

COMPANION TO RURAL RESEARCH & DEVELOPMENT CORPORATIONS FUNDING AGREEMENT

Purpose of this document

This document provides guidance on how Rural Research and Development Corporations (RDCs) may target activities and performance against a principles-based approach to accountability and reporting. This document also outlines the general intent of each of the five principles, as well as examples and references, for application of the principles.

This is a non-binding document with information and guidance to help RDCs to address the five Performance Principles. It is not a Rule or binding. The information in this document may be updated from time to time, with plans to review the effectiveness of the principles-based approach in 2021 and 2025.

Policy context

Research and development is central to driving innovation and productivity in Australia's agriculture sector. RDCs have driven significant productivity growth over the last four decades by making investments to address priorities which are important to government, industry and the general public. These investment decisions are vital to driving productivity across the agricultural supply chain, ensuring the sector remains internationally competitive and sustainable into the future.

RDCs are funded primarily by R&D levies (or charges) on various commodities, with matching funding from the Commonwealth. The main function of a funding agreement between the Commonwealth and RDCs (which is required under legislation) is to specify the terms and conditions on which money paid to the RDC by the Commonwealth will be spent. In 2019, the RDC funding agreements were revised to streamline arrangements, reduce the compliance burden, minimise duplication between the funding agreement and relevant legislation, and introduce a principles-based approach to performance.

To help achieve a \$100 billion agriculture sector by 2030, the Australian Government is currently considering how the RDC system can be improved to meet future needs and be able to respond to challenges facing the sector. Adopting contemporary governance arrangements through a principles-based approach to RDC funding agreements is a first step towards modernising and improving the performance and transparency of RDC investment activities.

Principles-based approach

The principles-based approach realigns the accountability of RDC Boards to be responsible for their governance, stakeholder engagement, R&D activities, priority setting and monitoring and evaluation. It is the Board's responsibility to have in place appropriate documentation for governance, performance and good business management such as annual operating plans, an evaluation plan, intellectual property plan and risk management plan.

The five performance principles aim to encourage RDCs to improve their governance, monitoring and evaluation, stakeholder engagement, collaboration and R&D priorities. The principles are interlinked, therefore may be achieved through common activities. Good delivery of one performance principle will likely enhance the outcomes of other principles. It is left to each RDC's discretion to determine how best to address and deliver against each principle.

THE PRINCIPLES

Principle 1: Stakeholder engagement

Engage stakeholders to identify research, development and extension (RD&E) priorities and activities that provide benefits to portfolio industries.

- Facilitate opportunities for stakeholders to contribute to setting RD&E priorities and activities.

Intent

The purpose of this principle is for an RDC to have reciprocal, mutually beneficial and transparent engagement and consultation with stakeholders about their key objectives, performance, activities, investments and governance. RDCs should keep in mind that the work they undertake should also contribute to public benefit or long-term outcomes for the Australian community. The Australian public has an interest in the work of RDCs owing to the significant matched contribution made to RDCs from tax payer money.

Communicating governance processes, strategies, plans and reporting to stakeholders—including the Minister and Department—strengthens the RDC’s transparency. Ensuring outcomes of RD&E activities and value of investments are transparent will contribute to demonstrating good business practices, performance and instil confidence in the organisation’s direction and priority setting.

RDC stakeholders

RDC stakeholders are primarily levy payers, their declared industry representative organisations, the Minister for Agriculture, the Department of Agriculture, Water and the Environment, and the Australian public.

Other stakeholders may include representative industry groups, supply chain businesses and processors, investors, other RDCs, Cooperative Research Centres (CRC), state governments, private sector, universities, research companies, international research collaborators, venture capitalists, entrepreneurs or international markets.

Types of engagement

Stakeholder engagement is two-way. RDCs should be appropriately responsive to stakeholder concerns by providing information and updates to stakeholders, and seek stakeholder contributions to shape RD&E.

RDCs may utilise various forms of communication including consultation, discussions, surveys, extension events, webinars, website updates, publications, newsletters, forums, and networks. These forms of communication may be tailored for the audience, and provide timely information that allows stakeholders to consider and contribute where appropriate. Communicating RD&E outcomes and how these can be applied on-farm, along the supply chain, or in markets, may result in faster and wider adoption and uptake of RD&E activities and investments.

Example: Public engagement

An RDC becomes aware that a particular animal welfare issue has been escalating as a priority for the Australian public. The RDC develops a new project to research the animal welfare concern and the impacts of current and new processes on the animals. The project also surveys and tracks public opinion and prepares online resources for the public to be appropriately informed.

To ensure the matter is addressed in more detail, the RDC also includes the topic in their strategic priority settings.

The RDC promotes the projects and the outcomes to address the animal welfare concern. The RDC also prepares extension advice and assistance for industry to be aware of and adopt new practices to prevent ongoing animal welfare issues.

