



Australian Wool Innovation Limited

2012-2015 Review of Performance

Report as at 30 June 2015



awi

Australian Wool
Innovation Limited

Purpose

The AWI Review of Performance is based on the Terms of Reference (TOR), which were provided to Deloitte prior to the commencement of the Review.

The TOR are addressed throughout the Review, as referenced in Figure 1 below.

Figure 1: AWI Review of Performance Terms of Reference

#	Review Terms of Reference	Chapter ref.
1.	Assess AWI's performance in delivering research, development, and extension and marketing services.	
1a)	Performance of AWI in meeting its obligations under its Statutory Funding Agreement 2013-16 with the Commonwealth.	Chapter 5
1b)	Development, implementation and the efficiency in the delivery of its strategic, annual operational, risk management, fraud control and intellectual property plans and the company's effectiveness in meeting the priorities, targets and budgets as set out in these plans.	Chapter 6
1c)	Structure and operations of the company, to ensure good practice and systems of corporate governance.	Chapter 6
1d)	The effectiveness of the arrangements for engagement, consultation, and communication with, and feedback to, stakeholders, including the opportunities for levy payers and other contributors to influence the investment of levies.	Chapter 7
1e)	AWI's efforts in cross-RDC collaboration.	Chapter 7
2.	Assess the delivery of benefits, including the achieved value for money and return on investment to the industry and the community in general, and the contribution to increasing farm-gate returns, as foreshadowed in the company's strategic and operational plans	Chapter 4
3.	Assess AWI's effectiveness in addressing and implementing the recommendations from the 2009-2012 performance review.	Chapter 8
4.	Make recommendations for improvement to AWI's performance in delivering research, development, and extension and marketing services.	Chapter 8

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Acronyms

Acronym	Description
AWI	Australian Wool Innovation Limited
CBA	Cost Benefit Analysis
ICC	Industry Consultative Committee
RDC	Research and Development Corporation
PAR	Program Achievement Report
SFA	Statutory Funding Agreement (2013-2016) between the Commonwealth and AWI
The Department	Australian Government Federal Department of Agriculture (formerly the Department of Agriculture, Fisheries and Forestry)
TOR	Terms of Reference (specifically referring to the AWI Terms of Reference)

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1 Executive summary

1.1 Context

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

1.2 AWI Performance since 2012

In the three years since the previous Review of Performance (conducted by SED Consulting in 2012) AWI has achieved substantial benefits for woolgrowers and demonstrated considerable improvement across all areas of the organisation.

Organisational improvements have created value for woolgrowers' on-farm and off-farm, in the form of cost savings and increased market demand for wool products. AWI has focussed effort and resources towards improving and integrating planning and measurement, whilst clearly planning, achieving and demonstrating benefits for woolgrowers through marketing and R&D activities.

AWI operates within a complex stakeholder environment, seeking to fulfil the expectations of woolgrowers, including levy payers and shareholders, the Commonwealth Department of Agriculture, (the Department) and many others. Often, the views and expectations of stakeholders differ, requiring AWI to actively balance and manage expectations.

This Review has taken into consideration the views and insights of all relevant stakeholders, noting that at times they differ, and rightly so, based on the different positions of the stakeholders. This is a reality AWI balances on an ongoing basis.

In the course of the Review, we have found that AWI has:

1. Met its obligations under the Statutory Funding Agreement 2013-16 (SFA) with the Commonwealth;
2. Soundly developed and implemented its strategic and annual operating plans, and has been effective as an organisation in meeting the priorities, targets and budgets as set out in these plans;
3. Continued to evolve the governance, structure and operations of the organisation to ensure good practice and appropriate mechanisms of corporate governance;
4. Effectively implemented and evolved arrangements for engagement, consultation, and communication with, and feedback to, woolgrowers and other stakeholders. This includes providing opportunities for levy payers to influence the investment of levies;
5. Achieved benefits for woolgrowers, the community and broader industry by increasing farm gate returns;
6. Participated in cross-RDC collaboration at both a practical and planning level, engaging and collaborating with other RDCs towards meeting the National Rural Priorities as set by the Commonwealth; and
7. Addressed and implemented three of the four recommendations from the Review 2012, and addressed the fourth.

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1.3 Recommendations

This Review provides eight recommendations for further improvement relating to AWI's performance in delivering research, development, extension and marketing services, notably in the areas of governance and management.

The recommendations, set out below, have been developed within the context of supporting AWI's evolution and meet the ever-increasing needs, expectations and requirements of their stakeholders.

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

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2 Introduction

2.1 Scope of this Review

The scope of this Review is to assess the performance of AWI over the period 1 July 2012 to 30 June 2015 in accordance with the Terms of Reference (TOR).

2.1.1 Terms of Reference

The SFA, which expires in 2016, states that *'the RDC must complete a Performance Review six months before the expiry of this Agreement'*¹. TOR agreed between AWI and the Commonwealth six months prior to the commencement of the Review are set out below.

1. Assess AWI's performance in delivering research, development, and extension and marketing services. This will include an assessment of the;
 - a. Performance of AWI in meeting its obligations under its Statutory Funding Agreement 2013-16 with the Commonwealth;
 - b. Development, implementation and the efficiency in the delivery of its strategic, annual operational, risk management, fraud control and intellectual property plans and the company's effectiveness in meeting the priorities, targets and budgets as set out in these plans;
 - c. Structure and operations of the company, to ensure good practice and systems of corporate governance;
 - d. The effectiveness of the arrangements for engagement, consultation, and communication with, and feedback to, stakeholders, including the opportunities for levy payers and other contributors to influence the investment of levies; and
 - e. AWI's efforts in cross-RDC collaboration.
2. Assess the delivery of benefits, including the achieved value for money and return on investment to the industry and the community in general, and the contribution to increasing farm-gate returns, as foreshadowed in the company's strategic and operational plans;
3. Assess AWI's effectiveness in addressing and implementing the recommendations from the 2009-2012 performance review; and
4. Make recommendations for improvement to AWI's performance in delivering research, development, and extension and marketing services.

¹ SFA page 29

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2.2 Review methodology and approach

This Review was developed through a logical, robust and measured approach based on document and desktop review, stakeholder consultation, analysis and synthesis.

Deloitte worked collaboratively with AWI during this Review, and engaged with the Department and woolgrowers across Australia in order to develop a clear evidence base. Stakeholder findings were synthesised and tested through a “multi-evidence” methodology, to ensure that common themes were developed, as opposed to individual views and perspectives.

In order to address the defined TOR, the methodology used for the Review focussed on four key areas, being:

1. Compliance with statutory requirements;
2. Internal environment, and organisational effectiveness; and the extent to which recommendations from the previous Review were implemented;
3. External environment and industry outcomes, and the value created for wool growers, the community and shareholders; and
4. Recommendations moving forward.

2.2.1 Review methodology

Evidence was collected through:

- Review of over 50 documents. The full list of reviewed documents is provided in Appendix A
- Consideration and review of the audited financials and other public and internal reports
- Interviews with 48 stakeholders. Interviews and workshops were conducted with a broad range of stakeholders involved with the progress of AWI, including:
 - a. More than 20 woolgrowers who were nominated by AWI in order to meet the criteria as defined by Deloitte;
 - b. Chair of the AWI Board, and Chair of the AWI Board Finance and Audit Committee;
 - c. The Board’s Independent Governance Advisor;
 - d. AWI CEO and selected members of the Executive;
 - e. The Monitoring and Evaluation Consultant;
 - f. Representatives of the Department of Agriculture, including the current and immediate past occupants of the role of First Assistant Secretary for Agriculture Policy;
 - g. AWI’s Woolgrower Industry Consultative Committee (ICC); and
 - h. A member of AWI’s Extension network.

The Consultation Plan utilised during the Review is at Appendix B.

Interviews were guided by a consultation framework, which was developed with AWI and focussed on specific themes pertinent to the role and involvement of the interviewee. The full list of consultation themes is at Appendix C.

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2.2.2 Project governance

The development of the Review was managed through a Project Steering Committee, which included AWI and Deloitte representatives. This Committee met on a weekly basis, with an agenda consisting of the items set out below.

- The Project Status Update, a report that articulated the activities completed that week, planned activities for the following week, status of tasks and deliverables, and any issues or areas for concern;
- Requests for Information (RFIs) and the provision of documentation from AWI to Deloitte and actions and activities planned for the following week; and
- Discussions with Executive and the key independent advisors to enable Deloitte to understand in more detail documentation provided or the environmental complexity.

Deloitte acknowledges the willing collaboration made by AWI to assist in developing our understanding and to provide the documentary evidence which underpins this Review.

3 Operating context

The objective of this chapter is to present an overview of the environment in which AWI operate. The chapter provides an overview of the history and structure of AWI, the industry context, and highlights some particular challenges which faced AWI during the Review period. The outcomes of this chapter provide understanding of the context for AWI and its operations since July 2012, which are explored further in this Review.

Key findings

- The history of AWI and the evolution of the organisation demonstrates the organisation's commitment towards R&DE activities, as well as branding, marketing and promotional activities (evident through the Woolmark brand).
- Following WoolPoll 2012, AWI determined to spend levy monies based on 40% to research and development (being On-Farm R&D 25% and Off-Farm R&D 15%) and 60% to Marketing. This reflects a change in focus by AWI towards marketing (given the shift from 50% allocation of levies in 2009-2012 to 60% in 2012-2015).
- There have been a number of specific challenges which have faced AWI during the Review period, impacting the operations and activities of the organisation. However, AWI have ensured that they continued to meet the needs of woolgrowers and broader stakeholders, and focussed efforts on achieving their Strategic Plan despite these challenges.
- There is a clear indirect link between AWI activities and an increase in wool prices. More specifically, AWI marketing and off-farm programs contribute to raising market demand for wool products, and therefore contribute to growing wool prices. The development and implementation of the AWI Strategic Plan, which outlines AWI's commitment towards marketing and R&D programs, supports this growth.

3.1 Australian Wool Innovation

AWI's mandate is to invest in research, development, marketing and promotion to:

- **Enhance the profitability, international competitiveness and sustainability of the Australian wool industry; and**
- **Increase demand for and market access to Australian wool.**

A not-for-profit organisation, AWI is owned by approximately 23,786 registered AWI shareholders (as at May 2015).

Not all woolgrowers are AWI shareholders. An AWI shareholder is an eligible wool levy payer (a woolgrower who has paid at least \$100 in wool levies over the past three years) who has opted into being a shareholder. In May 2015 there were a total of 40,436 eligible wool levy payers from a total of approximately 51,727 wool levy payers.

AWI makes efforts each year to increase the number of AWI shareholders through a systematic process of direct communication to eligible levy payers, encouraging them to take up their rights.

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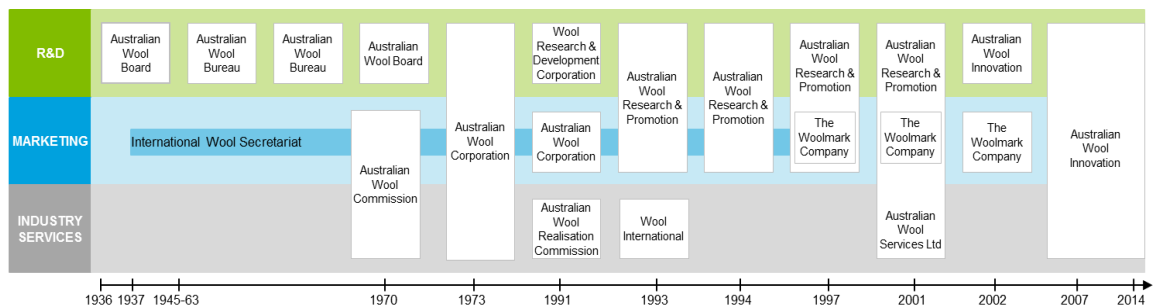
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3.1.1 History and context

AWI has evolved over many years into the leading industry body of research, development and marketing services in Australia. A snapshot of the recent evolution of AWI is provided below in Figure 2.

- In January 2001, Australian Wool Services (AWS) replaced the Australian Wool Research and Promotion Organisation (AWRAP).
- AWS was established with two subsidiaries, AWI and the Woolmark Company Pty Ltd (Woolmark).
- In April 2002, AWI separated from AWS and became an independent public company limited by shares.
- In October 2007, AWI acquired Woolmark, and became the owner of the globally renowned Woolmark brand. The sale of the Woolmark license continues to provide an important revenue source for AWI.

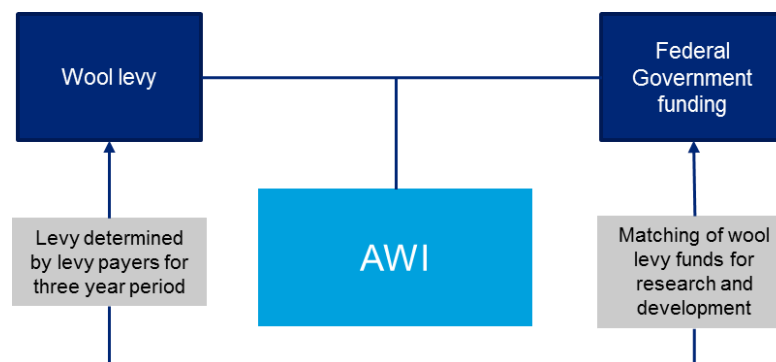
Figure 2: AWI historical representation (Source: AWI website (www.wool.com))



3.1.2 Finance and Funding

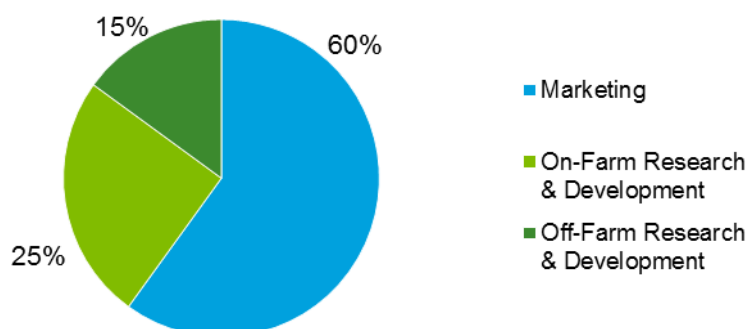
AWI operations, activities and investment are primarily funded through the wool levies paid by wool levy payers, and a matching contribution from the Commonwealth for eligible R&D activities.

Figure 3: High level overview to the current AWI funding model



At the 2012 WoolPoll, eligible levy payers voted to pay a 2% levy to AWI. Of this, the AWI Board allocated 40% to be spent on research and development, and 60% on marketing, as illustrated in Figure 4 below.

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Figure 4: Allocation of levies (as resultant from the 2012 WoolPoll)

The fund allocation from the previous WoolPoll 2009 was 50% towards R&D and 50% towards marketing activities.

In order to enable continued implementation of the committed funds towards R&D and extension, and to fund the development of the Strategic Plan 2013 - 2016, the AWI Board supplemented funding available for operating plans through a draw-down of reserves.

Funding and drawdown in the Review period is illustrated below in Figure 5a and 5b (noting these are externally audited figures). They show the growth in real R&D spending during the Review period despite the percentage of the levy funds allocated towards R&D reducing.

Figure 5a: Funding and drawdown on reserves by AWI in the period 2012-2015 (Source: AWI)

Equity/Reserves Outlook									
Year	2012/13 - 50/50			2013/14 - 60/40			2014/15 - 60/40		
	Wool Poll	Budget	Actual	Wool Poll	Budget	Actual	Wool Poll	Budget	Forecast
Opening Equity	103.4	103.4	103.4	97.4	97.4	97.4	82.4	83.3	83.3
Minus Intangible Equity	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Minus Untouchable Reserves	37.5	37.5	37.5	37.0	37.1	37.4	38.0	40.3	40.3
Net Reserves Available	55.9	55.9	55.9	50.4	50.3	50.0	34.4	33.0	33.0
Movement in Reserves	-6.0	-6.0	-6.0	-15.0	-15.0	-14.1	-12.0	-12.0	-1.7
Closing Equity (incl reserves)	97.4	97.4	97.4	82.4	82.4	83.3	70.4	71.3	81.6

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Figure 5b: Funding and spend on Eligible R&D by AWI in the period 2012-2014 (Source: AWI)

ELIGIBLE R&D BREAKDOWN	2012/13	2013/14
	\$ million	\$ million
AWI Actual Eligible R&D Expenditure	31.771	35.840
50% Maximum Government Contribution before GVP Calculation	15.886	17.920
Actual Government Contribution based on Government valuation of GVP (cap is 0.5% of GVP)	13.293	12.765
AWI Contribution to Eligible R&D Expenditure	18.478	23.075

Notes:

1. Government confirmation of Gross Value of Production (GVP) was not available at time of report finalisation so 2014 / 15 figures are not possible as the actual Government contribution is capped at 0.5% of the Government valuation of GVP.
2. AWI Actual Eligible R&D Expenditure is as audited.

3.1.3 Industry Challenges

Like other agricultural industries, the wool industry has faced a number of challenges over the preceding three years which have impacted woolgrowers and stakeholders alike. These “whole of agriculture” industry challenges add to the complexity with which AWI have had to operate and manage operations, whilst delivering value for woolgrowers.

Specific challenges facing woolgrowers and broader industry stakeholders have included:

1. Drought and near drought, noting some woolgrowers were particularly effected by drought in this period and others not at all;
2. Combatting wild dogs and other pests;
3. Land use competition;
4. Attraction and retention of personnel in the industry;
5. Export market access and changes to requirements;
6. Infrastructure challenges, including roads, rail and associated costs of logistics; and
7. Greater recognition of but also expectations of woolgrowers as the “stewards of the land” and therefore increasing expectations from an environmental management perspective from public and politicians alike.

3.1.4 Production and prices

In the wool industry, as in any commodity industry, production and prices are subject to variation based on many factors outside the control of the industry.

Reduced rainfall over the two years through 2012-13 pushed the cost of keeping livestock upwards, forcing many farmers to reduce the size of their flock, and again constraining industry revenue. A reduction of sheep numbers in 2010-11 contributed to an increase in wool production, (as sheep are shorn prior to being sent to abattoirs). Consequently, wool prices plummeted in response to excess wool supply

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in that year. Figure 6 below highlights the fluctuating wool production and prices since 1983.

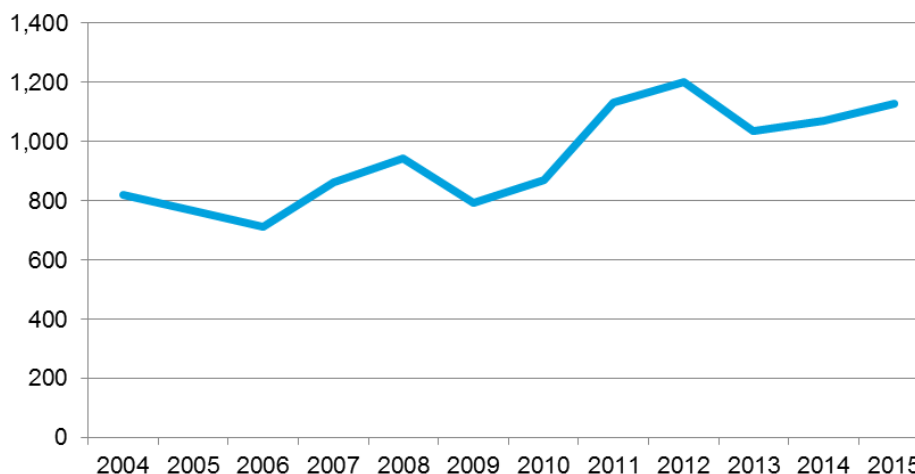
Figure 6: Australian wool productivity comparison chart (Source AWI)

Year	Opening Numbers of Sheep	Number of Sheep Shorn	Average cut per head (kgs)	Shorn Wool Production (m kgs greasy)	Ratio of sheep shorn to opening number
1982-83	137.9	149.0	4.3	641.0	1.081
1983-84	130.4	152.3	4.4	672.1	1.168
1984-85	135.2	168.1	4.5	752.7	1.243
1992-93	148.1	178.8	4.6	814.6	1.207
1993-94	138.0	172.8	4.5	775.3	1.252
1994-95	132.5	156.2	4.4	682.1	1.179
2002-03	106.1	116.6	4.3	499.2	1.099
2003-04	99.2	104.7	4.5	474.5	1.056
2004-05	101.2	106.0	4.5	475.4	1.047
2012-13	74.7	78.80	4.47	352.0	1.055
2013-14	75.5	78.00	4.37	341.0	1.033
2014-15 (forecast)	71.60	75.80	4.50	341.00	1.059

However, wool prices have been generally increasing over the subsequent three years. During the Review period, AWI implemented monthly update reports on wool prices through the website, which helps woolgrowers better understand what is now a global market.

There is a clear trend highlighted during the Review period within the Eastern Market Indicator (EMI) – the key wool price indicator – illustrating the increase in the price of wool from 800c to 1100c / kg over the period from 2010 to 2015 despite significant currency fluctuations. This is illustrated in Figure 7 below.

Figure 7: The domestic price of wool as measured by the EMI price for clean wool measured in cents per kilogram Source: Australian Bureau of Agricultural and Resources Economics and Sciences (ABARES)



This rise in wool prices is partially attributed to the operations, investments and activities of AWI over the period. For example, this period of sustained growth in wool prices coincided with the growth in the number of major garment manufacturing and designing partners in the “*No Finer Feeling*” program, growing from 23 partners in 2012 /13 to over 80 in 2014/15.(see also Chapter 4 Overall performance and benefits achieved).

There is a clear indirect link between AWI activities and an increase in wool prices. More specifically, AWI marketing and off-farm programs contribute to raising market demand for wool products, and therefore contribute to growing wool prices. The development and implementation of the AWI Strategic Plan, which outlines AWI’s commitment towards marketing and R&D programs, supports this growth.

3.2 Specific challenges faced by AWI during the Review period

More specifically in the preceding three years relevant to this Review, there were a number challenges unique to the wool industry which impacted the way in which AWI was able to operate, invest, and collaborate.

Challenges can be distilled across the **needs and expectations of all woolgrowers**, the **impact of animal activists**, sourcing new **locations for viable manufacturing**, maximising the inputs of an **increasingly complex supply chain**, and **managing outcomes of growth in various woolgrower sectors – such as superfine merino wool**.

1. Meet the expectations and requirements of all woolgrowers

Woolgrowers expect AWI to remain abreast of industry challenges, and implement activities that reflect various industry challenges, emerging trends, new technologies and markets and positively impact wool prices.

