and for industry we could do a lot worse.
20925112	HAL has become too process oriented where the risks do not warrant it and consequently transaction costs are high. HAL could be more responsive and a more competent organisation if they developed knowledge hubs and specialist expertise to assist with cross fertilisation of world's best practice R&D.

Response No.	Response
20933167	There needs to be more recognition in the levy setting process of the people investing the most money. When 20 to 30 % of funds are eaten up in collection and management costs industries and taxpayers are not getting value for money invested.
20934292	More flexibility in collected levy allocation between R & D and marketing.
20963219	Voting rights on levies for industry should be based on production and not a "1 grower=1 vote" system. Those with the most invested in the industry should have a proportionate amount of say in the direction of their industry. A small grower who has a full-time job in town and 1,000 trees in the back yard should not have the same say in our industry's levies and its future as a grower whose livelihood depends on the industry, has over 100 hectares and employs many staff. The "1 grower = 1 vote" system must be scrapped. It is obsolete and unjust.
20963299	Generally HAL performance is satisfactory.
20977854	First 2 answers are related to my industry and not to HAL in general. Chestnut R&D- Need more targeted R&D. HAL has provided poor assistance in locating service providers and in refining project outlines. Better scrutiny of project applications, especially of outcomes of applicants seeking funding for repeat projects, is needed. Here, I'm thinking of study tours led by the same individuals to the same areas and including the same participants as previous tours. Marketing R&D- Serious communication bumbles from HAL have caused delays in the delivery of an otherwise good program. HAL's failure to communicate the industry message to the service provider has caused frustration and a lot of wasted effort on the part of industry. Would have been better for industry to contact service provider directly.
20978907	Many of the area's covered in the review clearly lack grower involvement. Hal should be a growers organisation but it is becoming increasingly an arm of govt or so it appears to growers such as myself.
20982439	HAL marketing do not allow industry to have meaningful input into the industry marketing campaign and prefer to manage the campaign themselves using expensive HAL and consultant resources. This results in a poor return on the investment of levies.
21008571	I have had a long involvement with the horticulture industry and have witnessed the general decline in the expertise and knowledge of the people that HAL has employed particularly in the last 10 years. Some of their Industry personnel do not have any idea about horticulture or the industry they are representing. There is no longer any collective knowledge about what R & D has gone on in the past and there are many instances of re-inventing the wheel. The outcomes from R & D are not always delivered to industry, nor are they always delivered in the right format. Final reports should be freely available to levy payers in an electronic format. I have witnessed first hand irregularities in the IAC process and the awarding of research projects. The process is open to corruption and HAL has allowed this to happen. A lot of the projects being awarded to industry bodies are not R & D - they are projects designed to employ people to work for the industry body - so that they themselves are becoming larger and being allocated the majority of funds. The outcomes of this review will probably not deliver anything - there should be a clean out of the current Management staff in HAL - because without this happening nothing will change.
21012157	HAL is too responsive to it's shareholders the PIB's – unlike a commercial entity where shareholders are looking for improved dividends and company growth - the PIB's as shareholders are holding HAL back.
21012401	Funds collect from juice be spent on juice and funds collect from fresh fruit marketing be spend on fresh marketing
21073288	Main point comes back to support for state bodies and recognition of their value within the horticulture sector. Projects can be rejected at a single decision point without any recourse and increasingly it is highlighted that state based projects are being rejected nationally. There needs to be a transparent independent review process for projects which are rejected. While this request could be criticised for adding another level within the application process, the current decision process is not appropriate.
21076417	Levies and levy increases should be compulsory - no-one votes for a levy increase. All levies should be a percentage of the sale price - that we those who get more, pay more.
21099335	Commodities need to control their own destination and to do this they need to control how their funds are invested. Communication is key to satisfied levy payers. Honestly I think the current system is working just the results need to be communicated with depth to all levy payers, this review has been instigated by a very small minority.

Appendix D Submissions

D.1 Approach

As part of this project, stakeholders were encouraged to provide formal written submissions to the ACIL Allen review team. Stakeholders were encouraged to address the key questions outlined in the consultation paper, but were also given licence to provide feedback on any issues they felt were important to the outcomes of the Independent Review.

All submissions were published on the HAL Review website, except where stakeholder submissions were marked confidential. The Independent review team received 5 confidential submissions.

D.2 Submissions received

Table D1 provides a summary of the non-confidential submissions received by ACIL Allen during the course of the Independent Review.