Evaluation

The following considerations may be used to self-assess or provide guidance to a reviewer (independent consultant, panel or auditor) to evaluate progress and performance against this principle:

- Who are the RDC’s key stakeholders? Is the stakeholder engagement strategy being implemented?
- How have the RDC engaged with stakeholders (and about what)?
- How have stakeholders been engaged in planning processes and R&D activities?
- How has the RDC demonstrated transparency?
- Has stakeholder satisfaction and engagement been reviewed, informed or tested through the consultation?
- How has stakeholder engagement contributed to RD&E (and marketing) outcomes?

Principle 2: Research, Development and Extension (RD&E) Activities

Ensure RD&E [and marketing] priorities and activities are strategic, collaborative and targeted to improve profitability, productivity, competitiveness and preparedness for future opportunities and challenges through a balanced portfolio.

- Balancing long-term, short-term, high and low risk, and strategic and adaptive research
- RD&E activities address Levy Payer and government priorities.

Intent

This principle sets out an expectation for RDCs to undertake a diverse range of RD&E activities that incorporate risk assessments, and target both short-term and long-term returns on investment. The mix of RD&E activities by RDCs should improve efficiency, productivity, competitiveness and innovation for levy payers, producers and along the supply chain, and provide public benefit of the Australian community.

R&D levies are collected to invest in systematic experimentation and analysis in any field of science, technology, economics or business to increase knowledge, build on industry objectives, conduct extension activities or improve any aspect of the production, processing, storage, transport or [marketing] of the industry's products.

Considerations

Priority setting for RDC activities and investments may take into account relevant regional and commodity variations, incorporate issues of critical national importance, and give appropriate consideration of stakeholder priorities.

When planning and preparing RD&E activities, RDCs may seek to address outcomes that:

- inform strategic industry and cross-sectoral issues
- address present and future industry needs
- develop the capacity of levy payers to identify and adopt research and development activities and results.

A balanced portfolio identifies and assesses objectives, analyses risks and develops appropriate controls to mitigate those risks to acceptable levels.

Example: Balanced portfolio

An RDC identifies 10 priority areas, and two overarching matters for long-term research, collaboration and investment (e.g. trade and marketing access opportunities, and biosecurity risks). The RDC is also approached by another RDC to work collaboratively with them on a soil moisture research project that is relevant to both RDCs'.

In selecting and setting significant RD&E priorities for the next five years, the RDC decides that it has capacity and resources to deal with eight research projects. Therefore, to balance the portfolio, they decide to:

- address three short-term commodity specific activities (two medium-risk, and one high-risk)
- continue two ongoing medium-term commodity specific activities commenced in previous years (low risk)
- address one long-term commodity research project (medium risk) and two of the collaborative activities— one with other RDCs (medium risk) and the other by researching trade opportunities and availability of market access for a range of commodities (high risk with extensive mitigation actions in place, includes working with the department on understanding trade relations and international priorities).

There are five items that the RDC chooses to hold over for consideration in future years and strategic planning.

Evaluation

The following considerations may be used to self-assess or provide guidance to a reviewer (independent consultant, panel or auditor) to evaluate progress and performance against this principle:

- Justification and background of projects, achievements and longer-term RD&E aspirations
- Strategic direction and prioritising setting of RD&E projects is regularly reviewed
- How has R&D Plan been implemented and updated?
- Have stakeholders been sufficiently engaged to shape RD&E priorities and strategic plan?
- Details of long-term outcomes and deliverables of RD&E portfolio
- Have projects been monitored and evaluated? How are projects progressing to deliver objectives?
- Is the RDC undertaking cross-sectoral and industry-wide RD&E activities?

Principle 3: Collaboration

Undertake strategic and sustained cross-industry and cross-sectoral collaboration that addresses shared challenges and draws on experience from other sectors.

- Collaborate across the agricultural innovation system to address common challenges and opportunities
- Enable broader consideration of innovations and technology and present a united approach in promoting Australia's agriculture.

Intent

This principle encourages RDCs to collaborate across the agricultural innovation system, including with other RDCs, industry, businesses, Australian and international research organisations, entrepreneurs, innovators, government agencies, innovation hubs, and farming system groups. This is an opportunity for RDCs to generate connections and partnerships that inspire a united approach to developing cutting-edge science, transformational change and technology breakthroughs across the agricultural innovation system.

Strong collaborations across the RDC system will drive diverse RD&E outcomes and improve the efficiency of RD&E efforts. A more united approach also provides a platform to attract both local and international investors to the Australian agricultural innovation system.

Example: RDC collaboration

An RDC is developing drone technology to detect biosecurity incursions of insects on crops. Another RDC is developing drone technology for remote surveillance of water and food availability in a feedlot.