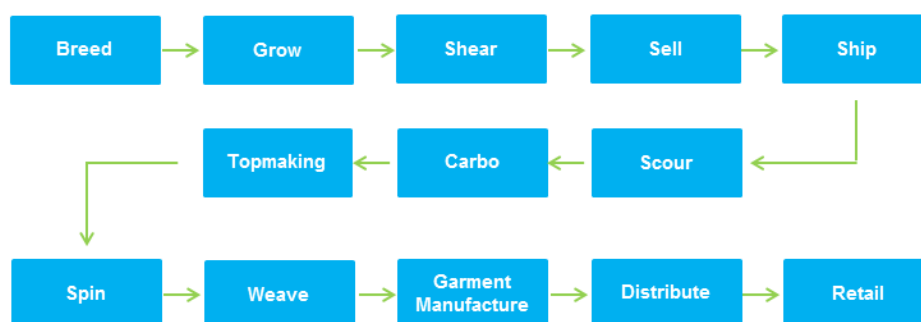
Woolgrowers are in fact not a homogenous group. They range from stud breeders and commercial merino wool flocks, to mixed farming enterprises and span large

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commercial enterprises to small family owned farms. These different needs and expectations of the various elements continue to present challenges for AWI in seeking to balance different expectations, commercial drivers and views; all of which may be equally valid.

2. Maximise the efficiency of a complex supply chain

Processing efficiency often requires wool to be of different types and from various growing districts and farms. This complicates further what is already a complex and now truly global supply chain which includes at least these steps;



Over the preceding three years, AWI have had to ensure that R&D and marketing activities reflect the changing and often contradictory needs of key elements along this complex supply chain, as well as woolgrowers.

3. Source new viable manufacturing locations for Australian wool

Wool exports remain vital to the Australian industry. Almost 100% of Australia's wool is exported to be processed and sold in international markets. Over the Review period, almost three-quarters of Australian wool exports were sold to China. It is expected that China's demand for luxury goods is likely to accelerate into the future.

However, as with other manufacturers, rising costs of production, including expected significant wage rises in China has meant AWI has had to look elsewhere. The need has been to assist in the sourcing and development of new low cost processors that understand wool and can produce fabric at viable cost, to the quality standard demanded by the fashion industry. Successful efforts with Vietnam and elsewhere to diversify the supply chain, whilst maintaining the Chinese relationships, are strong evidence of AWI's success in managing this complex dynamic. (see also Chapter 4 Overall performance and benefits achieved).

4. Mitigate the growing impact of animal activist groups

Over the Review period, AWI have faced strong demands from woolgrowers to mitigate the impact of animal activist groups such as PETA. All stakeholders have commented favourably on AWI's considered engagement and management of a number of different groups. This has been complimented by the proactive approach to the downstream supply chain to understand the true picture. In summary, the overall negative impact of these groups has been substantially mitigated by AWI's well-considered and consistent efforts.

Further, the Department commented favourably on the actions undertaken by AWI, in particular the engagement with animal activist groups, the media, those on the supply chain as well as retailers and designers.

5. Wild Dogs

As acknowledged by the Prime Minister in 2014, wild dogs are devastating the sheep population in across Australia. AWI estimates the annual loss to the Australian economy from wild dogs is \$66.3 million and AWI investments in wild dog baiting and community management planning also benefit fox control. The threat to woolgrowers of wild dogs was emphasised by a number of growers interviewed by Deloitte, ranking it as the most damaging issue facing woolgrowers.

During the Review period, AWI invested in, and continues to invest in a comprehensive suite of projects in wild dog control including:

- Research and analysis including triple bottom line analysis through the IACRC;
- Baiting;
- Coordination and support to implement wild dog management plans;
- Supporting woolgrower participation in wild dog advisory groups; and
- Training.

6. Manage the growth in the number of superfine merino sheep

The growth in sheep numbers in the superfine merino category has presented a variety of challenges for superfine growers, and in particular relating to price, due to the volume available. AWI is not a contributor to this growth but has been impacted by it and has played a major role in helping woolgrowers understand the growth and its price consequences.

4 Overall performance and benefits achieved

The objective of this chapter is to assess the benefits delivered by AWI to woolgrowers over the preceding three years. The chapter articulates how benefits to woolgrowers are realised, and the other benefits created through AWI programs. The outcomes of this chapter address TOR2.

Key findings

- AWI is effective in setting and meeting targets as set out in its Strategic Plan and Annual Operating Plans. The benefits of AWI to woolgrowers are generally of the form of cost savings or productivity gains from the implementation of on farm and off farm research and development programs, as well as increased prices from the increased demand as a result of the marketing programs.
- Deloitte has undertaken a thorough review of the Benefit Cost Ratios (BCR) of the completed Cost Benefit Analysis (CBAs) to current investment commitments. Deloitte finds there is a weighted average BCR of \$2.90 of benefit for every \$1 spent. This is an excellent return on investment, when considering that the threshold for net benefits is \$1 for every \$1 spent.
- The current AWI Strategic Plan (2013 – 2016) has 27 programs (across three key portfolios and nine strategies). At the time of this Report, 12 programs have had their benefits quantified through cost benefit analysis (CBA) cited within this Review. It is for these 12 programs where benefits have been quantified, and returns to industry assessed. A further five programs had CBAs undertaken but the present value of benefits were not able to be quantified to the woolgrower. AWI has scheduled the remaining ten programs to have CBAs undertaken in the next 12 months, which will complete all in the life of the Strategic Plan.
- Across those 12 programs with benefits quantified, the present value of the quantified benefits to industry if targets are met is \$198 million. This compares to an aggregate present value of costs of those 12 programs of \$69 million. These benefits could be realised directly on farm, based on the assumption of woolgrowers adopting recommended practices. In this case, a BCR so high indicates that the returns from AWI to the industry are high, as long as recommendations are adopted and targets met.
- We note that many of the benefits are anticipated to occur over timeframes longer than the three years of the Strategic Plan and beyond the period of this Review (i.e. 10-15 years for some programs), and are therefore yet to be fully realised by woolgrowers. This is in no way an uncommon or a negative factor, but rather the inevitable result of the Review of Performance being a three year snapshot only and AWI prudently seeking to balance short and long term benefits realisation.
- Deloitte further notes that every \$1 increase in direct value for wool growers results a spill over effect to the economy of an additional \$1, taking the total value add to the economy of \$2. While this additional benefit is not the primary objective of AWI, it should be noted that any additional value at the farm gate is multiplied to the benefit of other individuals, industries and regions.

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4.1 Benefits realisation

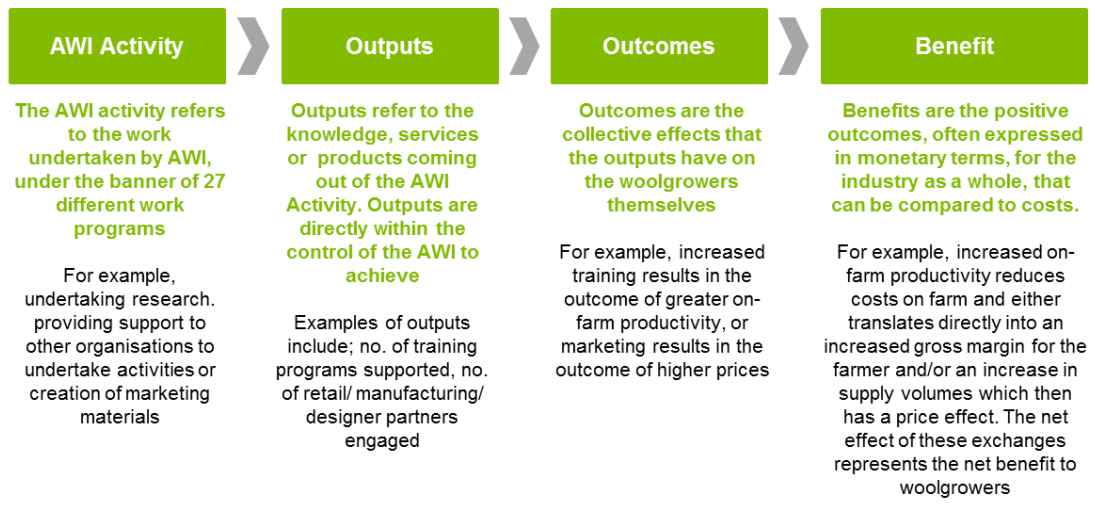
AWI have assessed the benefits to woolgrowers for their investments through the application of Cost Benefit Analysis (CBA) for the 17 out of 27 programs. This is a substantial improvement compared with just 3 years ago, with the last independent Review in 2012 having only four CBAs had been undertaken. AWI have plans for the remaining CBAs to be completed for the remaining nine programs.

These CBAs typically outline how benefits flow to woolgrowers through demonstrating a logical flow of activity, as illustrated in Figure 8.

The diagram illustrates, at a high level, the benefit created through specific AWI activities and how these translate into outputs, outcomes and to benefits to woolgrowers.

Over these preceding three years, AWI have focussed efforts on refining their Monitoring and Evaluation (M&E) framework to better align with its strategic priorities as outlined in its Strategic Plan (2013-2016). AWI seek to evaluate investment returns across all programs, and strategic priorities to ensure a benefit is delivered/ investment targets are met.

Figure 8: AWI Flow of benefits



Of note is that the CBA schedule is matched to the Strategic Plan timeline (2013 – 2016) and AWI will complete CBAs for all programs in the lifetime of the Plan. Deloitte also notes that Deloitte notes note this CBA schedule and process is is the main, but not sole way Programs are measured and reported. The status of Programs against targets outlined in the Strategic and Annual Operating Plan is also reported regularly now to Board in the PARs

4.2 AWI Programs

AWI Programs, across on-farm, off-farm and marketing activities, are designed to deliver upon the strategic priorities and targets of the organisation, which are outlined in the Strategic Plan (2013-2016) and associated Annual Operating Plans.

These programs provide value to woolgrowers and the broader economy through productivity savings and increased market demand. Appendix D provides investment activities as conducted under each Program, and highlights the value of benefits realised at the farm gate (wherever possible).

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Of note is that the measured performance of AWI in this period is substantially improved on the last review period, as there were only four CBAs undertaken for the last review compared with 12 CBAs in this period. It is clear that there has been significant improvement in the focus on and measurement of benefits realised. It is also clear for each Program, what benefits have been achieved and are likely to be achieved in future.

4.3 Value for money and return on investment to the industry

Of AWI's 27 current programs identified in the Strategic Plan (2013-2016) and associated Annual Operating Plans, 17 CBAs have been completed, and 12 have clearly demonstrated that benefits accrue to woolgrowers. These benefits have been assessed at a program level through a CBA.

Appendix D details by Program how AWI marketing and R&D activities have impacted returns over the period for these 12.

In addition:

- There are five programs that have been assessed via CBA, but the present value of benefits were not able to be quantified to the woolgrower, even though some of these programs identified efficiencies in project outcomes over time or in comparison to external agencies undertaking the work. Each of these has a detailed note in Appendix D. Overall
 - 2 of these related to a sub-set of the 12 programs that had been quantified already (i.e. The CBA entitled 'Trade engagement and marketing services' relates to the program 'trade engagement and marketing services' and the CBA 'trade shows' is across a number of programs)
 - 3 of these related to whole programs i.e. ZOAX (Eco-credentials), Merino Visual (technology transfer program), online investment (fibre advocacy)
- The remaining ten programs are also likely to achieve benefits to woolgrowers, but at this stage, have not been formally assessed. We understand that these CBAs are to be undertaken over the next 12 months in line with the Strategic Plan period (2013 – 2016) and the clear direction of the CEO to complete CBA.

Many of the 12 CBAs were undertaken in 2012 or 2013, and therefore either represent the benefits of past investments or the benefits that would be achieved in the forthcoming period should the program targets be achieved, with a handful of exceptions. Therefore the benefits expressed in this chapter represent an extrapolation of the benefit cost ratio (BCR) determined in these CBAs to the current investment commitments for the current Strategic Plan.

We note that many of the benefits are anticipated to occur over timeframes longer than the three years of the Strategic Plan and beyond the period of this Review (i.e. 10-15 years for some programs), and are therefore yet to be fully realised by woolgrowers. This is not an uncommon or a negative factor, but rather the inevitable result of a review of performance being a three year snapshot only and AWI prudently seeking to balance short and long term benefits realisation.

By way of summary, Figure 9 below represents the anticipated return on AWI's investment for each of the 12 programs with CBAs that have quantified a return on investment (expressed as a ratio for the present value of every dollar spent, i.e. BCR). This, again, represents the return already achieved or planned to be achieved should all targets be met. Should the targets not be met, the benefits would be less than what is presented here and,

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conversely, should targets be exceeded the present value of benefits would be greater. Again, this is a usual element to such analyses.

Figure 9: Return on investment of AWI programs with completed CBAs (investment made between 2012-15)

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

The total value of present benefits for these 12 programs is \$198.2m from a present value of investment of \$69m, representing a weighted average BCR of \$2.90 of benefit for every \$1 spent. We consider this to be an excellent return on investment, when considering that the threshold for net benefits is \$1 for every \$1 spent.

Deloitte notes that some assumptions have been made to determine the present value of investments. These are

1. Firstly, in the absence of 2012-13 actual investment figures, 2012-13 has been assumed based on the average of 2013-14 and 2014-15 budgeted figures;
2. Secondly the present value for the three years of investment is calculated using a discount rate of 5% consistent with the rate used in the CBAs; and
3. Thirdly, it is assumed that Lifetime Ewe Management is funded under the Reproduction program therefore the calculated benefits are based on the Reproduction investments.

4.4 Contribution to increasing farm gate returns

Over the course of this Review, AWI focussed efforts on increasing the efficiency and effectiveness of marketing activities nationally and internationally. This is demonstrated through the increase in spend allocation (from 50% in 2009-2012 to 60% 2012-2015).

This focus on marketing activities has enabled AWI to contribute to increasing farm gate returns, through increasing demand for wool products. Further, AWI's activities across RD&E

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have achieved direct productivity and cost savings on and off farm, and directly contribute to increasing the gross margin of wool production.

As such, and with all other factors remaining constant, the higher farm gate revenues (per kg of wool) can be attributed to higher wool prices (due to marketing and increased demand) or decreased farm operating costs (through outcomes for RD&E activities). In response to rising wool prices some woolgrowers may increase wool production to maximise profit – increasing supply. This has a downward effect on price. However, there is sufficient evidence to suggest that increased supply volumes generate increased revenue resulting in a farm gate return which is higher than the starting point.

4.5 Other benefits

In addition to the quantifiable increase to farm gate returns of woolgrowers, there are a range of other benefits from AWI programs that have not been quantified, or are not easily quantified. These include:

- Benefits that were recognised in the CBAs undertaken to date but were not able to be quantified;
- Flow on effects of the increases in farm gate returns to the wider wool growing regional communities; and
- Benefits from AWI's Global Business Services program which consists of the 'enabling functions' of the strategic plan. These programs enable AWI to operate cost-effectively through the provision of cross company support services.

These three categories of 'other benefits' across **non-quantified benefits of programs**, **community benefits** and **global business services** are described further below.

4.5.1 Non-quantified benefits of programs

Many of AWI programs generate benefits to woolgrowers beyond that which can be (or have been) quantified. Some of these benefits which were cited in the CBAs include:

- Better husbandry practices which work towards potentially reducing the effort required to respond to animal welfare concerns, and the stress caused by negative campaigns against woolgrowers;
- Health and Safety benefits stemming from higher levels of training including longevity of workforce;
- Environmental benefits such as reduced soil erosion and reduced groundwater recharge from better grazing practices;
- Increased participation in carbon markets may open up new revenue streams for woolgrowers; and
- Emotional benefit to farmers from reduced wild dog attacks and stock losses.

A broader effect of AWI programs is that it increases the overall size of the industry through stimulating increased production (from higher prices and higher productivity). This has the effect of encouraging new entrants to the industry but also encouraging existing woolgrowers to remain in the industry despite the many challenges. This attraction and retention factor then multiplies the benefits that are quantified here.

4.5.2 Community benefits

The increases in farm gate returns are likely to have flow-on (or spill over) effects to other industries within the wool growing regional communities (and beyond). These benefits accrue to other industries when the woolgrowers themselves increase their use of farm inputs (Agricultural chemicals, energy, water, services, machinery etc.) required to increase production in response to higher prices. This increased activity has a multiplying effect on the economy, such that the additional benefit to the economy is greater than the direct benefit to wool growers.

These flow on effects are often estimated through the use of economic multipliers. Multipliers measure the impact that a change in the level of economic activity in one industry has on other industries in the economy. The multipliers reflect that, when activity in one industry changes, so too does the demand for inputs from other industries. As such, those other industries are also affected. The extent of the relationship is estimated by the size of the multiplier.

The Australian Bureau of Statistics provides an indication as to the extent of the relationship between sectors of the economy through their compilation of input-output (IO) tables, which report the inputs and outputs of specific sectors of the economy. IO tables quantify the intermediate flows between sectors – what each sector buys and sells to other sectors in production. These IO tables measure the direct economic activity of every sector in the economy at the national level. Importantly, they allow intermediate inputs to be further broken down by source. These detailed intermediate flows can be used to derive the total change in economic activity associated with a given direct change in activity for a given sector. For agriculture, the ratio of direct value increase to total value add in the economy is approximately 2.

When applied to the wool industry, this means that every \$1 increase in direct value for wool growers results a spill over effect to the economy of an additional \$1, taking the total value add to the economy of \$2. While this additional benefit is not the primary objective of AWI, it should be noted that any additional value at the farm gate is multiplied to the benefit of other individuals, industries and regions.

4.5.3 Global Business Services

AWI's Global Business Services program also results in benefits to growers that are difficult to quantify. Benefits can occur through streamlining operations and achieving greater efficiency and effectiveness of AWI programs. In addition, Global Business Services provides a range of cross-company support services. Some of the more direct benefits to growers include:

- Accurate forecasting of wool production volumes and value;
- Dissemination of global retail and trade market data;
- Monitor consumer attitudes and awareness and barriers to consumption;
- Create, enhance and protect industry's trade and market access opportunities; and
- Trade education – A CBA was completed on trade education in 2014², but noted that there was no direct benefit to woolgrowers.

² BDA Group 2014, *Benefit Cost Analysis of AWI's Trade Show Participation Investment*, December 2014
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4.6 Strategic benefits

There were a number of strategic benefits achieved during the Review period that were not captured in the current CBAs, nor specifically reported on by AWI, as in most cases they were not the primary targets or aims of AWI's investment, but rather synergies or secondary benefits that arose due to that investment. This is in no way intended as a criticism of the CBA process, which is rightly focussed on Program and Project analysis and measurement. More so, it demonstrates the commitment of AWI towards the triennial business planning period and program and project measurement.

There are however a number of significant value add synergies that have been achieved by AWI as a result of the work being done across a number of programs and by efforts to garner co-investment from others. These strategic benefits are not easily quantified but are returning benefits and impacting farm gate returns, and so should be recognised as such.

As examples of this, we note that AWI has achieved significant strategic benefits and value add for woolgrowers in the period from a variety of activities and co-investments, as illustrated in Figure 10.

Figure 10: Examples of AWI strategic benefits achieved for woolgrowers 2012 – 2015

Activity	Estimated \$ value	Strategic benefits
Co-investment from Vietnamese Government	\$US22m government investment \$US20m government investment (expected July 2015)	Growth in the reviewing period of wool processed in Vietnam to 1.9 million kgs yarns Opens processing options beyond China Commits Vietnamese Government to purchasing and processing wool
Nanshan Textiles College	AWI investment of \$500K including in-kind and machinery Nanshan's investment valued at approximately \$3.5m AUD	Skilling of designers and processors Maintaining technical skills at tertiary level Development and ability to leverage ownership of IP by AWI
Key Brand MD / CEO Video Production	Not applicable	Reputational growth for AWI and its credibility in the market Long term and personal commitment to wool from key industry leaders Leverage with processors seeking new / better opportunities
AWI targeted engagement and management of animal welfare groups.	Not applicable	Retention of key brands using wool Positioning wool as sustainable Grower confidence

AWI should be recognised for the value which they are creating for woolgrowers. To demonstrate value created, and the potential long term benefits for woolgrowers, AWI should consider developing a strategic benefits framework which captures the benefits realised from these strategic activities that occur outside or across Programs.

Recommendation 1:

A strategic benefits framework should be developed and applied to fully capture and demonstrate the value add and synergies that are being achieved for woolgrowers across Programs and from investments made by others as a result of AWI's efforts.

To further strengthen ties with woolgrowers and other stakeholders, AWI should focus efforts towards communicating the benefits realised – and demonstrated – through this strategic benefits framework. Communicating the value created by strategic activity and co-investments will enable woolgrowers to better understand and appreciate AWI's efforts on their behalf.

Recommendation 2:

Communication of strategic benefits should be included in future consultation plans (such as for the development of the Strategic Plan) and in extension sessions so as to help all woolgrowers fully understand AWI's efforts on their behalf.

5 Statutory obligations

The objective of this chapter is to articulate how AWI has met its statutory obligations during the Review period. Specifically this chapter outlines the role WoolPoll, the requirements of the SFA, and subsequently AWI's R&DE obligations as per the SFA. The outcomes of this chapter address TOR1a)

Key findings

- AWI has met the requirements as outlined in the SFA 2013-2016 with the Commonwealth. A full evidence table is provided in in section 5.2 below.
- Activities over the preceding three years demonstrate that AWI listen, and respond to the needs and expectations of stakeholders and the industry, by reflecting RD&E activities to include the requirements as outlined in the SFA.
- AWI is committed to continuous improvement across all areas of the business, and the refinement of the M&E Framework over the preceding three years demonstrates this commitment and alignment to the requirements of the SFA.

5.1 Overview

In July 2013, AWI entered into the *Statutory Funding Agreement 2013-16* (SFA) with the Commonwealth. The SFA mandates AWI compliance with the regulatory framework of the *Corporations Act 2001*, *Wool services Privatisation Act 2000*, and the *Wool Services Privatisation (Wool Levy Poll) Regulations 2003*. A summary of what each element of this framework means to AWI is set out in Figure 11 below.

Figure 11: AWI compliance environment

Regulation	Description
<i>Corporations Act 2001</i>	Principal legislation regulating companies in Australia
<i>Wool services Privatisation Act 2000</i>	Sets out the privatisation of the Australian Wool Research and Promotion Organisation(s), registration under Corporations Act 2001, issue of shares to eligible woolgrowers, taxation, declaration of the research body, levy payments and government funding
<i>Wool Services Privatisation (Wool Levy Poll) Regulations 2003</i>	Regulation relating to how to conduct a legitimate poll of eligible levy payers for levy rates, spending and reviewing requirements.

In addition to the regulatory framework, the SFA also outlines the operational requirements of AWI including but not limited to:

- Business and planning cycles
- Corporate governance and Board performance
- Payment, application, management and repayment of funds
- Strategic, operational and other plans
- Audit report requirements
- Reviews of performance

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- Consultations and directions.

Deloitte notes that AWI has, of its own volition and expense, conducted additional voluntary Reviews of performance (ie. 2014) during this Review period in order to ensure it is meeting the SFA requirements and continually improving.

5.2 Statutory Funding Agreement Compliance Evidence Table

To ensure that all aspects of the SFA have been addressed within this Review, Deloitte developed a Compliance Evidence Table, in order to demonstrate a robust and methodical approach to assessing AWI's compliance. This table details the evidence provided or gathered to ensure that AWI met the requirements of the Statutory Funding Agreement (SFA).

Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
Negotiation of the new agreement			
The parties must, at least six months before the expiry of this Agreement, commence negotiation in good faith with a view to renewing this Agreement either on the same terms and conditions or on varied terms and conditions as agreed by the parties. If the parties are unable to agree on the terms of a new Agreement to replace this Agreement within that six month period, then the parties agree that the Agreement will continue in full force and effect as between the parties for an additional six months or such other period as the parties agree unless one of the parties advises the other party in writing it does not wish to extend the Agreement having given reasonable consideration to the progress made, and the matters yet to be agreed, as at that date.	2.4	The current SFA was signed by the Commonwealth on the 18/06/2013 with the termination of the agreement occurring 3 years from that date (As per section 2.1 (SFA)). No negotiations required	Compliant
Compliance with Legislation			
The RDC must comply with the Act and the requirements of the Corporations Act 2001.	3.1	As per the Annual report and the PricewaterhouseCoopers Independent Auditors report (pg. 91) for the year ended 30 June 2014 it is in the auditors opinion that AWI have complied with the Corporations Act 2001	Compliant

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Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
The enabling legislation for this RDC is the Wool Services Privatisation Act 2000, and the Wool Services Privatisation (Wool Levy Poll) Regulations 2003.	3.2	See page 80 for compliance	Compliant
Planning Cycles			
AWI's business and planning cycle requires the timeframes for WoolPoll, the SFA and Strategic Plan to be consistent. This cycle finishes with woolgrowers voting in WoolPoll, informed by the independent Review of Performance. The outcome of WoolPoll informs the subsequent strategic period's SFA and the Strategic Plan.	3.3	AWI's Triennial Business Cycle 2013/14–2015/16 meets this requirement - see AWI Strategic Plan - 2013/14 to 2015/16 page 15	Compliant
Corporate governance			
The RDC must implement a framework of good corporate governance practice in managing and investing the Funds, which should draw on better practice guides, including the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2010 Amendments, Second Edition, June 2010 as appropriate and as amended from time to time.	4.1	See section 6.2 on corporate governance	Compliant
The RDC must report on steps taken to enhance corporate governance at the six-monthly meeting held under clause 15.1. <i>Clause 15.1:</i> <i>The Chairperson of the RDC, or in their absence, their nominee (who must be a Director), must meet with the Commonwealth at not more than six-monthly intervals from the commencement date of this Agreement or at any other time requested by the Commonwealth on reasonable notice, to brief the Commonwealth on the RDC's performance of its functions as the Industry Services Body including:</i> <i>(a) progress on implementing the RDC's Annual Operational Plan and</i>	4.2	Records of Meeting supplied by current FAS Agriculture. Meetings have been held appropriately throughout the review period and proceedings recorded.	Compliant

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Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
<p><i>Strategic Plan;</i> <i>(b) progress on the implementation of the relevant sectoral and cross-sectoral strategies under the National Primary Industries RD&E Framework;</i> 32 <i>(c) consultation with other RDCs and Industry Representative Bodies;</i> <i>(d) measures taken to enhance corporate governance in accordance with clause 4;</i> <i>(e) progress in developing and implementing the Evaluation Framework;</i> <i>(f) progress on implementing the recommendations from the most recent Performance Review; and</i> <i>(g) the development and implementation of additional systems, processes and controls necessary to meet the requirements of this Agreement required by clause 7.5 of this Agreement.</i></p>			
<p>The RDC must establish a skills based board of directors which can demonstrate collective expertise against skill requirements and reflects the RDC's constitution and/or charter. It is expected that the skills required would be kept under review by the Board Nomination Committee.</p>	4.3	See section 6.2	Compliant
Constitution			
<p>The Company must:</p> <p>(a) consult with the Commonwealth on changes to its Constitution explaining its intent to ensure that it will remain appropriate to a body performing the functions of the declared Industry Services Body;</p> <p>(b) give the Commonwealth a copy of each notice of a motion to modify the Company Constitution, at the same time as it gives notice of the motion to its members; and</p> <p>(c) as soon as practicable after any modification of the Company Constitution is made, give the Commonwealth</p>	4.4	The current constitution is effective from 18 November 2011. There have been no changes in the Review period	Compliant

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Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
Members and levy payers			
The Company must do all things necessary to ensure that it effectively represents and reflects the interests of its members and, through those members, the Industry's Research and Development and Marketing interests.	4.5	AWI's investments are in line with industry priorities and are focussed on achieving research, development and marketing (RD&M) outcomes that benefit Australian woolgrowers. This is the result of the prior Woolpoll results conducted in 2012. In total 60.94% of all possible woolgrower votes were cast as part of WoolPoll 2012	Compliant
The Company must use reasonable endeavours to ensure Levy Payers who are not members are advised of their entitlements to become, and how they may become, members of the Company	4.6	The company's website outlines how to become a shareholder (http://www.wool.com/about-awi/shareholder-information/becoming-a-shareholder/) The company contacts by mail every eligible levy payer annually to encourage them to become a shareholder.	Compliant
Documents required to be available to members			
The RDC must ensure that up to date information on the following is available on its website: (a) The RDC's Strategic Plan, including information relating to its development and any changes; (b) The priorities used by the RDC to determine which projects it will fund; (c) An overview of the RDC's key activities; and (d) Key research, development, extension and or industry services activities which the RDC is funding.	4.7	The following documents outline the requirements and are available on the company's website: 1) Strategic plan 2013/14 Priorities are outlined in the above mentioned documents, which also provide an overview of the key activities are mentioned in the above mentioned documents. Key programs funded are detailed in the above mentioned documents.	Compliant

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Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
Information must not include			
<p>The information to be published under the preceding subclause shall not include information of the following kinds:</p> <p>a) personal information or an opinion (whether true or not) about any individual, from which the individual's identity is apparent or could reasonably be ascertained, if it would be unreasonable to publish that information;</p> <p>b) information about the business, commercial, financial or professional affairs of any person if it would be unreasonable to publish that information, such as:</p> <p>(i) a matter communicated in confidence;</p> <p>(ii) trade secrets; or</p> <p>(iii) a matter which would disclose information having a commercial value that would be, or could reasonably be expected to be, destroyed or diminished if the information were disclosed.</p> <p>c) information which would, or could reasonably be expected to damage:</p> <p>(i) the RDC; or</p> <p>(ii) the industry; or</p> <p>(iii) the national interest.</p>	4.8	<p>AWI Executive advised they are not aware of any reported breaches of privacy or private information.</p> <p>AWI has a Privacy Policy which is on website at www.wool.com.</p>	Compliant
<p>Each party must, in respect of Confidential Information given by the other party:</p> <p>(a) use that Confidential Information only for the purposes of administering or enforcing this Agreement or the Act; and</p> <p>(b) not disclose that Confidential Information to any person without the prior approval in writing from the other party and subject to any reasonable conditions or restrictions imposed by the other party in giving approval.</p>	16.4	<p>AWI Executive advised they are not aware of any reported breaches of Confidentiality.</p> <p>AWI deals with this in its Code of Conduct & Business Ethics Policy along with every Employment Contract of the company.</p>	Compliant

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Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
Payment of funds			
Notwithstanding any other provision of this Agreement: (a) the Commonwealth may either invoice the RDC for, or deduct from Marketing Payments or Research and Development Payments to be paid to the RDC, amounts equal to the costs incurred by the Commonwealth in relation to collecting, recovering, administering provisions relating to Category A Payments as referred in the Act and consistent with the department's cost recovery policy and guidelines; (b) the RDC must pay any amount so invoiced to the Commonwealth within 30 days of receipt of the invoice; and (c) an amount to be deducted by the Commonwealth or paid by the RDC under this clause must be deducted or paid: (i) from the Marketing Payments to the extent that the amount relates to the Marketing Payments; or (ii) from the Research and Development Payments to the extent that the amount relates to the Research and Development Payments.	5.3	As per consultation with the Department there have been no issues with funding	Compliant
For the purposes of clause 5.6 a certificate signed by the Chief Executive Officer (or equivalent), the Chief Financial Officer or the Secretary of the RDC, certifying that the RDC has spent a particular amount on Research and Development, is reasonably satisfactory evidence in the absence of any evidence to the contrary.	5.7	Certificate provided	Compliant
Application of funds			
The RDC must spend the Funds: (a) only in accordance with the Act and this Agreement; and (b) in a manner that is consistent with: (i) the current RDC Strategic Plan; (ii) the Guidelines; and (iii) must otherwise take all reasonable steps to operate in a manner that is Efficient, Effective, Economically and Ethically sound.	6.1	See chapter 4	Compliant

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Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
For the purposes of clause 6, any Unmatched Research & Development Excess will be rolled over into the following financial years.	6.2	Unmatched excess R&D funds are rolled over, please note in only one year has AWI claimed against rolled over excess funds as generally the eligible R&D spend is in excess of the cap. In the year the excess was rolled this was done in consultation with DAFF.	Compliant
The RDC must not engage in Agri-Political Activity. For example, the RDC must not apply the Funds to: (a) act as an Industry Representative Body or to reference or provide information which implies to stakeholders that the RDC is an Industry Representative Body if it is not; or (b) actively advocate a particular industry policy position; or (c) encourage or support a campaign for the election of a candidate, person or party for public office.	6.4	All relevant communications with stakeholders explain AWI's role is as the RD&M organisation for the Australian wool industry and not the Industry Representative Body. AWI established the Woolgrower ICC in 2010 to improve consultation with grower representative groups. A key benefit of the ICC is allowing AWI to regularly inform and clearly identify to industry stakeholders those activities AWI cannot be involved with. The Terms of Reference of the ICC clearly outlines the role of the ICC is a consultation forum relating to AWI's activities in RD&M.	Compliant
The RDC must not spend the Funds on making payments to Industry Representative Bodies which are established for the purpose of or substantially engaged in Agri-Political Activity. This does not preclude: (a) payments by way of membership fees where that membership contributes to the RDC pursuing its objects; or (b) payments on an arm's-length value for money basis to acquire goods or services or fund Research and Development or Marketing projects.	6.6	AWI does not approve funding requests to sponsor conferences, but rather will provide speakers and contribute information inserts as requested. AWI funds associated travel and accommodation fees to stakeholders engaged as part of AWI's Annual Planning and Consultation Cycle.	Compliant

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Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
The RDC must determine an appropriate Balanced Portfolio of Research and Development activities through the Strategic and Annual Operating Plans, and explain the approach to giving effect to this.	6.8	Current split of funding is based on Woolpoll 2012 results. Strategic and operating plans have been developed.	Compliant
The RDC must contribute to the implementation of relevant industry sector and cross-sectoral strategies under the National Primary Industries RD&E Framework as appropriate and consistent with the RDC Strategic Plan. AWI is the lead Industry Services Body and DAFWA is the lead Primary Industries Standing Committee (PISC) agency of the National Wool RD&E Strategy. AWI also plays a support role in a number of cross sectoral RD&E Strategies including Animal Welfare, Climate Change Research Strategy for Primary Industries (CCRSP) and Animal Biosecurity	6.9	As per consultation with the Department there have been no issues with RD&E framework	Compliant
Provide appropriate feedback to unsuccessful applicants in accordance with an agreed process.	6.10	AWI project selection process provides for feedback to project proponents who are not successful	Compliant
Management of the funds			
The RDC must establish such accounting systems, procedures and controls as are necessary to ensure: (a) the Funds are spent only in accordance with this Agreement and the Act; (b) all dealings with the Funds are properly authorised, conducted and accounted for; and (c) an auditor is able to readily verify that the Funds have been used only in accordance with this Agreement.	7.1	Deloitte received financial information required for the review, showing that records are kept. AWI have obtained a compliance report from PricewaterhouseCoopers who also audits the records on an annual basis.	Compliant
The accounting systems, processes and controls to manage the Funds established in accordance with clause 7.1 are required to take into account the Risk Management and Fraud Control plans developed under clauses 11.8(a) and (b) and Cost Allocation Policy.	7.2	AWI is currently drafting its cost allocation policy and will be reviewed and signed by 27 November 2015	Compliant

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Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
The RDC must notify the Commonwealth of the details of the systems, procedures and controls established in accordance with clause 7.1 on request.	7.3	The Department confirmed that there have been no requests	Compliant
The RDC must: (a) keep complete and detailed accounts and records of receipt, use and expenditure of the Funds in accordance with good accounting practice including all applicable Australian accounting standards; (b) keep the accounts and records referred to in clause 7.4(a) separately in relation to the Marketing Payments, Research and Development Payments and Commonwealth Matching Payments, and Voluntary Contributions; and (c) keep accounts and records referred to in clause 7.4(a) to enable disclosure of the full costs of the Research and Development and Marketing programs under Clause 12.	7.4	Deloitte received all financial information required for the review, showing that records are kept. AWI have obtained a compliance report from PricewaterhouseCoopers who also audits the records on an annual basis.	Compliant
Any additional systems, processes and controls necessary to meet the requirements of this Agreement must be implemented during the term of this Agreement, within a timing agreed to by the Commonwealth.	7.5	As per consultations with the Department no requirements to implement additional systems, processes or controls	Compliant
Polls			
The Company must maintain and update a record of: (a) the name (which may be a business name) and address of each person who would be eligible to vote at that time on a Poll pursuant to the Poll Regulations; and (b) the voting entitlements of each such person on a Poll pursuant to the Poll Regulations; to the extent such voting entitlements arise from the payment of Levy on or after the Conversion Time.	7.7	AWI's third party share registry service, Link Market Services, maintains an up-to-date record of AWI's share register at all times. Any changes in shareholding are promptly notified to Link Market Services to permit correction of their records.	Compliant

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Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
The Company must conduct a Poll in line with the process and timeframe outlined in the Poll Regulations.	7.8	See page 74 of this Review	Compliant
Following the conduct of the Performance Review the Company must: (a) forward the Performance Review Report to the Minister prior to the Poll; (b) publish the Performance Review Report on the Company's website at least 28 days prior to sending out ballot papers in accordance with Regulation 11 of the Poll Regulations; and (c) make available a copy of the Performance Review Report to the Levy Payers and Woolgrower Industry representative bodies together with the information memorandum and ballot paper as provided by the Poll Regulations.	13.5	It is noted that this review of performance provided to the Minister prior to the poll and published on the website within 28 Days of sending out ballot papers. In line with previous Review of Performances	Compliant
Termination of the agreement			
Where a termination notice has been issued by the Commonwealth to the RDC in accordance with the process set out in clause 8.5, the RDC must prepare a plan for cessation of operations of the RDC as the Industry Services Body, including arrangements for the repayment or transfer of the Funds to or as directed by the Commonwealth and for the payment of employee entitlements and other commitments and expenses, by the termination date that is specified in that notice, or within such other period as the Parties agree, such agreement not to be unreasonably withheld.	8.6	As per consultation with the Department no termination notice issued	Compliant
Repayment of any funds			
The RDC must repay Funds to the Commonwealth in accordance with a notice under clauses 9.1 or 9.2 as a debt due to the Commonwealth.	9.3	As per consultation with the Department no repayment of funds have occurred	Compliant

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Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
Extension services			
<p>Extension is carried out, to varying degrees, by almost all participants involved in the rural research and development system, invariably also partners to the National Primary Industries RD&E Strategy. To ensure effective extension of research and development, the RDC must:</p> <p>(a) include in its Strategic Plan how it addresses extension, technology transfer, and commercialisation of R&D;</p> <p>(b) demonstrate that the pathways to extension and adoption are incorporated into the planning and approval process; and</p> <p>(c) report on its extension activities.</p>	10.1	See section 7.3 on Collaboration with Rural Research Development Corporations	Compliant
Strategic plan			
<p>The RDC must maintain a Strategic Plan covering a three to five year period and must:</p> <p>(a) review and, if necessary, update the Strategic Plan at least once every year;</p> <p>(b) work with the Commonwealth during the term of this Agreement to ensure that its Strategic Plan has regard to the intent of the Rural Research and Development Policy Statement (as at July 2012) and Program Framework;</p> <p>(c) obtain the Minister for Agriculture, Fisheries and Forestry's endorsement of each new or amended draft Strategic Plan; and the Department must take all reasonable efforts to ensure that this endorsement is given within 30 days of the Strategic Plan being submitted to it by the RDC. The parties agree that until such time as the Minister's views on the final draft Strategic Plan are known, once the current plan has expired, the RDC may act in accordance with the new or amended draft Strategic Plan notwithstanding that it has not received the Minister's formal endorsement;</p> <p>(d) provide the Commonwealth with a copy of a new or amended Strategic Plan, as appropriate, within 30 days of their approval by the Board; and</p> <p>(e) publish the Strategic Plan on its website within 30 days of approval.</p>	11.1	Deloitte have reviewed the strategic plan and notes that it is in line with the requirements of the SFA	Compliant

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Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
<p>The Strategic Plan must be prepared in accordance with good planning practice and must cover matters such as:</p> <ul style="list-style-type: none"> (a) the RDC's vision or mission; (b) an assessment of the RDC's operating environment including its strengths, weaknesses, threats and opportunities, and including current and future trends and implications; (c) collaboration with other RDCs on priority Research and Development issues; (d) consultation with Industry and an explanation on the extent to which Industry priorities are reflected in the plan; (e) key investment priorities and outcomes planned for the period of the plan; (f) the Research and Development and Marketing programs that the RDC intends to adopt to achieve the planned outcomes; (g) key deliverables which contribute to achieving the planned outcomes; (h) performance indicators that enable progress being made towards achieving planned outcomes to be monitored and reported upon; (i) how the activities to be funded align with, and give effect to, the Guidelines; (j) how it addresses extension, technology transfer, and commercialisation of R&D and demonstrate that extension and adoption are incorporated into the planning and approval process; (k) estimates of income and expenditure for the life of the plan including broad estimates of expenditure separately for each of the Research and Development and Marketing programs for the life of the plan; and (l) an explanatory statement of the RDC's approach to ensuring a Balanced Portfolio of Research and Development appropriate to its industry. 	11.2	<p>Deloitte have reviewed the Strategic Plan and notes that it is in line with the requirements of the SFA.</p> <p>The Department has formally been briefed on the Strategic Plan on at least 6 occasions and has not flagged any concerns.</p>	Compliant
<p>In developing the Strategic Plan, the RDC must develop a consultation plan including, details of proposed consultations with:</p> <ul style="list-style-type: none"> (a) the Commonwealth; (b) Levy Payers; (c) Industry Representative Bodies; (d) other RDCs as appropriate; and (e) other stakeholders as appropriate. 	11.3	<p>Deloitte have reviewed the strategic plan and notes that it is in line with the requirements of the SFA</p>	Compliant

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Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
Operational plan			
The RDC must, prior to 1 July each year, provide to the Commonwealth an Annual Operational Plan to implement the Strategic Plan setting out: (a) the intended operations of the RDC for the next financial year; (b) the key activities to be funded by the RDC during the year under each of the Research and Development and Marketing programs of the RDC; (c) activities to be funded to give effect to the Guidelines; (d) key deliverables arising from the activities planned; (e) performance indicators, timetables and milestones relating to the RDC's proposed activities and expenditure which enable the progress being made towards achieving the planned outcomes to be monitored and reported upon; (f) estimates of income and expenditure for the financial year which include: (i) the amounts to be received by the RDC, separately, in respect of Marketing Payments and Research and Development Payments and Commonwealth Matching Payments, Voluntary Contributions and any other form of income; and (ii) expenditure by the RDC on Marketing and Research and Development Programs; (g) any other matters the directors consider should be set out in the plan; and (h) a statement on how the RDC intends to implement and operationalise a Balanced Portfolio appropriate to its industry for the next financial year.	11.5	Deloitte have reviewed the annual operational plans and notes that it is in line with the requirements of the SFA. The Department has formally been briefed on the operational plans on at least 6 occasions and has not flagged any concerns. The Department has formally been briefed on the operational plans on at least 6 occasions during the Review Period and has not flagged any concerns. The Department has also made comments on the draft AOPs which AWI incorporated into the AOPs prior to lodging with the Minister.	Compliant
The RDC must submit all plans developed in accordance with clause 11.5, and all material variations or updates of such plans, to the Commonwealth within 30 days of the plans or variations being adopted by the RDC.	11.6	Deloitte have reviewed the operational plans and notes that it is in line with the requirements of the SFA	Compliant
Other plans			
The RDC must implement the following plans: (a) a Risk Management Plan; (b) a Fraud Control Plan; and (c) an Intellectual Property Management Plan.	11.8	Deloitte have reviewed the plans and noted that they are in compliance with the SFA	Compliant

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Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
The RDC must review these plans at intervals of no more than four years.	11.9	The mentioned plans have been updated on the following dates: 1) Risk management plan: January 2015 2) Fraud control plan: January 2015 3) IP Management plan: February 2015 All reviewed within 4 years.	Compliant
The RDC must provide the Commonwealth with a copy of the plans, or amendments to the plans, within 30 days of their approval by the board.	11.10	As per consultation with the Department there have been no issues with receiving required information	Compliant
Annual Report and Audit requirements			
The RDC must, within five months after the end of its financial year, give the Commonwealth a report (Compliance Audit Report), providing an audit opinion on whether the RDC has complied with its obligations under clauses 6 and 7 during the financial year. A Compliance Audit Report must: (a) be prepared in accordance with relevant Australian Auditing and Assurance Standards; (b) include a review of the efficacy of the accounting systems processes and controls required under clause 7.1; (c) indicate whether any qualifications to the Compliance Audit Report, and any incidences of non-compliance that have come to the auditor's attention, are material; (d) if an incidence of non-compliance is, in the auditor's opinion, material, provide an explanation of the incident of non-compliance; and (e) include a statement that the Compliance Audit Report has been prepared for the Commonwealth for the purposes of this Agreement. 12.2 A Compliance Audit Report	12.1	Included in the 2014 Annual Report is a Compliance Audit report which was signed by PwC on the 22 August 2014. This is within the required timeframe	Compliant

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Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
<p>The RDC must, within five months after the end of its financial year, give the Minister for Agriculture, Fisheries and Forestry a report (Certification Report) from the Board of Directors of the RDC, signed by the Chairperson of the Board and the Chief Executive Officer of the RDC:</p> <p>(a) certifying whether the RDC has complied with its obligations under the Act and this Agreement during the financial year;</p> <p>(b) stating whether, in their opinion, any non-compliances are material;</p> <p>(c) if any non-compliances are, in their opinion, material, giving an explanation of the non-compliance; and</p> <p>(d) an acknowledgement that the Certification Report will be relied upon by the Commonwealth.</p>	12.3	<p>The Certification Report, signed by AWI's Chairman and Chief Executive Officer, was provided on 27 October 2014. The Department acknowledged receipt on 25 November 2014. The Certification Report is completed annually after the audit of financials at the end of the financial year.</p>	Compliant
<p>The RDC must, within five months after the end of its financial year, give the Minister for Agriculture, Fisheries and Forestry a report (Certification Report) from the Board of Directors of the RDC, signed by the Chairperson of the Board and the Chief Executive Officer of the RDC:</p> <p>(a) certifying whether the RDC has complied with its obligations under the Act and this Agreement during the financial year;</p> <p>(b) stating whether, in their opinion, any non-compliances are material;</p> <p>(c) if any non-compliances are, in their opinion, material, giving an explanation of the non-compliance; and</p> <p>(d) an acknowledgement that the Certification Report will be relied upon by the Commonwealth.</p>	12.6	<p>The Certification Report, signed by AWI's Chairman and Chief Executive Officer, was provided on 27 October 2014. DA acknowledged receipt on 25 November 2014. The Certification Report is completed annually after the audit of financials at the end of the financial year.</p>	Compliant

Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
The Company must provide four copies of its annual report, prepared in accordance with clause 12.6, to the Commonwealth by December each year	12.7	Copies of the 2013/14 Annual Report were provided to the Commonwealth on 27 October 2014. Copies were sent to: <ul style="list-style-type: none"> • Minister Joyce • Departmental Secretary – Dr Paul Grimes • Assistant Secretary for the Research and Development and Food Security Branch – Barbara Jones • Director, Agricultural Productivity Wool and Dairy - Angie O'Sullivan 	Compliant

Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
<p>The Annual Report should also include reasonably comprehensive coverage of:</p> <p>(a) sources of income allowing for separate identification of Marketing Payments, Research and Development Payments, Voluntary Contributions and Matching Payments;</p> <p>(b) full cost of the Marketing and Research and Development programs, with costs being allocated in accordance with the Cost Allocation Policy;</p> <p>(c) progress made in implementing plans, including progress against key Marketing and Research and Development programs performance indicators specified in the plans;</p> <p>(d) key Marketing and Research and Development programs deliverables and associated outcomes achieved;</p> <p>(e) progress in implementing the Rural Research and Development Policy Statement;</p> <p>(f) collaboration with Industry and other research providers;</p> <p>(g) directions given by the Minister for Agriculture, Fisheries and Forestry, under the Guidelines;</p> <p>(h) consultation with Levy Payers and key Industry Representative Bodies on its Strategic and Annual Operational Plans, and Research and Development and extension activities;</p> <p>(i) details of senior Executive and board remuneration (any changes to Government disclosure requirements will be advised by the Commonwealth in the lead up to preparation of each Annual Report);</p> <p>(j) the rationale for the mix of projects included in the Balanced Portfolio; and</p> <p>(k) other reasonable matters notified to the RDC by the Commonwealth.</p>	12.10	Deloitte have reviewed the Annual Report and notes that it includes the information required	Compliant
Other reports			
<p>The RDC must report to the Commonwealth any significant matters that have come to the RDC's notice that will or may affect the RDC's ability to achieve the outcomes stated in its Strategic Plan or comply with its obligations under this Agreement within 30 days of becoming aware of that matter.</p>	12.11	No significant matters requiring communication	Compliant

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Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
Review of performance			
<p>The RDC must complete a Performance Review six months before the expiry of this Agreement and must:</p> <p>(a) engage an independent organisation to undertake the Performance Review and prepare a report on the Performance Review (the Performance Review Report);</p> <p>(b) agree the terms of reference 6 months before the Performance Review commences with the Commonwealth to ensure that the Performance Review will meet the requirements of this Agreement;</p> <p>(c) meet RDC specific measures as advised by the Commonwealth, such as incorporating outcomes of levy polls;</p> <p>(d) provide the Commonwealth with a copy of the draft Performance Review Report at the same time as the board receives a copy;</p> <p>(e) provide the final Performance Review Report to the Commonwealth within 14 days of its acceptance by the board;</p> <p>(f) develop a response to the final Performance Review Report and a proposed implementation plan including dates and milestones for the implementation of recommendations within three months of the board's acceptance of the Performance Review Report;</p> <p>(g) provide the Commonwealth with the response developed under clause 13.1(f) within 30 days of the board's acceptance of that response;</p> <p>(h) report to the Commonwealth in the meetings required under clause 15.1 of the progress in implementing the Performance Review Report recommendations; and</p> <p>(i) publish the Performance Review Report and the RDC's response to the Performance Review Report recommendations on the RDC's website.</p>	13.1	<p>a. Deloitte is independent of AWI.</p> <p>b. Terms of Reference were agreed upon six months before commencement of Review of performance</p> <p>c. Met as per conversations with the Department</p> <p>d. Draft report was provided on 22/06/2015</p> <p>e. TBC – underway</p> <p>f. TBC – underway</p> <p>g. TBC – underway</p> <p>h. TBC - underway</p>	Compliant

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Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
The independent organisation engaged to carry out the Performance Review must be an organisation that has not, within the previous four years, carried out any corporate governance activity or reviews, performance audit or similar reviews of the RDC.	13.2	Deloitte confirms that it has not conducted for AWI corporate governance activity, Audit or similar reviews have been carried out within the past four years	Compliant
The Performance Review will take into account: (a) the performance of the RDC in meeting its obligations under this Agreement; (b) the RDC's development and implementation of its Strategic, Annual Operational, Risk Management, Fraud Control and Intellectual Property Management plans, and the RDC's effectiveness in meeting the priorities, targets and budgets set out in those plans; (c) the efficiency with which the RDC carried out those plans; (d) the delivery of benefits to the Industry foreshadowed by those plans; and (e) any other matters consistent with the RDC's Strategic Plan and the Act for the period of Review reasonably required by the Minister to be covered and any other issues relevant to the industry or sector that may require specific attention.	13.3	The terms of reference provided to Deloitte from AWI require the report to be prepared in line with the requirements of this section	Compliant
Prior to any Poll the Company must undertake a Performance Review in accordance with the requirements of this Agreement as outlined in preceding clauses.	13.4	Deloitte have been engaged to carry out the review of performance. With the final report to be published on AWI's website in August with Voting taking place over a six-week period between 14 September and 30 October this year. It is noted that the last Review of Performance was completed on 30 June 2012 with the prior WoolPoll being conducted from 21 September 2012 to 2 November 2012	Compliant

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Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
Following the conduct of the Performance Review the Company must: (a) forward the Performance Review Report to the Minister prior to the Poll; (b) publish the Performance Review Report on the Company's website at least 28 days prior to sending out ballot papers in accordance with Regulation 11 of the Poll Regulations; and (c) make available a copy of the Performance Review Report to the Levy Payers and Woolgrower Industry representative bodies together with the information memorandum and ballot paper as provided by the Poll Regulations.	13.5	2010 – 2012 Completed 2013 – 2015 To be completed	Compliant
Consultation with Department and industry			
The Chairperson of the RDC, or in their absence, their nominee (who must be a Director), must meet with the Commonwealth at not more than six-monthly intervals from the commencement date of this Agreement or at any other time requested by the Commonwealth on reasonable notice, to brief the Commonwealth on the RDC's performance of its functions as the Industry Services Body including: (a) progress on implementing the RDC's Annual Operational Plan and Strategic Plan; (b) progress on the implementation of the relevant sectoral and cross-sectoral strategies under the National Primary Industries RD&E Framework; (c) consultation with other RDCs and Industry Representative Bodies; (d) measures taken to enhance corporate governance in accordance with clause 4; (e) progress in developing and implementing the Evaluation Framework; (f) progress on implementing the recommendations from the most recent Performance Review; and (g) the development and implementation of additional systems, processes and controls necessary to meet the requirements of this Agreement required by clause 7.5 of this Agreement.	15.1	The first 2013 six monthly meeting was held on 3 June 2013 and the second on 9 December 2013. Director Sheil attended the June 2013 meeting as a nominee for the Chair and the Chairman attended the December meeting. AWI met with the department on 12 June 2014 and on 18 December 2014. On each occasion the AWI Chair, CEO and Group Manager of Corporate Affairs attended the meetings. AWI continues to provide a reference pack to Department representatives to supplement the advice given at SFA meetings and provide a tool for ongoing reference. This initiative was first introduced at the August 2011 SFA meeting. The Chair also met formally with the Minister on 9 November 2013 and 26 May 2015 where a range of issues relating to AWI and the wool industry were discussed.	Compliant

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Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
The RDC must meet with woolgrowers Industry Representative Bodies at not more than six-monthly intervals to: (a) review industry priorities for Research and Development and Marketing investments, including any regional equity considerations; and (b) report on the RDC's performance against the Strategic Plan and the Annual Operational Plan.	15.2	AWI have met its requirements of consulting with industry groups	Compliant
Access to record and use of information			
The RDC must grant this access, on request: (a) during Business Hours – at any time on reasonable notice in writing; and (b) outside Business Hours – on 48 hours' notice given to the RDC and marked for the attention of the Chief Executive Officer or equivalent of the RDC.	16.2	As per discussion with the Department there have been no requests	Compliant
The RDC must provide access to all its accounts and records relating to this Agreement and the Act and otherwise co-operate fully with the Commonwealth the Auditor-General or any duly authorised representative of either of them to enable them to exercise their rights under clause 16.1.	16.3	As per discussion with the Department there have been no requests	Compliant
Indemnity			
The RDC indemnifies the Commonwealth, its officers and agents against all expenses, losses, damages and costs (on a solicitor and own client basis and whether incurred by or awarded against the person claiming the indemnity) sustained or incurred as a result, whether directly or indirectly, of: (a) any breach of this Agreement by the RDC; or (b) any loss of or damage to any property or injury to or death of any person caused by any negligent act or omission or wilful misconduct of the RDC or its officers and employees.	17.1	As per the Director's report signed by Wal Merriman (chairman) (Page.63) "During the financial year, Australian Wool Innovation Limited paid a premium to insure directors and officers of the Group. The insurance policy specifically prohibits disclosure of the nature and liability covered and the amount of the premium paid."	Compliant

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Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
Conflict of interest			
<p>If a conflict of interest, or risk of a conflict of interest, arises in the performance of the RDC's obligations under this Agreement, the RDC must notify the Minister for Agriculture, Fisheries and Forestry of that conflict or risk and take steps acceptable to the Minister for Agriculture, Fisheries and Forestry to resolve or avoid the conflict.</p>	18.2	<p>AWI's Code of Conduct & Business Ethics Policy is the document that covers Conflict of Interests. A conflict will only occur if interests are not well declared and well managed.</p> <p>The Board of AWI has this as a regular agenda item in every meeting. The Company Secretary maintains a register of the declared interests of the Board members. A list of declared related terms are also provided so that should a paper feature a term or reference to the declared term papers can be removed from Directors board pack. The Board members absent themselves from the meeting should there ever be an item of concern.</p> <p>The Executive (11) receives a monthly survey requesting a declaration of any new interests. In the same Survey OH&S, Discrimination, Harassment and Gift Register are covered. At each Board meeting as the first Item of the CEO's briefing report on these items.</p> <p>A register is maintained of the Executives' Interests.</p>	Complaint
Resolution of Results			
<p>Unless otherwise agreed with the Commonwealth, the RDC must ensure that all significant publications and publicity by the RDC in relation to matters on which Commonwealth Matching Payments are expended acknowledge the provision of the Matching Payments by the Commonwealth.</p>	19.1	<p>As per discussion with the Department there have been no issues with funding</p>	Compliant

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Obligations under the Statutory Funding Agreement 2013-16	SFA Reference	Evidence gained	Conclusion
Resolution of Results			
The parties agree that any Dispute arising during the course of this Agreement will be dealt with as follows: (a) the party claiming that there is a Dispute will send the other party a written notice setting out the nature of the Dispute and requesting a meeting between the parties to discuss that Dispute; and (b) the parties will have 20 Business Days (or such longer period agreed to in writing by the parties to the Dispute) from the date of the notice within which to hold a meeting of one duly authorised representative of each party, and those representatives must use reasonable efforts to resolve the Dispute.	23.2	As per consultation with AWI and the Department no disputes have arisen	Compliant
Assignment			
The RDC must not assign or novate this Agreement or any right or obligation under this Agreement unless the RDC: (a) is not in breach of this Agreement; (b) obtains the prior written consent of the Commonwealth; and (c) ensures that the assignee agrees to be bound by all of the RDC's obligations under this Agreement.	24.1	As per consultation with AWI and the Department no novation from agreement	Compliant
Notice			
A party giving notice or notifying under this Agreement must do so in writing or by Electronic Communication: (a) directed to the recipient's address specified in this clause, as varied by any notice; or (b) hand delivered or sent by prepaid post to facsimile or Electronic Communication to that address.	30.1	As per consultation with AWI and the Department no notice has been given.	Compliant
Other			
The RDC must publish this Agreement on its website.	2.6	The SFA is available on www.wool.com	Compliant

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5.3 Conduct of WoolPoll

The SFA requires that AWI conduct a poll in line with the *Wool Services Privatisation (Wool Levy Poll) Regulations 2003* (Poll regulations) every three years.

The outcome of WoolPoll informs negotiations of a new SFA with the Commonwealth, which governs the expenditure and operations of AWI over the following three years. The outcomes of WoolPoll are also used as a foundation for the Strategic Plan, which defines the key investment priorities and activities for the following three years.

The results of WoolPoll 2012 were as follows:

- In total, 60.94% of all possible woolgrower votes were cast
- Growers voted to maintain a two per cent levy
- Levy payers endorsed the strategic intent AWI outlined at the time with the allocation of funds, being 40% to Research and Development and 60% to marketing.

5.4 Statutory Funding Agreement and the Commonwealth

The *Wool Services Privatisation Act 2000* (the Act) sets out the requirements of the Commonwealth in providing funding to AWI. This is summarised below:

- AWI receives two types of payments:
 - *Category A*: payments in relation to wool levy, that is, a fixed percentage of gross proceeds paid at the point of sale of raw wool
 - *Category B*: payments per financial year in relation to research and development
- Each of the categories must be spent in the following way:
 - *Category A: payments are spent by the research body on research and development activities, other activities or both, for the benefit of Australian woolgrowers; and*
 - *Category B: payments are spent by the research body on research and development activities for the benefit of Australian woolgrowers and the Australian community generally.*
- Annual amounts are limited to:
 - *Category A: the total limit on the appropriation is the total amount of wool levy received by the Commonwealth. For this purpose, amounts received by the Commonwealth as penalties for late payment of wool levy are to be treated as amounts of wool levy*
 - *Category B: the limit on the appropriation is the lesser of:*
 - *0.5% of the amount determined by the Minister to be the gross value of eligible wool produced in Australia in that financial year; and*
 - *50% of the amount spent by the research body in that financial year on activities that qualify, under the contract, as research and development activities.*

The funding amounts achieved in the Review period are highlighted in Figure 12:

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Figure 12: AWI Funding and spend on Eligible R&D by AWI in the period 2012-2014 (Source: AWI)

ELIGIBLE R&D BREAKDOWN	2012/13	2013/14
	\$ million	\$ million
AWI Actual Eligible R&D Expenditure	31.771	35.840
50% Maximum Government Contribution before GVP Calculation	15.886	17.920
Actual Government Contribution based on Government valuation of GVP (cap is 0.5% of GVP)	13.293	12.765
AWI Contribution to Eligible R&D Expenditure	18.478	23.075

Notes:

1. Government confirmation of Gross Value of Production (GVP) was not available at time of report finalisation so 2014 / 15 figures are not possible as the actual Government contribution is capped at 0.5% of the Government valuation of GVP.
2. AWI Actual Eligible R&D Expenditure is as audited.

Levy payers consider WoolPoll as a key element in their engagement and collaboration with AWI, and the activities it conducts.

AWI are committed to responding to the needs of stakeholders, and the expectations of the Department. This commitment was demonstrated through the outcomes of WoolPoll 2012, where AWI increased the fund allocation on marketing from 50% to 60%.

5.5 AWI's R&D Obligations under the SFA

The SFA stipulates a number of R&D obligations incumbent on AWI. All matching funding by Government is required to be expended on R&D as defined by Schedule 1 of the SFA.

Over the preceding three years, AWI have complied with the SFA obligations relating to R&D activities. This was demonstrated by:

- Compliance of audited accounts for Financial Year 2012 / 13 and 2013 / 14;
- R&D and the appropriate extension activities (as defined in sub clause f of Schedule 1 of the SFA) are a core focus of the AWI Strategic Plan and supporting Operating Plans, and associated reviewing;
- AWI RD&E framework is largely transparent, and enables shareholders to easily itemise funding. Deloitte is of the view that amounts published are spent in line with the percentages as presented in the Strategic Plan 2013-2016;
- AWI has a mature RD&E Projects selection process which aligns to the Strategic Plan 2013-2016. This includes the annual "call for Projects" which is open to all shareholder and stakeholders, follows a clear process published in the Strategic Plan 2013-2016 and is available to all. Delegations of authority are in place, and projects requiring \$250,000 or more in investment are reviewed by the Board; and
- There is an independent review and process for assessment based on the Project Assessment Tool, a key component of the AWI M&E Framework. This framework, refined over the preceding three years, reflects the commitment of AWI towards continuous improvement.

There remain some challenges for AWI, which are inherent in operating an R&D and associated extension program for a diverse group of shareholders. These include:

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- Many woolgrowers expect to realise benefits in the short term whilst others are seeking longer term outcomes. The nature of many R&D projects is that they are medium to long term (ie. longer than 3 years) hence the expectation of short term delivery of benefit is not always realistic. It is noted that AWI continues to improve how it communicates this complex set of information as simply as possible to woolgrowers; and
- The requirement on AWI to operate within a three year strategic planning cycle does not align with the timeframes for R&D, which as noted above, are often far longer. AWI is already working on a longer term R&D Plan and in preparing for the next Strategic Plan is looking to how it documents and communicates the various horizons for research simply and effectively.

6 Governance, operations and planning of AWI

The objective of this chapter is to document the assessment of the effectiveness of the governance, structure and operations of AWI. This chapter focuses on the progress achieved over the Review period across the Board and Executive, internal operations, strategic and operational planning, and risk management. The outcomes of this chapter address, in part, TOR 1b) and TOR 1c).

Over the course of this Review, AWI have demonstrated that they have effectively and efficiently developed and implemented annual operating, risk management, fraud control and intellectual property plans, and has enhanced the supporting mechanisms through which they achieve them.

Key findings

- Over the preceding three years to this Review, the governance mechanisms at AWI have been strengthened and become more effective, evident through timely senior manager meetings, formalised communication processes with the Department, and a robust M&E Framework to drive continuous improvement across all areas of the organisation.
- During the period, AWI's Independent Governance Advisor supported the implementation of significant improvements regarding the conduct of Board meetings, the implementation of the Board Performance Review processes, and the enhanced working relationship between the Board and the CEO.
- AWI have demonstrated the increased effectiveness of their intellectual property, risk management and fraud control plans, which are systematically monitored by the Finance and Audit Committee (FAC).
- AWI are proactive in engaging and collaborating with stakeholders, and encourage involvement in the development of its Strategic Plan, evident through the number of available forums for collaboration such as AWI's Woolgrower Industry Consultative Committee (ICC), annual "Call for Projects" and WoolPoll.
- The Risk Management frameworks and processes have continued to evolve, and when considered with the introduction of new systems, it is clear that AWI's risk management approach has significantly improved and its exposure to many risks has been reduced over the course of the Review period.

6.1 Code of Conduct and Business Ethics

The AWI Board, Executive, staff and contractors are all bound by the AWI Code of Conduct, which was revised and reissued in the reviewing period (approved by the Board on 19th April 2013)

The purpose of this Code is to: *“to ensure that high ethical standards and practices are adopted across its business, and that a strong culture of respect, integrity, and fair dealing is promoted within its organisation.”*

It is a clear and comprehensive document which applies to the conduct and behaviour of AWI people whilst at work or on work related business. The Code assists AWI people to behave in a manner expected of them as stewards of woolgrowers’ money including how to identify, minimise and report any potential conflicts of interest.

Formal training was undertaken and individual acknowledgements sort and obtained from all staff during mid 2013. All new staff are sent a copy of the Code of Conduct to read and acknowledge and given the option to contact HR if they need some additional help in understanding the policy or how it applies to them.

At a more fundamental level AWI people are expected to ensure that all conduct and actions pass the “woolgrower test”, which put simply asks *‘would this action be acceptable to woolgrowers?’*

Consultations highlighted that the Code of Conduct and the “woolgrower test” are now clearly embedded in the culture and processes of the Board and AWI Executive.

6.2 Board and Governance

6.2.1 AWI Board

The AWI Board sets the strategic direction of the company, and delegates the day to day operations and management to the CEO. In alignment with the requirements on AWI as outlined in the SFA, the Board is committed to

1. Ensuring strong governance mechanisms are in place; and
2. Ensuring that AWI operates in the best interests of its shareholder (woolgrower) and according to the various Acts, Regulations and Guidelines that apply.

The Board has established three sub-committees and a Board Nominations Committee that guide and monitor specific activities, as directed by the Board.

- **Finance and Audit Committee**

Provide the AWI Board with guidance and recommendations relating to risk, accounting, reviewing and compliance practices

- **Remunerations & Appointments Committee**

Provide guidance and recommendations relating to recruitment and retention of employees and policies governing remuneration for current and potential employees

- **Science and Welfare Committee**

Provide guidance and recommendations relating to scientific and research policies of the Company, and of conduct of the programs relating to activities undertaken by AWI

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The Board for the full period of this Review, and in the period before this Review, has been assisted by an Independent Governance Advisor. His role has enabled and contributed to the Board and CEO significantly improving the overall governance of the organisation as well as the effective and efficient operation of the Board.

Deloitte consulted with the Independent Governance Advisor as a part of conducting this Review.

The previous Review on Performance in 2012 commented at length on the role of the Science and Welfare Committee (SWC). This Review disagrees with the findings of that Review, and sees as effective and appropriate the R&D governance model being applied by AWI, including the SWC. There is a schedule of delegations in place for the review of projects, which together with the increased transparency, reviewing and evaluation of all projects, means that the Board involvement as delegated to the SWC is appropriate. It seems appropriate for the SWC to have the delegation it does, which is to make recommendations to the Board, and the processes supporting this appear well considered and are applied with consistency.

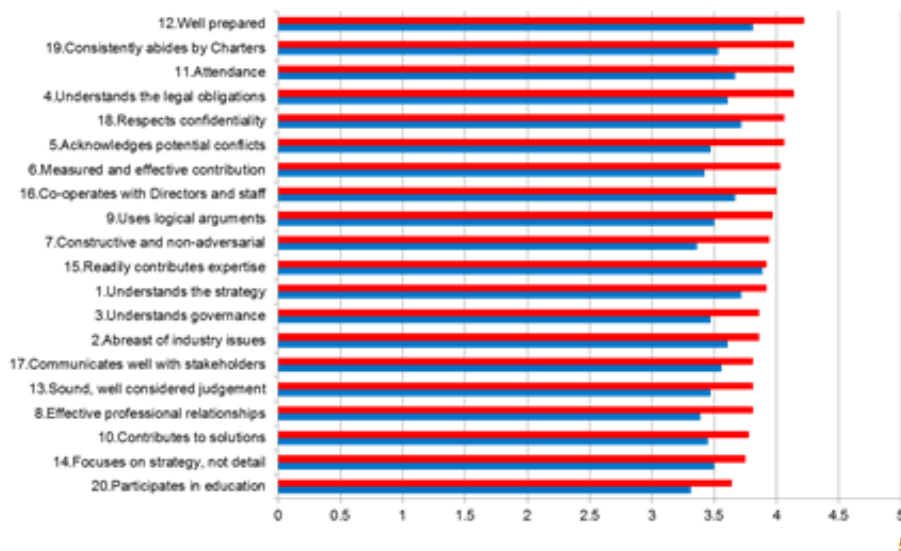
6.2.2 Board performance

The Board's performance over the Review period has been formally reviewed, twice, with the assistance of the Independent Governance Advisor, and in accordance with the initial recommendations made in 2010. These reviews have been made available to Deloitte as part of the process and Deloitte has been able to discuss these with the Independent Governance Advisor.