Table D1 Submissions published on the Review website

Submission No.	Organisation
1.	Greg Buchanan
2.	AUSVEG
3.	Costa Group
4.	Turf Australia
5.	Christopher Allan
6.	Irrigation Australia Limited (IAL)
7.	CSIRO Food, Health and Science Industries
8.	National Horticultural Research Network (NHRN)
9.	Strawberries Australia Inc
10.	Custard Apples Australia Inc (CAA)
11.	PMA Australia-New Zealand
12.	SARDI
13.	Simon Boughey – personal submission
14.	Jasper Farms and Delroy Orchards
15.	Wandin Valley Farms
16.	Growcom
17.	Pistachio Growers' Association
18.	Bayer Cropscience
19.	Fruit West
20.	Department of Agriculture and Food, WA
21.	Chestnuts Australia Inc
22.	Vegetable Growers' Association of Victoria
23.	SA Mushrooms Pty. Ltd.
24.	Nursery and Garden Industries Australia Limited
25.	P&L Rogers Pty Ltd
26.	Hazelnut Growers of Australia Inc
27.	Bulla Mushrooms
28.	Australian Table Grape Association
29.	Dr Kevin Clayton-Green
30.	Australian Chamber of Fruit & Vegetable Industries Ltd
31.	Australian Macadamia Society

Submission No.	Organisation
32.	RABA (Raspberries & Blackberries Australia)
33.	White Prince Mushrooms
34.	Australian Banana Growers Council
35.	Passionfruit Australia Inc
38.	Almond Board of Australia
39.	Australian Processing Tomato Research Council
40.	Australian Nut Industry Council
41.	Australian Mango Industry Association Ltd
42.	Australian Horticultural Exporters Association Inc (AHEA)
43.	Tasmanian Farmers and Graziers Association
44.	Cherry Growers Australia Inc
45.	Avocados Australia Limited
46.	NSW Department of Primary Industries
47.	Abbotsleigh Citrus

D.3 Confidential submissions

The review received a total of five submissions that were marked as confidential.

This following summarises the main concerns raised by those submissions, without identifying the source of the comments.

Conflict of interest

All of the confidential submissions raised concerns about conflict of interest between peak industry bodies as owners of HAL and providers of services. This was raised in particular in the context of decision-making by the industry advisory committees.

These concerns in the confidential submissions were very similar to those raised in other submissions that have been published.

The use made of the confidentiality option in the submission process provides an interesting insight about culture and perceptions of the HAL system of decision making. The primary reason advanced for confidentiality from those providing these submissions was a fear of retribution from the IACs. That is, they believed that if their criticisms about conflict of interest became public this would be used as a reason for cutting funding for projects in which they had an interest.

Lack of leadership by HAL

HAL was seen by three of the submissions as providing little/no/ineffective leadership (similar sentiment, three different ways of expressing it) within horticulture and being too influenced by the views of a very small number of very influential peak body leaders.

They also suggested that HAL could be playing a far more effective role in coordination of activities across different industries and that this was a significant failing at present.

As with conflict of interest, the issues raised here were very much aligned with similar comments raised by some of the other submissions that have been published. They also were in line with a number of the comments made by participants in public forums.

Communication of the results of HAL research

Issues here included inadequate distribution of research results, and poorly managed levy payer meetings that were described in terms that suggested they were more about public relations than about sharing of information.

The language used to describe communications activities conducted by peak industry bodies in some of the confidential material provided suggested the writers had a very negative view of the personnel and capabilities of the PIB. This was related to their perception of conflicts of interest on the part of the PIBs concerned.

Lack of transparency

Four confidential submissions expressed strong concerns about the levels of transparency in relation to both HAL and the levy system. They complained about the difficulty of finding information and data on administrative costs and on processes.

One comment made in relation to HAL industry advisory committees was that they were secretive and it was difficult to find information about what they were doing.

Administrative costs

The key concern was that HAL was very costly to administer, occupied expensive premises in the centre of the Sydney CBD, and imposed a very high burden of paperwork on people who dealt with the organisation.

There were also comments made about the length of time required and a perceived highly unwieldy process for any changes to levies.

Appendix E Other stakeholder engagement

E.1 Approach

As part of the Independent Review, ACIL Allen provided stakeholders an opportunity to contact the Review Team about questions or any issue of concern.

To support stakeholder queries and questions about the Independent Review a dedicated Hotline and email address were established.

E.2 Outcomes

A number of Hotline calls and emails were received and responded to by the Independent Review team, comprising:

- 110 emails received and responded to
- 60-plus telephone calls (not including telephone callers who called ACIL Allen Consulting switch enquiring about details of stakeholders forums).