Both RDCs have similar challenges in the development stage of the drone technology, however, the end-product is for different surveillance purposes. Considering that they are seeking to use drones for remote surveillance, the two RDCs collaborate to combine efforts in the initial stage of technology development with options to specialise the cameras and flight patterns for the two different purposes.

With their combined resources and knowledge, they approach a technology developer to customise the drone and integrate the specialised infrared camera technology. An international investor is also engaged to bring further expertise and make the research a marketable product for extension and adoption by their levy-payers.

Evaluation

The following considerations may be used to self-assess or provide guidance to a reviewer (independent consultant, panel or auditor) to evaluate progress and performance against this principle:

- Has the RDC built rapport with organisations and groups to collaborate with? What ongoing interactions and collaboration are being developed to deliver RD&E priorities and activities?
- Challenges identified to address through cross-sectoral collaboration.
- Has the RDC progressed implementation on cross-industry collaboration based on the Guidelines?
- Details and summaries of projects that utilise or are dependent on collaboration.
- Undertake 360° feedback on RDCs effectiveness to work collaboratively and link cross-sectoral projects to strategic planning and stakeholder priorities.

Principle 4: Governance

Governance arrangements and practices to fulfil legislative requirements and align with contemporary Australian best practice for open, transparent, and proper use and management of Funds.

- Good governance ensures stakeholders are well informed and have visibility of the RDC's investments, priorities and achievements
- Committee structures and corporate policies enable the RDC to manage day-to-day business activities and fulfil reporting obligations.

Intent

Organisations that expend public funds should have high levels of accountability and transparency in their governance and day-to-day activities. This principle seeks that RDCs adopt sound and transparent governance and administrative practices that give assurance to stakeholders that the RDC is operating effectively, undertaking their roles and responsibilities, appropriately managing their funds, and delivering outcomes against their strategic priorities.

Legislated and other requirements

RDCs have relevant legislation that governs how public resources are used. There are various legislated requirements for RDCs, such as annual reporting of financial statements, demonstration of achieving objectives set out in a strategic plan, etc. The annual report is also a mechanism to communicate to stakeholders and the Australian public the RDC's transparency, priorities, performance and outcomes.

The RDC Board is responsible for care and due diligence of their management practices. It is the RDC's responsibility to have structures in place that help it to add value, act ethically and responsibly, and provide leadership to industry. The Board oversees the implementation of the organisation's objectives, assures the integrity of the RDC's accounting and reporting systems, monitors the effectiveness of governance practices, have procedures in place to identify gaps or opportunities for business improvement (e.g. independent reviews and audits), and sets the culture of the organisation.

RDCs should be aware of the sensitivities around advocacy and agri-political activities. As recipients of public monies (Commonwealth Matching Payments) and levy-payer funds, it is not appropriate for an RDC to engage in or to use funds for any form of external or internal political influencing or agri-political activities. Should an activity arise where an RDC is unsure of its alignment against the agri-political definition, it is encouraged that an RDC liaise with the department to determine the appropriateness of the activity before proceeding.

Example: Intellectual Property Management Plan

An RDC maintains an Intellectual Property Management Plan (IP Plan) as part of their business management practices. The Board endorses the IP Plan and publishes it on their website. The IP Plan covers all copyright and neighbouring rights, and all rights in relation to inventions (including patents), plant varieties, registered and unregistered trademarks, registered designs, and Confidential Information (including trade secrets and know-how). The RDC decides that owing to the changing world of trademarks and patents, they will review the IP plan every three years to ensure that they have appropriate management action in place.

Evaluation

The following considerations may be used to self-assess or provide guidance to a reviewer (independent consultant, panel or auditor) to evaluate progress and performance against this principle:

- RDCs have in place governance documentation such as RDC's vision, roles and responsibilities for Board members and Executive, risk management, staffing, etc.
- Demonstrate that the RDC has a skills based RDC Board with a range of expertise such as accounting and finance, legal, strategic planning, industry knowledge, innovation expertise, etc.
- RDC has appropriate controls in place (such as committees, plans etc) to manage and mitigate risks.
- Information and records of meetings (board meetings, stakeholders, sub-committees) are maintained.
- RDC has in place plans and processes for enhancing organisational culture, succession planning and capability building.
- Financial and administrative records are maintained.
- Assurance that legislated and funding agreement requirements have been fulfilled (e.g. annual reporting, financial statements, accounting processes etc).

Principle 5: Monitoring and Evaluation

Demonstrate positive outcomes and delivery of RD&E [and marketing] benefits to Levy Payers and the Australian community in general, and continuous improvement in governance and administrative efficiency.