The results of these reviews accord with the strong anecdotal feedback of the Board Executive and woolgrowers: the Board's performance has been steadily improving and the Board's performance and stability over the period is an overall positive for the organisation and woolgrowers.

Figure 13 below shows the performance and improvement made in each category. The red line is 2014 and blue line is 2012 benchmark. Numbers relate to the questionnaire, order on the graph is from strongest at the top to weakest at the bottom.

Figure 13: AWI Board performance review results 2012 and 2014 compared (Source: AWI Independent Government Advisor)



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The Independent Governance Advisor was able to indicate a number of improvements he had facilitated or noted during the reviewing period that are clear indicators of a strong improvement focus. These include:

- Improved individual performance of Directors based on feedback;
- Higher level of satisfaction with Chair from other Directors;
- Fewer contentious issues;
- Reduction in adversarial behaviour;
- More constructive contributions from all Directors; and
- Directors have a better understanding of legal and fiduciary matters.

Further work is being progressed on an agreed agenda with the Independent Governance Advisor, and further biennial performance review of the three committees is due this year.

Whilst there are a number of further evolutionary improvements that AWI can and should make to its governance, this steady and structured approach to monitoring and improving performance aligns with the fact that no stakeholders flagged significant concerns or problems with the Board's performance during this period.

6.2.3 Board composition

In the course of the reviewing period, two new directors were elected in 2013, meaning five directors of the seven have been on the board throughout the Review period. Two directors have been on the Board for more than seven years. Director elections are due this year and so further changes are possible to the Board.

Board composition is addressed in four key documents:

1. The Constitution, in which Section 13 addresses the composition of the board, including election, retirement and limitations on Directors;
2. The SFA, which on Page 12, notes;

“Skills Based Board’ means a board of directors which can demonstrate collective expertise against each of the following:

 - (a) corporate governance;
 - (b) wool growing;
 - (c) wool processing;
 - (d) product promotion and retail marketing;
 - (e) domestic and international market development and international trade;
 - (f) R&D, technology, technology transfer, commercialisation and adoption of R&D and innovation;
 - (g) conservation and management of natural resources;
 - (h) administration of research and development; and
 - (i) finance and business management.
3. The Board Charter, which is a document approved by the Board and displayed on the website, but not one passed by resolution of the shareholders. It articulates (Clause 3.1.1) the skills and expertise mix required of the Board, but as a single list. Further, it states (Clause 3.2.1) the majority of directors to be independent directors and then

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provides definition for such. Clause 3.2.3 provides for the Board to annually consider and conclude the independence of its non-Executive Directors annually; and

4. The Constitutional provisions for the selection and election of Directors are further amplified by *Rules and Procedures for Election of Directors* revised by a resolution of shareholders at the 2011 AGM.

Of note is that none of these documents:

1. Mandate the mix of skills or balance of the Board between independent and non-independent directors (noting that all AWI Directors are currently classified as independent); and
2. Provides a skills matrix which sets out the optimal mix of Directors (independent and other) by number and skill set.

Further, Section 13.10 of the Constitution allows for Directors (see sub-clause a):

contracting or entering into any arrangement with the Company either as vendor, purchaser or otherwise and no contract or arrangement entered into with the Company by a Director nor any contract or arrangement entered into by or on behalf of the Company in which a Director is in any way interested may be avoided for that reason

Deloitte believes that this clause allows the opportunity for Director's independence to be changed or impacted significantly.

In summary, Deloitte believes that there is value in further defining and refining "independence", and in specifying the actual mix of skills required in the directors it is seeking to populate the Board with.

Recommendation 3:

The AWI Board should work closely with the AWI Independent Governance Advisor in the course of the next Review period to evolve to a full skills matrix to be included in the Board Charter, reviewed annually, and used in the Nominations Process. This would Matrix would evolve and improve the current documentation in time to inform the 2017 Director elections process.

6.2.4 Grievance Procedure

The Board adopted in 2013 a specific grievance policy as a result of concerns flagged to it by a number of shareholder and stakeholders. This policy sets out in detail a process for the Board to manage grievances directed to it about directors.

The policy is a comprehensive one, developed with the assistance of the firm Baker and McKenzie.

Deloitte was advised that there have not been any grievances flagged since this policy was adopted and so is unable to comment on its efficacy.

6.2.5 Governance Policy and Conflicts of Interest

The Board has a Governance Policy that references the ASX Principles, which it displays on its website. The Board has not materially updated its Governance Policy in the Review period, despite having made a number of evolutionary changes to its governance and to some of the documentation.

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Similarly, the Board has chosen to manage Conflicts of Interest through Section 13.10 subsection e of the Constitution, the whole of business the Code of Conduct and Business Ethics (which applies to all AWI people) and the Board Grievance procedure described above. However, there is no documentation on how it will manage conflict of interest that may arise from time to time.

Deloitte was advised of the process with which AWI manages conflicts, and has not identified any concerns. However, the issue of independence and the potential for conflicts of interest (perceived or real) is one where further improvement can be made in the course of the next three years.

Recommendation 4:

The AWI Board should work with the AWI Independent Governance Advisor over the course of the next Review period to formalise a revised Governance Policy. The Policy will specifically address how the Board intends to manage any Conflicts of Interest. The Policy should incorporate, as Appendices, the AWI Board Charter and all other documentation relating to governance and Board procedure. This will create one single source of governance documentation, and support and amplify the Constitution.

6.2.6 Succession Planning

The issue of succession planning for the Board was flagged in a number of interviews. This includes the role of Chair, the Chair of the Finance and Audit Committee and the CEO. This is not in any way a comment on the performance of these roles, rather a reflection of the time in each role of the current incumbent, and the need for clear processes and options to be planned as a risk mitigation measure.

To commence succession planning and manage ongoing knowledge transfer, AWI should work closely with the Independent Governance Advisor to formalise the process for ongoing succession planning that works for AWI, and develop the initial plan.

Recommendation 5:

The AWI Board should work closely with the AWI Independent Governance Advisor in the course of the next Review period to formalise succession planning for the Board and key executive functions.

6.3 Internal Operations

6.3.1 Organisational structure

AWI is a public company limited by shares and owned by approximately 23,786 Australian registered shareholders. Day to day operations and management of the company is administered by the CEO, who reports to the AWI Board.

The company focusses all its efforts on delivery of on three key areas, being:

- Research, development and extension on farm;
- Research, development and extensions off farm; and
- Marketing.

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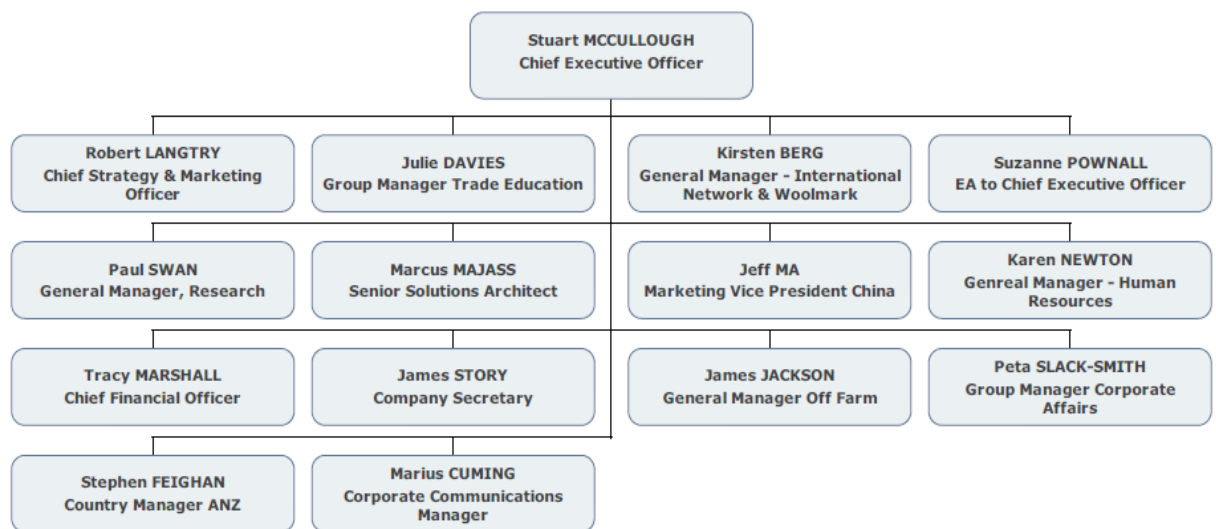
In doing so, it deploys a number of support functions, being

- International networks and Woolmark;
- Finance & IT;
- HR;
- Stakeholder management ;
- Corporate Affairs & Market Access;
- Trade Education; and
- Corporate communications.

Of note is that during the period of this Review, AWI has managed to achieve results by creating value for woolgrowers whilst it has maintained control of staffing costs and profile.

In Australia, AWI has kept its overall staff costs and head count relatively steady despite a number of changes including the insourcing of the digital team. Overseas total employment costs saw significant growth (15%) in 2013 / 14 as AWI invested in the China, USA and UK offices but with minimum growth in 2014 /15 despite rebalancing of numbers in a number of offices.

Figure 14: AWI Executive Structure as at June 2015



AWI Executive

As defined by the AWI Board Charter (2011), the CEO, who is appointed by the Board, is responsible for the *'ongoing management of the Company, implementing decisions of the Board, developing a Board consensus for the Company's vision and direction, and advising the Board on the most effective organisational structure...'*³

The CEO is directly assisted by an Executive staff of General Managers and Group Managers (the Executive).

Anecdotal evidence gathered during consultations highlighted an improved and collaborative work ethic of the AWI Executive, with a strong focus on delivery and results for woolgrowers.

³ AWI Board Charter 2011 page 9

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Executive Composition

Over the past three years, the CEO AWI has made a number of tangible improvements to the structure and composition of the Executive including:

1. Creating new role of Group Manager Trade Education;
2. New appointment of GM Research, and reassignment of some functions of the previous Group Manager - Market Intelligence and Reviewing;
3. Redefining the role of the Australia and New Zealand Country Manager to include the market intelligence function;
4. Improving the clarity and purpose of the overseas Country Manager roles, and changing a number of managers in these roles; and
5. Restructuring the financial management team, as well as redefining the financial delegations of AWI, in order to streamline operations.

Internal Communication by the Executive

In response to the Review conducted in 2009-2012, the AWI Executive now holds regular scheduled meetings as an Executive. These meetings are minuted and enable the Executive to provide an overview of their activities and actions carried out to date. This forum allows the Executive to work in a more collaborative and cohesive manner, and enables all activities and actions continue to be aligned to the strategic intent of the company.

Further, the CEO receives fortnightly reports from each Executive, and seeks to work closely with them to ensure that actions, activities and investments are aligned with the expectations of woolgrowers and the broader industry.

6.3.2 CEO Duties and Span of Responsibility

Deloitte notes that there are currently nine direct reports to the CEO, as well as the Consulting Advisor on Monitoring and Evaluation. In addition, the CEO has a major external stakeholder engagement load and a significant load in terms of the duties imposed on him by means of the global business structure.

A number of stakeholders commented on the value they gained from informal interactions with the CEO, and a desire for more. At the same time it is clear to Deloitte that the policy and performance management elements of the business would benefit from more consistent contribution and management from a senior Executive. This includes coordination of information, management of the policy framework for the business (including for example the Governance Policy and the overarching Evaluation and Measurement Policy)

Whilst conducting this Review, Deloitte understood that the CEO and AWI Board are considering options for a Chief Operating Officer (COO) / Chief of Staff (CoS) role for these and other reasons. Deloitte believes that the business and woolgrowers would benefit from the CEO role being more narrowly defined and his span of control being reduced, and the appointment of either a COO or CoS role within 12 months.

Deloitte notes that this is a different issue and opportunity than the succession planning i.e. the COO or COS role does not automatically become a CEO designate. It is about enhancing effectiveness.

Recommendation 6:

The role of the CEO should be supplemented by a COO or CoS to enable the CEO to optimise their focus on impact and benefit for woolgrowers.

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In April 2015, the AWI Board approved the Executive reviewed and amended Financial Delegations of the company, in order to provide greater autonomy and accountability. There were seven changes incorporated to the revised financial delegations, being⁴:

- Introduced of small value project approvals to levels 3, 4 and 5;
- Changed in the variation value requiring Board and CEO approval;
- Updated the legal and IP agreement breakdowns;
- Increased the contract and invoice approval values for level 5 delegation from A\$50k to A\$250k;
- Added delegation for fixed asset approvals to level 4 and 5;
- Amended the treasury section to approval of signatories rather than what levels are signatories. This avoids issues in countries with limited employees with financial delegations whilst ensuring two signatories on bank documentation wherever possible; and
- Added delegation for levels 4 & 5 to approve the issue of corporate credit cards.

The intent of these changes, along with increases in autonomy and accountability, is to enhance the effectiveness of the operations of AWI, to ensure good practice.

Whilst all members of the Executive interviewed had a clear understanding of their accountabilities, Deloitte believes that governance and management will be improved by the adoption of more formalised delegations which are tailored to each role. This is particularly important to enable the senior roles to work as efficiently as possible in what is a complex organisation.

Deloitte is in agreement with the Independent Governance Advisor in recommending the Board adopt a formal Deed of Delegation for the CEO, and then further formal delegation to the Executive.

Recommendation 7:

The AWI Board should work with the Independent Governance Advisor to formalise within 12 months an all-encompassing Deed of Delegation to the CEO (using the Carver model or similar) and supported by formalised role specific Deeds of Delegation to all Executives.

6.3.3 Systems Development

It is evident that AWI has significantly improved the systems through which it monitors operations over the preceding three years.

This improvement has enabled AWI to better monitor R&D and marketing activities, and interact with woolgrowers, levy payers and the Department. Of particular note:

- **The implementation of SAP** has enabled AWI to increase operating efficiency and transparency, with considerable improved financial management and reviewing. A

⁴ AWI Financial Delegations Annual Review (April 2015)

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number of the Executive expressed the view that the SAP implementation had increased visibility and ease of reviewing, and therefore the effectiveness of their management.

- **The implementation of Salesforce** has enabled more efficient and effective communication and engagement with all elements of the supply chain, shareholders and other stakeholders. It has also increased the internal accountability for and transparency of communication. Again this has real benefits of the management of the business and woolgrowers.

6.3.4 Monitoring and evaluation

The key components of the Monitoring and Evaluation (M&E) Framework are⁵:

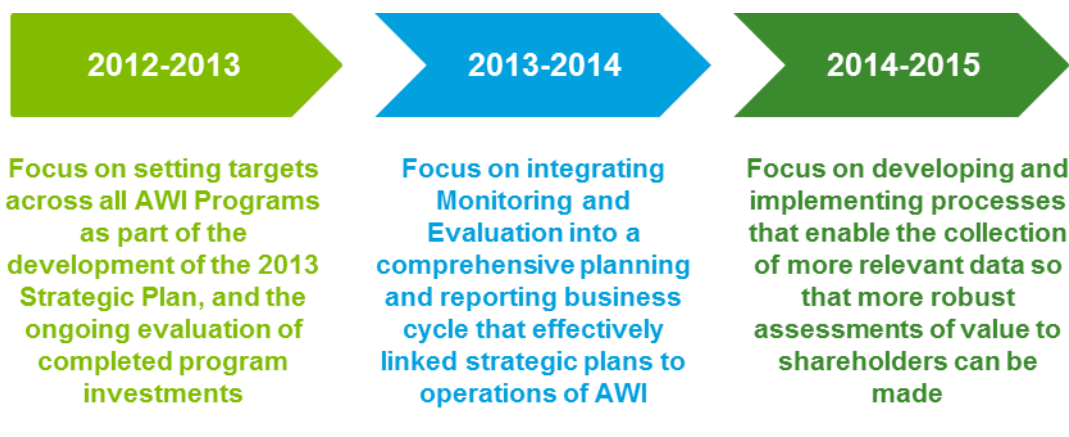
- The conduct of AWI performance against the strategic plan;
- Evaluation of investment proposals;
- Evaluation of completed programs of investment; and
- Reviews of active projects and programs.

The AWI M&E Framework informs the company in making decisions, and provides industry and the Commonwealth with a clear and transparent understanding of the return on investment from AWI R&D activities.

AWI is committed to a process of continual improvement across all areas of the company's operations. AWI have focussed significant efforts since the previous Review of 2009-2012 to develop a more comprehensive M&E Framework that could be applied across all areas of investment. In particular, the M&E Framework is a critical tool that supports AWI in delivering effective benefits to shareholders and other industry stakeholders.

The focus of the M&E Framework has considerably shifted over the previous three years, and is illustrated below in Figure 15. AWI have, over the preceding three years, integrated the M&E framework into all aspects of the organisation.

Figure 15: The evolution of the AWI M&E Framework



The AWI Annual Planning and Consultation Cycle is designed to articulate to stakeholders how AWI operates, how it monitor progress towards annual targets, and seeks input and feedback from stakeholders.

As required by the SFA, annual planning and reviewing includes extensive consultation with stakeholders and key industry stakeholders. In response to the recommendations of the

⁵ AWI Operating Plan (2014/15)

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

- Continuing the use of Program Achievement Reports (PARs), which were implemented in December 2013 and are instrumental in the preparation of Country Operating Plans;
- Strengthening reviewing and planning at a program level; and
- Improving the robustness of data collection, and integrating data collection mechanisms into individual Program Plans accordingly.

The work completed on the implementation and integration of the M&E framework is significant and to the benefit of woolgrowers as it has made every part of the business focus on achievement of benefits and appropriate reviewing.

AWI should consider the development and implementation of a strategic benefits realisation framework (provided in Chapter 4) as well as an overarching policy for M&E. It would be intended that these frameworks would capture and document the essential whole of business elements to M&E, and define what evaluations are conducted, when and by whom.

Given the significant progress made in the reviewing period, AWI should now also formalise in the whole of business requirements, processes, standards and criteria for implementing and reviewing of the measurement and evaluation, including the three year cycle for CBAs. This is a key final step in the embedding of the performance and benefits achievement culture, and should be done as part of the process leading up to new Strategic Plan.

Recommendation 8:

To ensure the process for measurement and evaluation is sustainably embedded into the organisation, the AWI CEO should formalise a single policy document within 12 months which documents:

- whole of business requirements,
- processes,
- standards,
- criterion for implementing and reviewing of the program, and
- project measurement and evaluation, including the three year cycle for CBAs.

6.4 Strategic and operational planning

Over the preceding three years, AWI have demonstrated their commitment to efficient implementation of programs and priorities as outlined in their strategic and annual operational plans.

Aligning with enabling legislation and regulations, AWI operates on a triennial business cycle. As such, each of the following activities is conducted on a three year basis, with an operating plan presented each year:

- Three year strategic plan;
- Three year Statutory Funding Agreement;
- Annual operating plan; and
- Three year independent Review of Performance.

In the final year of the triennial business cycle, the SFA requires AWI to undertake an Independent Review to assess AWI's performance against the Strategic Plan, Annual Operating Plan, compliance with SFA and general overview of operations.

6.4.1 Strategic planning

The AWI Strategic Planning process is underpinned by a need to balance the requirements outlined within the SFA, the needs and expectations of the industry, the National Rural Research and Development Priorities, and other directions communicated by the Commonwealth.

Over the previous three years, AWI have focussed significant effort on developing a robust and meaningful Strategic Plan, and then ensuring efficient and effective implementation and delivery of Programs and activities as outlined in their Strategic Plan.

In addition, through integrating and focussing on their M&E Framework, AWI have developed a robust reviewing system which includes Program level reviewing and achievement updates, which are reported by Executive to the CEO fortnightly.

Strategic planning process

The strategic planning process involves extensive consultation with woolgrowers and their representatives, in order to ensure industry views and priorities are incorporated into the final strategic plan.

In 2012, this process was as follows:

- Consultations were held through the biannual Woolgrower Forum, the ICC and a wool broker forum;
- In 2013, AWI made the draft Strategic Plan available online and welcomed feedback and comments;
- Following on, AWI reported to stakeholders and the industry how their feedback was incorporated into the Strategic Plan, and how it reflected industry priorities;
- A summary version of the 2013/14-2015/16 Strategic Plan was sent to woolgrowers through the Beyond the Bale magazine; and
- AWI provided the Commonwealth with a copy of the Strategic Plan, and received acknowledgement of the Strategic Plan.

Consultation with woolgrowers during the Strategic Planning process

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AWI recognises the importance of involving and engaging with woolgrowers and the broader industry during the Strategic Planning process. It is clear to Deloitte that AWI in this Review period has made significant efforts to consult with woolgrowers to develop the Strategic Plan, including forums and electronic communication. Interviewed woolgrowers believed that over the past three years AWI have, in general, improved the effectiveness of woolgrower and industry consultation as part of their strategic planning process. Common themes were:

- Consultations were reasonably effective, and woolgrowers felt engaged and informed during the strategic planning process
- Opportunities for improvement were identified as:
 - Streamlining the investment evaluation process and subsequent communication to woolgrowers
 - Ensuring that all decision making is supported by a robust and informed business case.

AWI continue to seek new and innovative methods of engaging with the industry, and providing updates on their Strategic Planning and priorities, evident through various reports to woolgrowers such as *AWI Performance Report Card 2012/2013* and *2013-2015 Report for Growers – Your Levy Working for you*.

Strategic Plan timing and expectations

In accordance with their compliance and legislative obligations as per the SFA, AWI is required to operate on a triennial business cycle, developing a Strategic Plan which guides the direction of the company over the following three years.

Anecdotal evidence gathered through the interviews highlighted some challenges facing AWI research and development activities, which generally occur over a longer time frame than 3 years, impacting the ability for AWI to set, implement and deliver research and development priorities outlined in their Strategic Plan.

Investment management

AWI Investment management is guided by its Annual Reviewing and Planning Cycle, which is based around quarterly reports by Senior Managers. Program Achievement Reports (PARs) are prepared by program and Senior Managers for regular review by AWI Executive and Board, and report progress towards, and the achievement of set annual Program targets.

6.4.2 Operations planning

As per the requirements of the SFA, AWI must 'prior to 1 July each year, provide to the Commonwealth an Annual Operational Plan to implement the Strategic Plan setting out:

- The intended operations of the RDC for the next financial year;
- The key activities to be funded during the year under the RD&M activities;
- Activities to be funded to give effect to the guidelines;
- Key deliverables arising from the activities planned;
- Performance indicators, timetables and milestones;
- Estimates of income and expenditure for the financial year;
- Any other matters; and
- A statement on how the RDC intends to implement and operationalise a Balanced Portfolio.

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AWI have demonstrated compliance through an Operating plan that is aligned to the requirements as stipulated within the SFA.

To guide the Annual Operating Plan, AWI have implemented seven “operational principles” which underpin the certain actions and activities of the company. These principles reflect the intent of AWI across corporate culture, innovation, transparency, accountability, collaboration, pro-activeness and commitment.

Anecdotal evidence collected through the interviews highlighted the robust and effective process which AWI have implemented, particularly relating to the alignment of the Operating Plan to the Strategic Plan, and the reviewing to the Board based on these plans.

6.5 Risk management overview

The SFA stipulates that AWI must implement⁶:

1. A risk management plan;
2. A fraud control plan; and
3. An intellectual property management plan.

AWI goes beyond this requirement. AWI manages risk and fraud control through the application of a risk management policy and framework (the Risk Policy), which has been implemented, setting the requirements and standards, and enacted by means of the AWI Risk Management Plan. The Plan is reviewed in totality every 6 months

The Risk Policy, was amended in November 2013, and defines the scope, structure, assessment, reviewing and communication of risks within the company. Its purpose is to establish a consistent approach to managing risk and opportunity at AWI. AWI recognise the importance of the monitoring and ongoing management of R&D risks within the company. As such, the policy seeks to achieve balanced between:

- Investing in higher risk activities that may drive growth and demand for wool; and
- The need to remain stable with the capacity to continue to work for woolgrowers into the future.

The AWI Board is responsible for the oversight of the company’s approach to risk management, and sets the risk appetite, formalises in a Risk Appetite Statement, which is published in the Strategic Plan, and reviewed annually.

The AWI Finance and Audit Committee (FAC) is responsible for coordinating the Board’s approach to risk oversight and ensuring managements assumptions, assertions and regular reviewing are sufficiently challenged and verified.

Ultimately, the CEO has overall responsibility for implementation of the Risk Policy and is accountable to the Board for risk management. Risk management is undertaken throughout the whole business and managed through the risk management plan (see below 6.5.1).

The AWI Risk Policy also forms a core element of the governance and operations of the company.

Anecdotal evidence gathered during consultations with AWI Executive indicates that the application of the Risk Policy is effective and guides the investment decisions, risk and opportunity management of the company.

⁶ SFA, page 26

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6.5.1 Risk management

In January 2015, AWI updated its Risk Management and Fraud Control Plan (Plan) in alignment with the requirements of the SFA.

The Plan enables the implementation of the Risk Policy in line with the Risk Appetite Statement, see above, across all areas of the business.

Within the Plan, AWI articulate their risk management across the areas of reputation, regulatory compliance, performance measurement, operational efficiency, knowledge management and IP, workplace health and safety and financial.

All members of the Executive undertake biannual re-evaluations of their assigned risks and there is a common understanding of the risk framework, processes, and appetite. This process was instituted early in the Review period is now well embedded, with improvements including:

1. Evolution in the conduct of the biannual reviews - managers no longer doing these solo, instead there are more team based workshopping to understand appropriate mitigations to evolving risks.
2. Benefits realisation increased transparency as outlined above.
3. Better systems – as above – meaning:
 - a. Delegations and processes can no longer be bypassed, as well as better visibility across all projects for slippage.
 - b. Information available to Department Heads.

A further key improvement has been the introduction and application of the mobile device policy and the visibility provided on this and other aspects to department heads

In summary, from the better engagement of AWI people in managing risk, to the systems improvement and the Application of the Code of Conduct and Business Ethics, AWI have demonstrated their commitment to proactively managing and monitoring risk across all areas of the company, in order to ensure that all activities and outcomes are carried out in the best interests of the woolgrowers.

6.5.2 Investment risk profile

AWI has a R&D investment portfolio that considers a balance between short term and long term, low risk and high risk, strategic and adaptive research needs, and includes a consideration of regional variations across the industry.

The investment risk profile of AWI is split between low and high risk investments, and reflects the expectations of woolgrowers and broader stakeholders. Investments are generally weighted as:

- 48% Low risk
- 42% Medium risk
- 10% high risk

This portfolio highlights that in general, on-farm strategies include much higher risk programs, and that some marketing investments are moving to retail engagement phases and are also viewed as “high risk”. Low risk investments are focussed around establishing marketing programs.

Actions and activities undertaken by AWI as part of their risk management framework include:

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- Project planning, and the identification and management of any strategic risks;
- Meetings to discuss potential risks at a Board, Executive or Departmental level; and
- Annual review and inclusion of any changes to the report.

The recent introduction (late 2014) of the Contestable Funding Committee is further evidence of the mature approach to investment risk management. This involves the CEO, CFO, Marketing GM and selected others in the structured deliberation for investment proposals, and ensures appropriate consideration of the risks in line with the Framework.

6.5.3 Intellectual property

In alignment with the requirements of the SFA, AWI have developed and implemented an Intellectual Property (IP) Plan, which articulates the guidelines regarding management of the intellectual property portfolio, adoption and commercialisation of intellectual property, transparency and reviewing, as well as an assessment of risk.

AWI's current objective is to control and manage IP through its uses in research, development and marketing activities. AWI conduct all actions and activities in alignment with three guiding principles, being⁷:

- Where AWI is the sole investor AWI seeks 100% of the ownership of the project intellectual property; or
- Where AWI is the co-investor AWI seeks joint ownership of the project intellectual property; or
- Where AWI does not own the project intellectual property arising from research development and marketing activities, AWI seeks to obtain a non-exclusive, royalty free, worldwide, perpetual license to use that IP.

Anecdotal evidence collected through consultations with AWI Executive indicated that the governance documentation and processes, including the IP Plan, fulfilled their requirements and guided activities for the company.

⁷ AWI Intellectual Property Management Plan February 2015

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7 Stakeholder engagement

The objective of this chapter is to articulate the effectiveness of AWI stakeholder consultation, collaboration and engagement, and the progress achieved over the preceding three years. This chapter explores the complex stakeholder environment in which AWI operates the effectiveness of stakeholder engagement, and the opportunities of levy payers to influence investment of levies. The outcomes of this chapter address TOR1d) and TOR1e)

Key findings

- Significant improvement has been made in the Review period in all areas of consultation. AWI have, over the preceding three years, implemented mechanisms which significantly enhance their existing methods for engaging and collaborating with stakeholders.
- The Strategic Plan 2013-2016 is based on the feedback gathered over the past three years, through AWI's Annual Planning and Consultation Cycle, from woolgrowers, representative groups and other stakeholders.
- AWI's M&E Framework underpins the Annual Planning and Consultation Cycle, and AWI ensures that the Strategic Plan and subsequent annual operating plans are developed to reflect the needs and expectations of the stakeholders and broader industry.
- Over the preceding three years, AWI have focussed on stimulating engagement and feedback on the Strategic Plan 2013-2016, demonstrated by AWI publishing the Plan on their website, and asking for written feedback in the form of submissions on the Strategic Plan in 2013.
- Through the triennial WoolPoll, Strategic Planning Process and the Annual Planning and Consultation Cycle, AWI provide a number of opportunities for woolgrowers and other stakeholders to contribute to and influence investment activities.
- AWI and the Department have maintained a productive working relationship. The Department has increased confidence in AWI relative to the previous review period. Department representatives highlighted that the schedule of formal meetings in the period 2009 – 2012 was quarterly, whereas for this review period it was six monthly / biannual, reflecting improved performance of AWI which is also reflected in the 2013-2016 SFA.

7.1 Overview

AWI operates in a complex stakeholder environment. The company strives to meet and exceed its statutory requirements and also the expectations of stakeholders and woolgrowers. Evidence gathered through desktop research and consultations with woolgrowers and other stakeholders suggest that over the past three years, AWI have improved their engagement and consultation with the industry, as a whole.

Engagement and collaboration with woolgrowers and other key stakeholders is a key component of the AWI Strategic Plan 2013-2016. AWI is committed to ensuring levy payers are actively involved with the development, implementation and delivery of the AWI Strategic

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Plan, which guides the actions, activities and investment of the company over the following three years.

7.2 Stakeholders

AWI recognise the importance of balancing the needs and expectations of all stakeholders within their industry, and continually engaging and communicating with shareholders.

Relevant stakeholders include:

Woolgrowers, levy payers and AWI shareholders

AWI is owned by approximately 23,786 Australian wool levy payers (as of May 2015) who have registered as AWI shareholders. Shareholders vote at the AWI Annual General Meeting, whilst all eligible levy payers vote at WoolPoll with the ability to effectively dissolve AWI if they select to pay a levy of 0% (In May 2015 there were 40,436 registered eligible levy payers) AWI are accountable to approximately 51,727 Australian woolgrowers (as of May 2015). The cross-section of woolgrower groups are represented on AWI's Woolgrower Industry Consultative Committee (ICC).

Anecdotal evidence highlights that woolgrowers expect to realise benefits, or see that the opportunities for their particular business are advanced, sometimes without fully understanding the competition for funding for R&D between AWI and other RDCs. Further, some woolgrowers do not fully understand the role of AWI in the context of the Department and the SFA, and the constraints on R&DE and marketing activities.

The Commonwealth

Through the Department, the Commonwealth provides matched funding for research and development activities. The Department have a responsibility to tax-payers to ensure that their funds are being spent in accordance with the requirements within the SFA and to the ongoing benefit of the industry. AWI formally meets with the Department twice a year, and provides the Department with biannual written updates regarding progress through to the reviewing period. In addition AWI and the Department informally meet regularly on a range of issues.

Other Rural Research and Development Corporations

Along with AWI, the Department oversee 14 other Rural Research and Development Corporations (RDCs). AWI recognise that RDCs play a key role in centralising, synthesising and prioritising industry investments in R&D and identifying how best they will be managed. AWI must focus on meeting these priorities, and that of their woolgrowers.

7.2.1 Stakeholder expectations and requirements

Over the preceding three years, AWI have focussed efforts on understanding the needs and expectations of their stakeholders, evident through their strategic planning process and documentation, and reviewing back to the industry around actions, activities and the outcomes of program investment.

Each stakeholder group face a number of different challenges, as well as opportunities. These impact their needs and expectations of AWI, and are highlighted in Figure 16 below.

Figure 16: Stakeholder expectations and requirements

	Woolgrowers, levy payers and AWI shareholders	The Department	Other RDCs
Context	<p>AWI is owned by 23,786 Australian wool levy payers who have registered as AWI shareholders, and is accountable to over 52,000 Australian woolgrowers.</p> <p>Woolgrower groups are represented on AWI's Woolgrower Industry Consultative Committee (ICC).</p>	<p>Through the Department, the Commonwealth provides AWI with matched funding for research and development activities.</p> <p>The Department have a responsibility to tax-payers to ensure that their funds are being spent in accordance with the requirements within the SFA and to the ongoing benefit of the industry.</p>	<p>AWI is one of 15 Australian RDCs, and recognises the role that RDCs play in centralising, synthesising and prioritising industry investments in R&D</p> <p>AWI must focus on meeting these priorities, and that of their woolgrowers.</p>
Perspective	<p>Transparency has improved however communication and feedback mechanisms could be improved.</p> <p>Accessibility of AWI is strong however location of some woolgrowers can impede connectivity between AWI and woolgrowers.</p>	<p>Reduction and turnover of staff within the Department has impacted the communication with AWI in the last 6 months.</p> <p>The Department has confidence in its ability to access the requisite information or people from AWI when necessary, however the optimal use of the single access point with AWI has some challenges.</p>	<p>Due to competing stakeholder expectations, priorities between RDCs are not consistently aligned.</p> <p>As a larger RDC, AWI would benefit from collaborating with other larger RDCs and supporting the smaller RDCs in their relevant actions and activities.</p>
Expectations of AWI	<p>Clarity and communication regarding allocation of funds, and rationale behind business decisions.</p> <p>Improved connection with "grass roots" woolgrowers.</p> <p>Improvement of youth services, as well as training and development opportunities.</p>	<p>Clarity and transparency relating to the allocation of funding of R&D activities.</p> <p>A collaborative approach to engaging the Department.</p> <p>Ability to access information when required.</p>	<p>Sharing of information and learnings.</p> <p>Best practice development.</p>

Feedback from the consultations with woolgrowers indicated that although, in general, the majority of woolgrowers believed that their funds were used in areas that ultimately benefitted their industry, they did not see the direct correlation between marketing activities conducted in the Northern Hemisphere and benefits seen at the farm gate. This highlights an opportunity for AWI moving forward, around the engagement and education of woolgrowers, particularly relating to the efforts such as Wool Lab, or work with international fashion houses and brands.

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7.2.2 Stakeholder engagement activities

AWI recognise the importance of engaging and collaborating with woolgrowers and broader industry stakeholders frequently, and through a number of different mechanisms.

AWI's Woolgrower Industry Consultative Committee (ICC)

The role of the ICC is to provide grower stakeholder input into AWI's business planning and priority setting processes. The ICC meet as a group three times a year and their meetings are documented and key points provided to AWI. It provides two key functions:

1. A forum for the cross-section of woolgrower representative organisations to provide feedback from their own issues relevant to AWI's research, development and marketing functions; and
2. A part of the communication flow from AWI to enable effective consultation and engagement with woolgrower representative organisations, who in turn consult with their members.

AWI's ICC is important because of the number and diverse interest of grower groups within the woolgrower community. Membership types and numbers vary greatly but there is no single clear representative group in the Review period. The ICC members individually and collectively have expressed their opinion that the ICC is a valued forum and one that could be improved through improved focus and better feedback loop.

The membership of the ICC is broad, and covers a number of sectors within the wool industry. ICC members belong to the following organisations:

- AWI;
- WoolProducers Australia;
- Australian Association of Stud Merino Breeders;
- Australian Superfine Woolgrowers Association;
- Australian Wool Growers Association;
- Broad wool breeds; and
- Pastoralists and Graziers Association of Western Australia (PGA).

According to the ICC Terms of Reference, the ICC is mandated to⁸:

- Provide a mechanism for Australian Wool Innovation (AWI) to systematically engage with woolgrower representative organisations to promote discussion, develop understanding and shared expectations in areas of AWI activities;
- Provide a streamlined and effective process for consulting representatives of levy payers;
- Engage non-grower industry groups to seek input on key issues, on a needs basis;
- Allow for a small but considered forum for input and dialogue on key marketing and R&D issues;
- Enable AWI to introduce consistent and transparent processes for consulting industry stakeholders on its strategy development; and
- Provide a forum to engage with industry to provide quick response and input on emerging issues.

⁸ TOR AWI Industry Consultation Committee (updated 2014) provided by AWI, reviewed and endorsed by the ICC members

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Woolgrower forums and events

In the course of the Review period, AWI has made real and substantive improvements to its grower engagement and consultation.

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

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

- New and improved forums for consultation on the strategic plan;
- Improved and more targeted engagement with woolgrowers in face-to-face engagement with end users including designers and other key members of the supply chain; and
- Board initiated audit of attendance at forums and events. The Board is keen to ensure growers are being engaged, rather than just other stakeholders in the industry.

The Department

Under the terms of the SFA, AWI is required to meet with the Commonwealth biannually. It has done so and prior to each meeting, provided thorough, outcomes based reviewing on progress and achievement.

Combined with the voluntary Review of Performance, AWI is very proactive in reviewing and reviewing its compliance with the SFA, to the Department regularly and systemically.

Meetings between the Commonwealth and AWI focus on AWI operations and governance, industry issues and opportunities, relevant government activities, any updates on AWI research and development and marketing activities, and other business. Additional detail is provided below.

7.2.3 Effectiveness of stakeholder engagement and consultation

In general, our Review and the stakeholder feedback provided during the consultations indicated that over the past three years, AWI have improved the effectiveness of engagement with woolgrowers and the broader industry, however there is scope for some improvement moving forward.

As mentioned earlier in this Review, AWI operates in a complex stakeholder environment and is required to balance and manage a number of differing needs and expectations. The consultations held for this Review were designed to understand and assess the views and perspectives of a broad range of stakeholders. The views of wool levy payers/ woolgrowers and the Commonwealth have been distilled into common themes, and are provided below.

Woolgrowers Views

Woolgrowers acknowledged that over the preceding three years, AWI has improved its methods of consultation and engagement. Interviewed woolgrowers acknowledged that effective communication was a mutual obligation on both parties, and that the success of AWI's efforts in engagement and collaboration were dependent on the efforts of woolgrowers to engage with AWI.

The various woolgrower groups were consulted during this Review, to test, assess and consult on findings. In general, feedback was consistent and key themes similar across groups. These themes assert that:

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- **Transparency has improved.** Over the past three years, AWI have been more transparent, open and communicative with their activities, actions and investments;
- **Accessibility of AWI is strong.** AWI representatives at woolgrower forums and events are approachable and easy to access;
- **Communication and feedback could be improved.** Woolgrowers commented that the “feedback loop” between AWI and woolgrowers could be enhanced moving forward. Some woolgrowers felt that although the provision of communication materials and collateral is strong, a two-way communication loop would assist them in voicing their views and issues. The “Beyond the Bale” publication is enjoyed by the woolgrowers, who find it a useful publication; and
- **Location can sometimes be difficult.** Due to the nature of woolgrowers and those within the industry, it can be difficult for some woolgrowers to attend forums or events, and reach out to AWI representatives.

The Department

The engagement between AWI and the Department has been effective through the reviewing period.

Throughout the reviewing period, AWI has comprehensively and thoroughly met or exceeded its SFA-mandated formal reviewing requirements (6 monthly written report and meeting), and responded to any and all feedback or direction received. This has been supported by open and informal approach to communication between the senior leadership of AWI and the relevant senior managers of the Department.

All parties noted that the usual changes in personnel and realignment of responsibilities within the Department during the period mean that optimal engagement and knowledge sharing is an ongoing challenge, and are comfortable with the efforts both parties are making to enable this challenge to continue to be met.

Of note also:

- **The Department has increased confidence in AWI relative to the previous review period.** Department representatives highlighted that the schedule of formal meetings in the period 2009 – 2012 was quarterly, whereas for this review period it was six monthly / biannual, and reflecting improved performance of AWI which was subsequently reflected by changes in the 2013-2016 SFA. The Department believes this frequency is sufficient now given AWI’s progression and approach to reporting, and will continue this in future.
- **The Department has confidence in its ability to access the requisite information or people, when necessary.** Feedback provided during consultations with Department representatives highlighted that they found the AWI Chair, CEO and Group Manager Corporate Affairs & Market Access available to provide any information when required; and
- **Optimal use of the single access point with AWI has some challenges for the new roles in the Department, but is functional.** It is reasonable for the Department to have an initial single liaison point for all issues at AWI, particularly given the time critical and complexity of some issues. It was noted while some other RDCs do things differently, the initial single contact for all issues at AWI, particularly given the time critical and complexity has had teething problems for new roles within the department who are inexperienced in the protocol with AWI. It was noted that on many occasions following initial contact, other relevant AWI representatives deal directly on specific issues.

AWI currently meets formally with the Department twice a year. To further enhance communications and share knowledge and industry insight, AWI should continue the less formal background and issue specific briefings (such as the soon to be conducted wild dogs

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detailed briefing), engaging as many of the relevant Department representatives as frequently as practical. These informal meetings background and issue specific briefings build awareness and understanding of a complex context, and will continue to enable the formal biannual meetings to be focussed on regulatory and compliance matters.

Opportunities for levy payers to influence investment activities

In order to ensure the Strategic Plan meets industry's priorities, input from stakeholders across the supply chain is critical.

The 2013/14 – 2015/16 Strategic Plan is based on feedback and priorities received over the past three years, through AWI's Annual Planning and Consultation Cycle, from woolgrowers, grower representative groups and other stakeholders along the wool supply chain.

In addition, AWI held several consultation sessions with industry, specifically focusing on the draft Strategic Plan, including:

- Woolgrower Forum on 26 February in 2013;
- AWI's Woolgrower Industry Consultative Committee (ICC) on 27 February 2013;
- A briefing to Wool Producers Australia – including their member organisations, and the Australian Superfine Woolgrowers' Association and the Australian Wool Growers Association - on 4 March; and
- Wool exporter and wool broker forums in early May.

AWI was also required to seek feedback from the Australian Government (Department of Agriculture, Fisheries and Forestry) on the draft Strategic Plan.

For the first time, the draft Strategic Plan was also placed on www.wool.com and updated weekly as feedback from stakeholders was incorporated. This gave all woolgrowers an opportunity to review the Strategic Plan and provide input direct to AWI.

The consultation period closed on 10 May 2013, allowing AWI to incorporate any additional feedback or submissions before the Strategic Plan 2013-2016 was reviewed and approved by the AWI Board.

Following this, the Strategic Plan was provided to the Australian Government in June 2013.

Submissions received

In addition to the feedback received at industry forums, AWI also received nine written submissions on the draft Strategic Plan. These submissions were from industry stakeholders across the supply chain.

AWI appreciated the time stakeholders gave in forming their submissions as feedback from growers is critical in ensuring the Strategic Plan aligns with the priorities of industry.

As well as providing feedback on the Strategic Plan, the submissions have also provided AWI with information to assist it in improving its consultation and feedback process.

There are a number of mechanisms which provide opportunities for wool levy payers to influence the investment of levies, such as:

- Involvement in AWI activities through the Annual Planning and Consultation Cycle; and
- A number of consultative mechanisms available through informal forums and events, through to the more formal ICC forum.

AWI focus on four main mechanisms which enable woolgrowers to influence investment activities; through WoolPoll, the Annual Planning and Consultation cycle, and active industry consultation throughout the year.

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Woolpoll

Ultimately, wool levy payers influence the investment of levies by voting on the size of the levy at WoolPoll (with an option of 0% which would ultimately dissolve the company), and by voting for Board Directors. Wool levy payers are also able to influence the split of investment across On-farm R&D, Off-farm R&D and marketing activities.

Planning for the Next Strategic Plan

Deloitte notes that in the course of its conversations with the CEO and Executive, there were clear and consistent indications that the process learnings from the previous consultation cycle would be used to inform and improve the approach for the next Strategic Plan.

7.2.4 Annual Planning and Consultation Cycle

To ensure the views of AWI shareholders and broader industry stakeholders are considered and incorporated into the strategic and annual planning processes, AWI funds and conducts a wide range of planned consultative activities with stakeholders across research, development, extension and marketing, seeking to ensure that their views are considered appropriately in all aspects of AWI operations.

As an example, the investment priorities put forward through the ICC meeting and Biannual Woolgrower Forum form the basis of the On-Farm R&D priorities in the following year's Annual Operating Plan.

This cycle is published in the Strategic Plan and on the website and all parties consulted by AWI noted that the improvement in consultation process and content, and judged it to be largely effective

Deloitte is also aware that AWI, at the direction of the Board, is working to continue to enhance the effectiveness of its planning and consultation cycle. Measures underway include an audit attendance at consultation events to ensure that it is woolgrowers rather than other stakeholders who are being engaged and consulted. This is a very positive and proactive measure.