- Suitable mechanisms and processes in place that enable regular impartial reviews of performance, and identify improvement opportunities
- Demonstrate that investments are effective and achieving desired RD&E outcomes and priorities
- Communicate the results of the impact and benefits of RD&E activities and investments to stakeholders and the government.

Intent

This principle seeks RDCs to have appropriate procedures in place to demonstrate impact of investments, and to implement improvements based on the evaluation of activities. As responsible stewards of levy payer funds, Government matching contributions and voluntary contributions, RDCs are accountable to levy payers and to the Australian public to demonstrate positive outcomes and delivery of RD&E benefits [and marketing] to agriculture and to society.

Review and evaluation of performance

A yearly meeting between the RDC and department will provide an opportunity for each RDC to demonstrate and reflect on how they are addressing each of the performance principles. Furthermore, throughout the life of the funding agreement, the department may request RDCs from time to time (but not less than every three years) to undertake an independent review or opinion to evaluate the RDC's adoption and implementation of the five performance principles.

The department's request for a review may seek for the reviewer to look at a specific principle, or evaluate the long-term implementation of all the five performance principles. It is expected that each RDC will have 1-2 reviews throughout the life of a 10 year agreement. For ease of managing the process, it is likely the timing of the reviews will be staggered throughout the 10 years. Additional or more regular reviews may be requested in response to concerns or progress in implementing previous recommendations.

Stakeholders should be kept informed of the RDC's performance using avenues such as annual reports and financial statements, and two-way Levy Payer/stakeholder feedback.

In addition to the RDC's demonstration performance against the principles, it is also beneficial for RDCs to establish internal committees and reporting procedures (eg: audit committee, risk committee, monitoring and evaluation tools) to manage their own performance and communicate corrective actions.

Example: Annual meeting

An RDC schedules its Annual Performance Meeting with the department to provide an update on how it is tracking against the five performance principles. To provide evidence of performance against the RD&E Activities principle to the department, and assurance that funding has been used appropriately, an RDC might:

- Demonstrate a balanced portfolio by showing they have considered their R&D priorities and identified projects that include a mix of activities that are short, medium and long-term projects, and include both low-risk and high-risk activities across their range of commodities.
- Demonstrate that tools and systems are in place to manage projects, track progress, and provide data on project outcomes, productivity or uptake.
- Show where projects or activities address industry needs, stakeholder expectations and government priorities, and how they have collaborated to achieve outcomes.
- Explain how and why certain project or future research activities are prioritised.

Evaluation

The following considerations may be used to self-assess or provide guidance to a reviewer (independent consultant, panel or auditor) to evaluate progress and performance against this principle:

- Impact assessments, comparative studies or cost benefit analysis to demonstrate effective delivery of RD&E
- Analysis of benefits to industry and wider aspects (e.g. environmental, social, cross-sectoral).
- Does the RDC have process in place to regularly review own performance?
- Does the RDC respond to and implement changes when improvements/changes are recommended?

Resources

- ASX Corporate Governance Principles and Recommendations (4th Ed):
<https://www.asx.com.au/documents/regulation/cgc-principles-and-recommendations-fourth-edn.pdf>
- ASX risk management framework (based on ISO 31000):
<https://www.iso.org/iso-31000-risk-management.html>
- *Australian Meat and Live-stock Industry Act 1997*:
<https://www.legislation.gov.au/Details/C2017C00013>
- *Corporations Act 2001* (industry-owned RDCs):
<https://www.legislation.gov.au/Details/C2019C00216>
- *Dairy Produce Act 1986*:
<https://www.legislation.gov.au/Details/C2017C00299>
- *Egg Industry Service Provision Act 2002*:
<https://www.legislation.gov.au/Details/C2014C00020>
- *Forestry Marketing and Research and Development Services Act 2007*:
<https://www.legislation.gov.au/Details/C2014C00038>
- *Horticulture Marketing and Research and Development Services Act 2000*:
<https://www.legislation.gov.au/Details/C2016C00939>
- National Primary Industries RD&E Framework:
<https://www.npirdef.org/>
- *Pig Industry Act 2001*:
<https://www.legislation.gov.au/Details/C2014C00042>
- *Primary Industries Research and Development Act 1989*:
<https://www.legislation.gov.au/Details/C2018C00358>
- *Public Governance, Performance and Accountability Act 2013*:
<https://www.legislation.gov.au/Details/C2017C00269>
- Rural Research, Development and Extension Priorities:
<http://www.agriculture.gov.au/ag-farm-food/innovation/priorities>
- *Sugar Research and Development Services Act 2013*:
<https://www.legislation.gov.au/Details/C2014C00036>
- *Wine Australia Act 2013*:
<https://www.legislation.gov.au/Details/C2019C00110>
- *Wool Services Privatisation Act 2000*:
<https://www.legislation.gov.au/Details/C2016C00448>

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