7.2.5 Project Funding Cycle

Another method through which AWI provide opportunities for levy payers is through their annual "Call for proposals" for organisations interested in on farm R&D and off farm R&D projects with AWI. All levy payers are able to progress proposals through this mechanism.

To assist individuals and/or organisations identify the type of projects they would like AWI to invest in, the organisation prepared a table which summaries the programs within each strategic area, and the targets and relevant AWI program manager. Those wishing to submit an application are able to return a template form 'Project Proposal Form' which outlines the:

- Total project value;
- A summary of the project;
- Strategic fit to the strategic priorities of AWI (including alignment to the broader RRD Priorities); and
- Project details (including costs, milestones and IP requirements).

AWI does welcome submissions broadly but does reasonably expect these to be linked to the Strategic Plan.

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7.2.6 Active industry consultation

Over the preceding three years, AWI have actively focussed on enhancing industry consultation, in order to effectively collaborate and engage with stakeholders. The AWI Annual Planning and Consultation Cycle creates a methodical framework through which AWI are able to consult, consider, test and respond to the questions and concerns of woolgrowers.

Meetings between the AWI Executive and the ICC support ongoing industry collaboration and involvement. The ICC is, and will continue to be an effective conduit between AWI and woolgrowers, and the group review their Terms of Reference periodically. Moving forward, it is expected that this will continue to further enhance the “feedback loop” between AWI, industry groups and woolgrowers.

7.3 Collaboration with Rural Research Development Corporations

The Department oversees 15 Australian RDCs. These RDCs work closely together to ensure that the National Rural Research Priorities are met, and strive towards meeting the needs and expectations of their relevant shareholders and industry stakeholders.

This Review’s TOR looks to assess the effectiveness of AWI’s efforts in cross-RDC collaboration, and as such it is necessary to explore the interactions between the RDCs, the Department, and their pursuit of the National Research Priorities.

AWI’s Research and Development priorities and decision making is guided and informed by the National Research Priorities, Rural R&D priorities and industry priorities. AWI have aligned their strategic priorities, as outlined in their Strategic Plan, with the National Research priorities, Rural R&D priorities and Australian industry priorities⁹.

In 2015, the National Research Priorities were:

- Promoting and maintaining good health;
- An environmentally sustainable Australia;
- Frontier technologies for building and transforming Australian industries; and
- Safeguarding Australia.

7.3.1 AWI efforts in cross RDC collaboration

AWI invest heavily, through both time and resources, into their collaborative efforts with other RDCs. The organisation also contributes tangibly in other ways such as enabling other RDCs to use documentation forms it has developed and providing advice.

There is, not surprisingly, a strong relationship with Meat and Livestock Australia (MLA) (noting a common interest in sheep) at Board and Executive level, despite not always have an aligned view of priorities (which is to be expected).

Whilst there will always be a desire for the large RDCs to optimise collaboration at every level, AWI needs to apply the woolgrower test to its activities with other RDCs as it does to all other aspects of its business.

⁹ AWI Strategic Plan (2013/14-2015/16) page 17

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Deloitte understands AWI's efforts in RDC cross collaboration in the reviewing period to be significant and considered, which does not mean that all other stakeholders would be happy with this. Given his experience and knowledge, more significant involvement of the current AWI Chair with other RDC Chairs when time and other commitments permit, would always be valued.

Forums for engagement

AWI have a structured and methodical approach to engaging with other RDCs. In 2013/14, AWI engaged with RDC through a number of **council activities**, **cross-sectoral strategic forums**, and general **collaborative activities** focussed on R&D.

- **Council activities**
 - CEO and Chairs meeting
 - Communication Managers Forum
 - Business Managers Forum
- **Cross-sectoral strategies**
 - National RD&E Strategy Leaders Forum
 - National Animal Biosecurity
 - Animal Welfare RD&E Strategy (meet three times per year)
 - Climate Change RD&E (meet annually)
- **General collaborative R&D activities**
 - Sheep Genetics Advisory Committee
 - Sheep Genetics Technical Committee (meet three times per year)
 - AMSEA Executive Meetings (meet biannually)
 - APVMA Review
 - Sheep Standards and Guidelines
 - Ring local anaesthetic R&D project
 - Ring local anaesthetic R&D project
 - Sheep CRC Executive Meetings (meet monthly)
 - Buccal Meloxicam Project and registration of pain relief products (meet five times per year)
 - Red Meat and Wool Planning Forums VIC DPI (meet annually)
 - ParaBoss Committee Meetings (meet four times per year).

Investment collaboration

In 2013/14, AWI collaborated with other RDCs on 28 projects. Of these projects, almost 36% were in relation to Strategy 1: Sheep Health, Welfare and Productivity. A further 46% of collaboration was conducted in alignment with AWI's Strategy 3: Production Systems and Eco-Credentials. 14% of efforts were aligned to Strategy 4: Education and Extension, and one investment collaboration was conducted relating to Strategy 10: Business Intelligence and Measurements.

In 2014/15, AWI engaged with other RDCs in 25 different projects. Of these, 28% were focussed on Strategy 1: Sheep Health, Welfare and Productivity, 48% were focussed on Strategy 3: Production Systems and Eco-Credentials, 20% relating to Strategy 4: Education

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and Extension, and one investment collaboration was conducted relating to Strategy 10: Business Intelligence and Measurements. A high level overview of the shift in investment collaboration is illustrated below in Figure 17 and Figure 18.

Figure 17: Cross RDC investment collaboration (FYE2013-2014) Source: AWI Strategic Plan

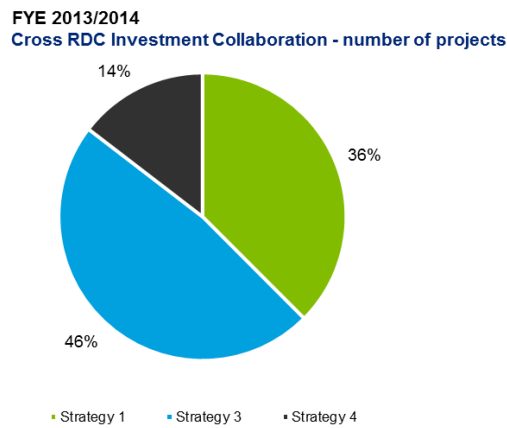
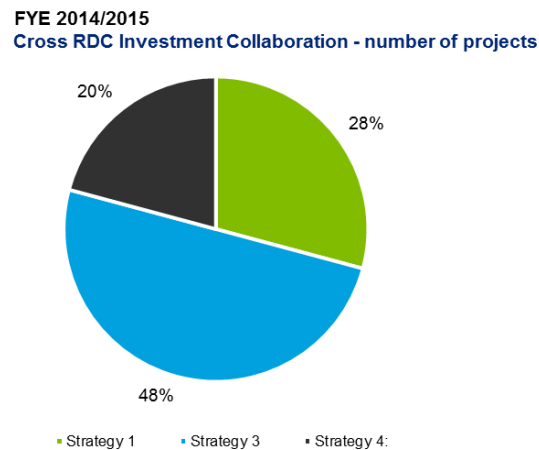


Figure 18: Cross RDC collaboration (FYE2014-2015) Source: AWI Strategic Plan



8 Recommendations and implementation

This chapter provides an assessment of AWI's performance in addressing the recommendations of the 2012 Review of Performance, and provides a series of new recommendations, which will enhance and streamline the operations of AWI into the future. The outcomes of this chapter will address TOR3 and TOR4.

This Review concludes that of the recommendations agreed to by the Board, all were implemented effectively and efficiently.

This Review provides a number of recommendations for the consideration of the Board for the following three years, and is provided below.

Key findings

- Of the four recommendations presented in the 2012 Review, AWI agreed to three. AWI has effectively implemented and integrated those recommended changes into the organisation.
- Over the course of this Review, AWI have addressed the recommendations from the Review 2012 regarding operations and governance. This is evident through improvements to the Board and stronger collaboration between the AWI Executive.
- Recommendations from the 2012 Review focussed on three specific areas:
 - Increasing communication with the AWI Executive
 - Formally assessing the performance of the AWI Board Committees
 - Drive continuous improvement through enhancing the M&E Framework.
- This Review has provided 8 recommendations which focus on three key areas:
 - Strategic Benefits
 - Governance
 - Operations

8.1 Recommendations and outcomes of the previous Review

In June 2012, SED Consulting conducted a three-year independent Review of AWI's performance (2009-2012). The Review found that, overall, AWI had fulfilled its obligations under the SFA, and had generally implemented its strategic and operational plans, as well as the recommendations found in the previous Review (2006-2009).

The Review made some observations and recommendations across a number of impacting elements, being:

- External and internal operating environment;
- Corporate governance;
- Planning and reviewing;
- Liaison with stakeholders; and
- Delivery of benefits to the industry.

In response to the 2009-2012 Review, AWI created an implementation plan, which was based on four recommendations, being:

1. AWI should consider developing a **firm schedule of monthly meetings** of the Executive team;
2. The Board should consider **expanding its performance Review process** to include each of the Committees (finance and audit, remuneration and appointments, science and welfare, and Board nomination);
3. AWI should **Review the role and composition of the Science and Welfare committee**; and
4. AWI should continue to develop and **refine its monitoring and evaluation framework**.

Of these four recommendations, number three was not adopted by the AWI Board. An analysis of the implementation of recommendations by AWI is illustrated in Figure 19 below.

Figure 19: AWI Response and Implementation Plan (2009-2012 Review of Performance)

Recommendation	AWI response	AWI implementation plan
AWI should consider developing a firm schedule of regular (2-3-monthly) meetings of the Executive team, booked 12 months ahead and carrying clear expectations of commitment to attend by all managers.	AWI agreed.	<ul style="list-style-type: none"> Meetings have been scheduled to follow Board meetings (approximately every 4-6 weeks)
The Board should consider expanding its' performance review process to include each of the Committees.	AWI agreed.	<ul style="list-style-type: none"> AWI have introduced a performance review of all AWI Board Committees
AWI should review the role and composition of the Science and Welfare Committee, with a specific view to either: discontinuing it; increasing the level of R&D expertise on the Committee through the appointment of external personnel; or replacing the Committee with a multidisciplinary advisory group that is entirely separate from the Board.	AWI did not agree with this recommendation and no further action was taken.	
AWI should continue to develop and refine its monitoring and evaluation framework, and in particular it should develop and embed a series of appropriate key performance indicators by which the company's performance can be tracked through strategic plan, annual operating plan and annual report.	AWI agreed.	<p>AWI have:</p> <ul style="list-style-type: none"> Updated the M&E Framework Completed detailed Program Evaluation Plans Publicly released seven external evaluation reports completed in 2011/2012 Revised the economic assessment tools used as a basis for evaluation of investments

8.2 Recommendations from this Review

It is clear that over the past three years, AWI has actively focussed on addressing and implementing the recommendations resultant from the 2012 Review.

This Review provides a number of recommendations for further improvement relating to AWI's performance in delivering research, development, extension and marketing services, notably in the areas of governance and management.

The recommendations, set out below, have been developed within the context of supporting AWI's evolution and meet the ever-increasing needs, expectations and requirements of their stakeholders:

Figure 20: Recommendations for AWI 2015-2018

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

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9 Appendices

- A. Full List of Reviewed Documents
- B. Consultation Record
- C. Consultation Themes
- D. AWI Programs – value of benefits realised across R&D (on farm and off farm) and marketing activities

Appendix A – Full List of Reviewed Documents

Document title

1. AWI website (www.wool.com.au)
2. SED Consulting: Australian Wool Innovation - Three-year independent review of performance 2009-2012
3. AWI Response & Implementation Plan: 2009-2012 Review of Performance
4. GHD: Australian Wool Innovation - Three-year independent review of performance November 2010
5. GHD: Australian Wool Innovation – Report for One Year On Review of Performance 2010-2011
6. Scott Williams: Australia Wool Innovation – Voluntary Review of Performance 2014
7. Statutory Funding Agreement 2013-16
8. Wool Services Privatisation Act 2000
9. Wool Services Privatisation (Wool Levy Poll) Regulations 2003
10. Strategic Plan 2013/14 to 2015/16
11. 2012-2013 Operating Plan
12. Operating Plan 2013/14
13. Operating Plan 2014/15 (Draft)
14. Constitution (18 November 2011)
15. Board Charter (November 2011)
16. Charter of the Committees of the Board (November 2011)
17. Code of Conduct and Business Ethics (19 April 2013)
18. Rules and Procedures governing the election of Directors
19. Fraud Control and Risk Management Plan (January 2015)
20. Intellectual Property Management Plan (February 2015)
21. Senate Rural and Regional Affairs and Transport References Committee Inquiry (February 2015)
22. AWI – Investing in innovation for the Australian wool industry
23. Wool Industry Organisation Chart
24. AWI Performance Report Card 2012/2013
25. AWI: Delivery results for growers
26. GA Research: Australian Wool Innovation – Woolgrower Research Report
27. Strategic Plan 2013/14 to 2015/16 – Feedback
28. Benefit Cost Analysis of AWI's - No Finer Feeling Campaign Investment (June 2014)
29. Benefit Cost Analysis of AWI's - Campaign for Wool Investment (August 2012)
30. Benefit Cost Analysis of AWI's - China Luxury Program Investment (August 2012)
31. Benefit Cost Analysis of AWI's - Cool Wool Campaign Investment (December 2014)

Document title

32. Benefit Cost Analysis of AWI's - Fit for a Prince Marketing Investment (June 2012)
 33. Benefit Cost Analysis of AWI's - Sports & Outdoor Category Investment (September 2014)
 34. Benefit Cost Analysis of AWI's - Merino Touch™ Investment (August 2012)
 35. Benefit Cost Analysis of AWI's - Evergraze Investment (September 2012)
 36. Benefit Cost Analysis of AWI's - Extension Networks Investment (August 2012)
 37. Benefit Cost Analysis of AWI's - Life Time Ewe Management Investment (August 2012)
 38. Benefit Cost Analysis of AWI's - Shearer and wool handler Training Investment (October 2014)
 39. Benefit Cost Analysis of AWI's – Wild Dog Investment (August 2012)
 40. Statutory Funding Agreement (SFA) Compliance Report (November 12, June 2013, December 2013, June 2014, December 2014, June 2015)
 41. Australian Wool Innovation Limited Annual Report (2013/14, 2012/13, 2011/12, 2010/11, 2009/10)
 42. AWI Financial Delegations Annual Review (April 2015)
 43. Australian Bureau of Statistics (<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Main+Features10Dec+2012>)
 44. Ibis world (<http://www.ibisworld.com/>)
 45. Making more from wool (http://www.makingmorefromsheep.com.au/market-focussed-wool-production/procedure_2.1.htm)
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Appendix B – Consultation Record

Deloitte would like to thank all stakeholders for the collaborative approach to the consultation conversations and providing their time and information openly and to meet the timeframes of the Review.

Sector	Names
Woolgrowers/levy payers	Hugh Cameron – NSW Patrick Williamson – WA Julian Von Bibra – TAS Sandy and Di Martin – SA Jenny Treloar – SA Neil Jackson – SA Geoff Peters – NSW Joe Darlitz – SA David Counsell – WA Steve Bolt – WA Richard Chalker - NSW Nick Wadlow – SA Grant Francis – SA
WoolPoll Panel members (interviewed as a group of individual growers)	Adele Offley Bindi Murray Georgina Wallace Ian Feltman Richard Halliday Robert Ingram Sydney Lawrie
Extension services	James Tyson (Project Manager - Sheep Connect Tasmania)
Council of Rural Research and Development Corporations (CRRDC)	Selwyn Snell (Chair of CRRDC and Chair of Horticulture Australia LTD)
AWI Industry Consultative Committee (ICC)	Richard Halliday, President – Woolproducers Australia Rob McBride, Chair – Australian Woolgrowers Association John Taylor, President – Australian Superfine Woolgrowers Association Jock McRae, Representative – Australian Association of Stud Merino Breeders Nick Cole, Broad Wool Representative – Broad Wool Breeds Digby Stretch, President - Pastoralists and Graziers Association of Western Australia (PGA)
Government Representatives	Fran Freeman (Department of Agriculture - FAS Agricultural Policy) Matt Koval (Department of Agriculture – Trade and Market Access) Peter Ottesen (Department of Agriculture - AS Agricultural Industries) Barbara Jones (Department of Agriculture – AS Research and

Sector	Names
	Innovation) Desley Darby (Department of Agriculture) Rodney O'Meagher (Department of Agriculture)
Internal stakeholders	Wally Merriman (Chair) David Webster (Chair Finance and Audit Committee) Stuart McCullough (CEO) Rob Langtry (CMO) Tracey Marshall (CFO) Peta Slack-Smith (Group Manager – Corporate Affairs and Market Access) Karen Newton (GM – Human resources) Julie Davies (Group Manager – Trade Education) Stephen Feighan (Country Manager – Australia) John Harrison (Independent Governance Advisor) Paul Swan (GM – Research) Dave Collins (M&E Contractor)

Appendix C – Consultation themes

Sectors to be consulted	Theme(s)
AWI Board	<ul style="list-style-type: none"> • Introduction, background context • Consultation • Benefits • Measurement • Internals / How AWI conducts business • Externals • Progress since last review
AWI staff	<ul style="list-style-type: none"> • Introduction, background context • Consultation • Benefits • Measurement • Internals / How AWI conducts business • Externals
Wool growers	<ul style="list-style-type: none"> • Introduction, background context • Consultation • Benefits • Measurement • Externals • Grower impact
Government representatives	<ul style="list-style-type: none"> • Introduction, background context • Benefits • Measurement • Internals (governance only) • Externals • Progress since last review
AWI Woolgrower Independent Consultative Committee (ICC)	<ul style="list-style-type: none"> • Introduction, background context • Consultation • Benefits • Measurement • Internals (governance only) • Externals • Progress since last review
WoolPoll Panel	<ul style="list-style-type: none"> • Introduction, background context • Consultation • Benefits • Measurement • Externals • Progress since last review

Appendix D – Value realised from AWI Programs

9.1.1 On farm R&D

The key objective of the On-farm R&D research stream is to increase the profitability and sustainability of growing wool. It is intended that the new knowledge generated through this program will be imparted to woolgrowers and result in increases in wool quality and productivity resulting in increased on farm profitability. The programs are organised under four key strategies.

Figure 21: On Farm R&D strategies and programs

Program	Investment activity	Targets	Value of benefits / return on investment	Nature of Program / Strategy benefits
Strategy 1: Sheep Health, Welfare & Productivity				
Parasites and diseases	<ul style="list-style-type: none"> Funding regional groups. Tool development Technology development Participation in national strategies 	<ul style="list-style-type: none"> Output: By 2017 achieve a 5% reduction in economic losses from breech strike across 20% of woolgrowers Outcome: By 2017 achieve an increase of 20% in woolgrowers using best practice worm control 	<ul style="list-style-type: none"> CBA yet to be completed 	<ul style="list-style-type: none"> Reduction of input costs, production losses, and biosecurity impacts arising from parasites and diseases Increased profitability for on-farm sector
Wild dogs	<ul style="list-style-type: none"> Funding provided to support groups undertaking wild dog control Funding to training organisation to train woolgrowers R&D support Monitoring 	<ul style="list-style-type: none"> Output: Each year support the establishment of 12 new community groups and 22 existing groups Outcome: Ensure total avoided stock loss is greater than the combined cost to AWI and woolgrowers 	<ul style="list-style-type: none"> \$50.7m Present value of benefits realised over 7 years (2012-13 to 2018-19) This assumes a total of \$5.8m (present value) of investment spent over three years (2012-13 to 2014-15) at a benefit cost ratio of 8.6:10 	<ul style="list-style-type: none"> Quantified benefits: The AWI investment is anticipated to result in increased wild dog control and therefore reduced stock losses (mortality, injury and wool discounts). This results in a benefit of increased volume of wool production. The net benefit to woolgrowers is the additional revenue gained from increased volume of production adjusting for the price effect (i.e. increased supply reduces price)

¹⁰ BDA Group 2012, *Benefit Cost Analysis of AWI's Wild Dog Investment*, August 2012

Program	Investment activity	Targets	Value of benefits / return on investment	Nature of Program / Strategy benefits
Husbandry practices	<ul style="list-style-type: none"> Investment is aimed at finding options that minimise additional cost for treatments that reduce animal welfare impacts from the husbandry practices of tail docking, castration and mulesing 	<ul style="list-style-type: none"> Outcome: Deliver a significant reduction in adverse welfare response from existing technologies by 2017 Outcome: Develop pain relief alternatives by 2017 with maximum additional cost to growers of 50 cents/head 	<ul style="list-style-type: none"> CBA yet to be completed 	<ul style="list-style-type: none"> Other benefits: The program is also expected to result in an emotional benefit to farmers which have not been quantified Benefits are in reducing animal welfare impacts from current husbandry practices. Cost targets based on finding options on current alternatives which can be cost prohibitive. No profitability gains expected Benefits from the reduction in effort required to respond to animal welfare concerns In current policy environment there is no economic benefit. However under a different policy where husbandry practices are prohibited, this may result in cost reductions from current high cost alternatives
Genetics and genomics	<ul style="list-style-type: none"> Investments focussed on improving data collection, analysis and tools relating to genomics, including addressing barriers to adoption 	<ul style="list-style-type: none"> Output: Increase use of genetic benchmarking across studs by 5% by 2017 Outcome: 6% a year preliminary target for increase in rate of industry genetic gain by 2017 	<ul style="list-style-type: none"> CBA yet to be completed 	<ul style="list-style-type: none"> Development of improved data collecting and analysis that leads to improved profitability and rates of genetic gain
Reproduction	<ul style="list-style-type: none"> A National Sheep Reproduction Plan has been developed with MLA and other R&D funders to coordinate R&D investment across all major funders of sheep reproduction R&D 	<ul style="list-style-type: none"> Outcome: By 2017 increase average Merino lambs weaned by 10%, across 9 million Merino x Merino joinings each year at maximum additional cost of \$2 per ewe carried without a loss in wool growing profitability 	<ul style="list-style-type: none"> \$28.5m Present value of benefits for Lifetime Ewe Management program This assumes a total of \$2.2m¹¹ of investment (present value) spent over three years (2012-13 to 2014-15) at a benefit cost ratio of 13 (lower bound estimate).¹² 	<ul style="list-style-type: none"> Main area of investment aimed at ewe and lamb survival, early reproductive success and high-performance weaners. Benefits would accrue to woolgrowers through increased weaning rates

¹¹ It is assumed that Lifetime Ewe Management is funded under the Reproduction program

¹² BDA Group 2012, *Benefit Cost Analysis of AWI's Lifetime Ewe Management Investment*, August 2012

Program	Investment activity	Targets	Value of benefits / return on investment	Nature of Program / Strategy benefits
Strategy 2: Wool Harvesting & Quality Preparation				
Wool Harvesting & Quality Preparation	<ul style="list-style-type: none"> Investment in trainer support (building capability of trainers), training delivery (In-Shed training) and supporting shearing competitions 	<ul style="list-style-type: none"> Outcome: Meet or exceed Code of Practice requirements based on improvements in Sports Shear Australia judging standards for shearing and wool-clip quality Outcome: Increase average shearing shed productivity across the industry by four sheep a run (contract shearers). Outcome: Cost per person trained remains constant in real terms 	<ul style="list-style-type: none"> \$18m Present value of benefits realised over 10 years (2012-13 to 2021-22) This assumes a total of \$6.9m of investment (present value) spent over three years (2012-13 to 2014-15) at a benefit cost ratio of 2.6:1¹³ 	<ul style="list-style-type: none"> Quantified benefits: Benefits are realised from the increase in productivity (increase of 1 sheep per shearer per day) (without sacrificing shorn wool quality), resulting in a reduced number of runs per property and consequent reduction in shed costs Other benefits: Health and Safety benefits including longevity of workforce. Sheep would also be penned for a shorter period of time resulting in feed savings
Strategy 3: Production Systems & Eco-Credentials				
Managing the resource base	<ul style="list-style-type: none"> Investment is made in partnership with MLA, Dairy Australia and DAFF to support research into new pasture species and models 	<ul style="list-style-type: none"> Outcome: Adoption of improved perennial pastures across 50,000 ha within 5 years delivering a 20% increase in pasture production or increase in stocking rate capacity of 2–4 dse per hectare 	<ul style="list-style-type: none"> \$6.1m Present value of benefits over 7 years (2012-13 to 2018-19) with first realisation of benefits occurring in the third year This assumes a total of \$4m of AWI investment (present value) spent over three years (2012-13 to 2014-15) at a benefit cost ratio of 1.5 (lower bound estimate).¹⁴ 	<ul style="list-style-type: none"> Quantified benefits: Benefits are for the Evergraze program. Benefits accrue to woolgrowers through increased pasture productivity which increases stocking rates, improved stock condition and reduced input costs. Farm profits are estimated to increase by between \$20 and \$50 per ha Other benefits: Includes environmental benefits such as reduced soil erosion and reduced groundwater recharge
Carbon	<ul style="list-style-type: none"> The focus is on supporting research that increases wool production by reducing methane production in the rumen. Research into pasture species and genetic factors, and development of tools and methods to measure GHG emissions; facilitate participation in carbon markets 	<ul style="list-style-type: none"> Outcome: By 2020 deliver new technologies which enable increased feed conversion efficiency of 5% across 20% of woolgrowers 	<ul style="list-style-type: none"> CBA yet to be completed 	<p>NB: Long term and complex research into important but evolving area (carbon and emissions valuation)</p>

¹³ BDA Group 2012, *Benefit Cost Analysis of AWI's Shearer and Wool Handler Training Investment*, October 2012

¹⁴ BDA Group 2012, *Benefit Cost Analysis of AWI's Evergraze Investment*, September 2012

Program	Investment activity	Targets	Value of benefits / return on investment	Nature of Program / Strategy benefits
Strategy 4: Education & Extension				
Grower Skills Capacity (extension)	<ul style="list-style-type: none"> Investment supports the formation and continuation of woolgrower networks 	<ul style="list-style-type: none"> Outcome: Increased participation of wool growers in extension networks, achieving average cost saving of \$700 Output: Breeding and sheep handling tools and techniques – 50 workshops and 1000 participants Outcome: 22,000 of sheep producers aware of Making More from Sheep (MMFS) and 5500 participating in planned activities by 2015. Of participating producers, 50% applying at least one module to their sheep enterprise 	<ul style="list-style-type: none"> \$8.6m Present value of benefits over 3 years (2012-13 to 2014-15) This assumes a total of \$6.1m of AWI investment (present value) spent over three years (2012-13 to 2014-15) at a benefit cost ratio of 1.4.15 	<ul style="list-style-type: none"> The value to woolgrowers is deemed to be in reducing the cost to woolgrowers of accessing and assessing information to enable profitable changes to their operations
Stakeholder and Market Place Education & Awareness	<ul style="list-style-type: none"> AWI co-invests with other RDCs or government to promote wool industry and provide support to schools, wool industry advocates, professional development for researchers, National Merino Challenge etc. 	<ul style="list-style-type: none"> Output: Distribute up to 300 Learn about Wool teachers kits each year Outcome: The National Merino Challenge to attract 60 participants a year and up to 25 trainers for the train-the-trainer workshops Output: Run up to eight forums each year to inform, update and keep in touch with industry 	<ul style="list-style-type: none"> CBA yet to be completed 	<ul style="list-style-type: none"> Benefits accrue to woolgrowers through increasing community's confidence in the wool industry

¹⁵ BDA Group 2012, *Benefit Cost Analysis of AWI's Extension Networks Investment*, August 2012

9.1.2 Off farm R&D

The key objective of the Off-farm R&D is to generate and transfer knowledge which fosters the creation of business opportunities, enhances sustainability practice, and diversifies regional capacity within the wool-processing pipeline, thereby actively contributing to creation of sustainable demand for Australian wool. The program is organised under four key strategies.

Figure 22: Off farm R&D strategies and programs

Program	Investment activity	Targets	Value of benefits / return on investment	Nature of benefits
Strategy 5: Technical Services				
Supply Chain Diversification	<ul style="list-style-type: none"> Funds aimed at Identifying manufacturing companies in low cost countries (Russia and Vietnam) Training provision Ongoing support and advice and marketing 	<ul style="list-style-type: none"> Output: Increase the number of new manufacturing business working with AWI by 75 (68 knitters and 7 spinners) by 2016 Output: Increase number of Woolmark licence applications in these regions by 25 by 2016 Outcome: Increase annual wool demand by 750,000 kg or on average 10,000 kg per million 	<ul style="list-style-type: none"> \$7.3m Present value of benefits over 3 years (2012-13 to 2014-15) This assumes a total of \$1.8m of AWI investment (present value) spent over three years (2012-13 to 2014-15) at a benefit cost ratio of 4.1.16 	<ul style="list-style-type: none"> The benefit to woolgrowers is in the increase in cost competitiveness from supporting the shift of manufacturers from one country to another (from exploiting a lower wage environment without sacrificing productivity). Benefits are determined by the cost advantage achieved on a per unit basis multiplied by the volume of production where the cost advantage occurs. Then calculating the extent to which cost savings are captured back along the supply chain to Australian woolgrowers
Technology Transfer	<ul style="list-style-type: none"> Transfer knowledge, technology, and expertise to wool manufacturers Identify manufacturers Develop technical marketing packages Industry workshops/training 	<ul style="list-style-type: none"> Output: Production of two technical packages based on increasing profitability Output: Transfer of technology aimed at increasing profitability by increased productivity and cost reduction to 10 companies per year (2013 – 2016) Output: Transfer of technology aimed at increasing profitability by adoption of added value technologies to 15 companies per year between 2013–2016 Output: Updating of training and education material relating to the production of Easy Care wool products by 2013 Outcome: Increasing annual demand for 	<ul style="list-style-type: none"> Present value of benefits was not able to be quantified¹⁷. 	<ul style="list-style-type: none"> By assisting manufacturers to become more profitable, they are more likely to stay in wool and become less reluctant to pay a higher price for it Technical packages are aimed at increasing profitability via increased productivity, and reduced costs; and also by adoption of added-value innovative technologies NB: The actual investment made was considerably less than that planned for this program, largely due to fewer than expected innovation partners being identified and project completion reports not prepared. Consequently it is unknown what outcomes

¹⁶ BDA Group 2015, *Benefit Cost Analysis of AWI's Investment in Supply Chain Diversification*, May 2015

¹⁷ BDA Group 2013, *Benefit Cost Analysis of AWI's Merino Visual Product Development Investment*, November 2013

Program	Investment activity	Targets	Value of benefits / return on investment	Nature of benefits
		Australian wool by, on average, 10,000 kg per company with which AWI engages		have been achieved and the nature of benefits delivered to trade partners.
Strategy 6: Fibre Advocacy and Eco-credentials				
Fibre Advocacy	<ul style="list-style-type: none"> • Build and extend the scientific basis for wool's wellness credentials • Partnerships with credible research institutions to conduct consumer-based research • Develop technical specifications 	<ul style="list-style-type: none"> • Output: Evidence that wool is not an allergen • Output: Demonstrate that Merino base-layer garments ameliorate chronic skin conditions associated with micro climate management of the skin • Output: Demonstrate that wool bedding and sleepwear improves sleeping conditions • Output: Support development of product market opportunities in categories such as corporate wear, safety wear, medical product and infants wear 	<ul style="list-style-type: none"> • Present value of benefits not able to be quantified • CBA noted that investment by AWI for its online investment component does not deliver a direct benefit to Australian wool growers. Rather it is an internal service to support the effectiveness of other AWI programs¹⁸ 	<ul style="list-style-type: none"> • While CBA noted no direct benefit, through addressing misconceptions about wool and demonstrating its wellness credentials, this program would result in increased demand for wool products amongst certain consumers – the Lifestyle of Health and Sustainability (LOHAS) consumer. The increased prices as a result of increase demand will cause a supply response from woolgrowers. The combination of increased volume of production and the price effect is the benefit to wool growers
Eco-Credentials	<ul style="list-style-type: none"> • Monitoring environmental issues / changed legislation • Identification of problem chemicals/ unwanted residuals • Wool recycling strategy • Knowledge transfer on water and energy inputs 	<ul style="list-style-type: none"> • Output: Prepare and publish annually “Best Practice Guidelines” highlighting improvements or new options for the wool manufacturing sector • Output: Develop techniques to remove unwanted residues on wool during processing • Output: Identify areas of chemical use of concern to the industry and support development of alternative processing methods or inputs 	<ul style="list-style-type: none"> • The CBA noted that no benefits have been realised to date from AWI's investment in zero emissions of absorbable organic halogens (ZAOX)¹⁹ 	<ul style="list-style-type: none"> • Reducing methane production in the rumen will decrease feed costs per kg of wool produced • Increased participation in carbon markets may open up new revenue streams for woolgrowers

¹⁸ BDA Group 2014, *Benefit Cost Analysis of AWI's On-line presence investment*, August 2014

¹⁹ BDA Group 2012, *Benefit Cost Analysis of AWI's Investment in ZAOX Technologies*, November 2013

9.1.3 Off farm Marketing – category management

The key objective of the Off-farm Marketing – category management program is to target key consumer segments (where wool currently has a modest share) with the view to increase sale opportunities for Australian wool. This is to be achieved through investment in product development, developing new manufacturing processes and supported by marketing activities. There are five key programs under this strategy of category management being; sports and outdoor, nurture by nature, urban/contemporary, apparel care and interior textiles.

Figure 23: Off farm marketing – category management strategies and programs

Program	Investment activity	Targets	Value of benefits / return on investment	Nature of benefits
Strategy 7: Category management				
Sports & Outdoor	<ul style="list-style-type: none"> Funding directed at marketing partnerships (manufacturers and leading brands), development of new products, and marketing materials to support launched products 	<ul style="list-style-type: none"> Outcome: Increased sales of wool products across 13 partners of 5% in the first year products offered for retail and 10% in the following year (75,000 additional units per partner) Outcome: Increase in wool product sales of 5% a year across non-partners (additional 32,000 units each year) 	<ul style="list-style-type: none"> \$12m Present value of benefits realised over 15 years (2012-13 to 2026-27) This assumes \$1.9m of investment (present value) spent over three years (2012-13 to 2014-15) at a benefit cost ratio of 6.3.20 	<ul style="list-style-type: none"> The benefits are based on the increase in wool production volumes from the increased demand for wool as measured by an increase in manufactured production units of Merino Perform™ (data collected from annual partner reports) and estimate for non-partner manufacturers. The economic benefit to woolgrowers is estimated based on increased demand causing a supply response. The value of the supply response is quantified in terms of additional gross margin earned, which is adjusted to reflect the price effect
Nurture by Nature	<ul style="list-style-type: none"> Working with ambassadors to advocate the benefits of Merino wool Work with retail partners to develop targeted marketing programs and promote new Merino wool products 	<ul style="list-style-type: none"> Output: Engagement of 33 partners by 2016 from existing base of 15. Outcome: Average annual number of wool pieces sold per existing partner increased from 18,000 units to 30,000 units by 2016 Outcome: Average number of wool pieces sold by new partners to reach 6500 by 2016. Outcome: Increase in wool units sold by non-partners to increase by 5% a year 	<ul style="list-style-type: none"> CBA yet to be completed 	<ul style="list-style-type: none"> The program aims to increase demand for wool products in the babywear market. Any increase places upward pressure on raw wool prices
Urban/ Contemporary	<ul style="list-style-type: none"> Product development. In-store marketing support 	<ul style="list-style-type: none"> Outcome: Engagement of 6 Tier 1 & 2 partners by 2016 with increase of 75,000 units sold per partner by 2017 	<ul style="list-style-type: none"> CBA yet to be completed 	<ul style="list-style-type: none"> The program aims to increase demand for wool products from urban consumers. Any increase places upward pressure on raw

²⁰ BDA Group 2012, *Benefit Cost Analysis of AWI's Sports and Outdoor Category*, September 2012

Program	Investment activity	Targets	Value of benefits / return on investment	Nature of benefits
	<ul style="list-style-type: none"> • Broader product support through Wool Innovations • Collective presence at trade shows • PR – speaking to a new demographic through new channels with strong focus on social media 	<ul style="list-style-type: none"> • Outcome: Annual growth beyond 2017 across partners of 5% • Output: Engagement of 9 Tier 3 partners by 2016 		wool prices
Apparel Care	<ul style="list-style-type: none"> • Provision of quality after sales support tools • R&D to support licensees to respond to changes in consumer demand 	<ul style="list-style-type: none"> • Outcome: A ten point improvement in association of wool with Easy Care in our key consumer markets (compared with 2011 Nielsen data) by 2016 • Outcome: Increased perception of greater value across a minimum of 3 million consumers by June 2017 • Outcome: Maintain licensing and royalty income 	<ul style="list-style-type: none"> • CBA yet to be completed 	<ul style="list-style-type: none"> • The program aims to increase demand for wool products by addressing consumer perceptions that wool is difficult to care for. Any increase places upward pressure on raw wool prices
Interior Textiles	<ul style="list-style-type: none"> • Preparing general interior textiles collateral • An extended version of the general IT film • Creation of a special bedding film • Wool Lab Interiors 	<ul style="list-style-type: none"> • Output: Maintain the current number of licensees while operating under a fixed budget • Output: Increase the visibility of the Woolmark logo with high-end designers 	<ul style="list-style-type: none"> • CBA yet to be completed 	<ul style="list-style-type: none"> • Through the creation of materials, collateral and partnership promotional activities increase consumer demand for Australian wool in the premium furnishing and floor coverings segments of the interiors market

9.1.4 Marketing

The key objective of the Marketing program is to increase demand for Australian wool by recognising and addressing the information barriers to consumption at consumer and trade level and through promotional activities. The program is organised under four three key strategies.

Figure 24: Marketing strategies and programs

Program	Investment activity	Targets	Value of benefits / return on investment	Nature of benefits
Strategy 8: Fibre Marketing & Eco-Credentials				
The Story of Wool – Content Origination and Distribution	<ul style="list-style-type: none"> Creating marketing assets from images, videos, brochures and tag lines 	<ul style="list-style-type: none"> Output: Expressed as 40% of comparable contract rate for 13 in-house staff with output to acceptable in-house quality standard Output: Current annual website hits around 650,000 with cost per hit of \$2.80. Target to reduce to \$1.40 by 2016 	<ul style="list-style-type: none"> \$3m Value of cost savings over three years (2012-13 to 2014-15) assuming in house costs are 33% of external agency costs. Possibly could be higher depending on assumption used.²¹ 	<ul style="list-style-type: none"> Investment in this area supports the wider development and execution of marketing assets across the organisation. The benefit is in delivering services at lower cost than would be achieved in commercial environment (target of 40%) assuming cost effectiveness was the same. Therefore, this benefit it not directly returned to growers
Trade Engagement and Marketing Services	<ul style="list-style-type: none"> Expansion and delivery of The Wool Lab CRM Database Development of educational content 	<ul style="list-style-type: none"> Output: Expansion of The Wool Lab into an inspirational seasonal tool Output: Develop an effective database and system of building and managing relationships with tiered trade partners across the pipeline and on a global basis Output: Internal agency work delivered at 40% of commercial rate 	<ul style="list-style-type: none"> \$11.5m Present value of benefits for the Merino Touch investment This assumes a total of \$1.6m of investment (present value) spent over three years (2012-13 to 2014-15) at a benefit cost ratio of 7.22 	<ul style="list-style-type: none"> Developing better practices and processes to support claims that wool is safe, soft, comfortable, healthy, natural, biodegradable, renewable and environmentally friendly etc. There may be costs involved to manufacturers in adopting different practices, however if the eco-credentials are improved as a result this may increase demand for wool (see above for LOHAS consumers)
The Campaign for Wool	<ul style="list-style-type: none"> Promotion of wool products for a week-long period (in Wool Week) through support of trade events, point of sale materials, consumer marketing and online activities 	<ul style="list-style-type: none"> Output: Number of retail partners involved to increase from 445 to 800 Outcome: An average increase in wool sales per store of 1020 units and 676 kg of wool a year with evidence that changed purchasing behaviour is not substitution 	<ul style="list-style-type: none"> \$8.7m Present value of benefits realised over 5 years (2012-13 to 2016-17) at 5% sales growth. Other sales growth scenarios of 10% and 15% were also modelled 	<ul style="list-style-type: none"> The campaign aims to increase demand for wool through partnerships with key retailers. This is measured through partner declarations on the shift towards wool (from other fibres) during and after in-store promotions. The benefits to woolgrowers accrue through higher prices for wool and

²¹ BDA Group 2015, *Benefit Cost Analysis of AWI's Trade Engagement and Marketing Services Investment*, March 2015

²² BDA Group 2012, *Benefit Cost Analysis of AWI's Merino Touch Investment*, August 2012

Program	Investment activity	Targets	Value of benefits / return on investment	Nature of benefits
		<ul style="list-style-type: none"> Output: Media value to reach GBP 18 million in 2015/16, follower base of 100,000 and 500,000 website hits 	<ul style="list-style-type: none"> This assumes \$7.3m of investment (present value) spent over three years (2012-13 to 2014-15) at a benefit cost ratio of 1.2.23 	increased supply volumes
PR & International Woolmark Prize (IWP)	<ul style="list-style-type: none"> Public relations activity Funds used to promote the IWP 	<ul style="list-style-type: none"> Output: Increase markets to 30 by 2015/16 Outcome: Generate media value of \$40 million by 2015/16 Outcome: Increase in wool garment sold of 700,000 a year 	<ul style="list-style-type: none"> CBA yet to be completed 	<ul style="list-style-type: none"> The campaign aims to increase demand for wool through promotional activities and PR
Strategy 9: Product Promotion				
No Finer Feeling	<ul style="list-style-type: none"> Main activity is development and delivery of promotional materials with retail partners to consolidate and grow the merino fibre as leading fashion brand. Primary focus on Autumn/Winter demand. 	<ul style="list-style-type: none"> Output: Increase media reach to 750 million people by 2015/16 Output: Expand the number of partners from 34 in 2012/13 to 42 in 2015/16 Outcome: Increase wool sales across campaign partners by 1 mkg a year by 2016 with additional sales across non-partners of 15% 	<ul style="list-style-type: none"> \$26.9m Present value of benefits realised over 15 years (2012-13 to 2026-27) based on AWI target growth This assumes \$15.8m of investment (present value) spent over three years (2012-13 to 2014-15) at a benefit cost ratio of 1.7.24 	<ul style="list-style-type: none"> The campaign aims to increase demand for wool volumes through partnerships with key fashion/retail brands (determined from information provided by retail partners). The benefits to woolgrowers accrue through higher prices for wool and increased supply volumes
Woolmark Gold (China)	<ul style="list-style-type: none"> Investment directed at marketing initiatives in China through engagement of designers through complimentary marketing initiatives – training and education, TV series, media exposure, info provision 	<ul style="list-style-type: none"> Output: Engagement targets of media reach of 500 million each year; 14 partners in 2012/13 increasing to 45 in 2015/2016 Outcome: Increased preference for wool as a luxury product across consumers with increased wool sales through retail partner stores of 760,000 kg by 2016 with 5% growth in non-partner retail stores 	<ul style="list-style-type: none"> \$12.6m Present value of benefits realised over 10 years (2012-13 to 2021-22) This assumes \$7.9m of investment (present value) over three years (2012-13 to 2014-15) at a benefit cost ratio of 1.6.25 	<ul style="list-style-type: none"> The campaign aims to increase demand for wool volumes through partnerships with key designers (determined through design partner sales) and maintained for a period of 10 years. There are also ripple effects where non-partner designers would also target the wool segment. The benefits to woolgrowers accrue through higher prices for wool and increased supply volumes
Cool Wool	<ul style="list-style-type: none"> Funding directed at marketing partnerships 	<ul style="list-style-type: none"> Output: Increase markets from 9 to 15 by 2015/16 and 20 additional manufacturing 	<ul style="list-style-type: none"> \$7.1m Present value of benefits 	<ul style="list-style-type: none"> The benefits are based on the increase in wool production volumes from the increased

²³ BDA Group 2012, *Benefit Cost Analysis of AWI's Campaign for Wool Investment*, August 2012

²⁴ BDA Group 2014, *Benefit Cost Analysis of AWI's No Finer Feeling Campaign Investment*, June 2014

²⁵ BDA Group 2012, *Benefit Cost Analysis of AWI's China Luxury Program Investment*, August 2012

Program	Investment activity	Targets	Value of benefits / return on investment	Nature of benefits
	(manufacturers and leading brands), development of new products, trade shows etc.	<p>partners, 6 new Woolmark licensees and retail partners</p> <ul style="list-style-type: none"> • Output: Increase media reach to 20 million by 2015/16 and achieve 20,000 visits to Coolwool.com • Outcome: Increase in annual Cool Wool ticket and label sales by 5% a year from 2016. This is equivalent to an increase of 730,000 kg of wool a year by 2016 (with no substitution) 	<p>realised over 15 years (2012-13 to 2026-27) based on 5% growth in new demand</p> <ul style="list-style-type: none"> • This assumes \$7.1m of investment (present value) spent over three years (2012-13 to 2014-15) at a benefit cost ratio of 1.0.26 Target growth would result in a much higher benefit 	<p>demand for wool. The economic benefit to woolgrowers is estimated based on increased demand causing a supply response. The value of the supply response is quantified in terms of additional gross margin earned, which is adjusted to reflect the price effect</p>
Other Promotions & Product Publicity	<ul style="list-style-type: none"> • Promotions and public relations activity for tactical opportunities which arise from time to time • Three possible projects under consideration 	<ul style="list-style-type: none"> • Output: Cost-effectiveness determined on case-by-case basis 	<ul style="list-style-type: none"> • CBA yet to be completed 	<ul style="list-style-type: none"> • Stimulate increased demand through exploiting promotional opportunities as they arise

²⁶ BDA Group 2012, *Benefit Cost Analysis of AWI's Cool Wool Campaign Investment*, September 2012