



# Dairy Australia Limited

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## Independent Performance Review 2020/21 – Final Report

Anwen Lovett Consulting

This report was prepared by Anwen Lovett Consulting in association with Ancer Consulting Pty. Ltd. (the reviewers).

The reviewers would like to thank David Nation (Managing Director), Elizabeth Parkin (Group Manager Business and Organisational Performance) and Sheridan Verwey (Company Secretary) along with the Board, management and staff of Dairy Australia Limited for the open communication, cooperation and access given in conducting this independent review. A particular thank you goes to dairy industry levy payers, Regional Development Programs and national and state industry representative bodies who made time to contribute during a very busy and active period for the industry.

The COVID-19 lockdown and travel restrictions have presented unique issues to deal with for this independent review. Without the standard method of face to face communication being possible, information has been gathered and connections made with people through a heavy reliance on phone calls, online tools and resources. Despite these difficulties, Dairy Australia Ltd stakeholders have collaborated actively and effectively.

The independent review was completed through a desktop review and evaluation of relevant documents, interviews with key members of the Board, management and staff, the Australian Government and industry stakeholders. The reviewers have diligently and in good faith worked to verify and substantiate the information provided to them and which is contained in this report, but no warrant is placed on its specific accuracy in any particular area including errors or omissions.

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# 1. Executive Summary

## 1.1. Independent Review Purpose

Dairy Australia Limited is the Industry Services Body under the *Dairy Produce Act 1986 (Cth)* (the Act) for the Australian dairy industry. The organisation provides marketing, communication, strategic policy development and innovation services and is funded through levies from Australian dairy farmers and matching funding through the Australian Government. It is one of the fifteen rural Research and Development Corporations.

This report presents the findings and recommendations of the four-yearly independent performance review which Dairy Australia is required to undertake under its Statutory Funding Contract (SFC) with the Commonwealth. The independent review considers Dairy Australia's performance during the period covered by the current SFC which is 2017- 2020. It must be completed, and the report submitted to Dairy Australia and the Commonwealth at least six months prior to the expiry of the current SFC in June 2021. A request was made by Dairy Australia to the Commonwealth for more time which led to an extension until January 2021.

Dairy Australia's relationship with the Commonwealth is outlined under the Act and the SFC which specifies how the Commonwealth collects marketing and R&D levies on Dairy Australia's behalf. Clause 18 of the SFC deals with the requirement for an independent performance review.

The terms of reference are to consider Dairy Australia's performance in:

1. Meeting its obligations under the Statutory Funding Contract and the *Dairy Produce Act 1986*
2. Implementing governance arrangements and practices for ensuring proper use and management of funds
3. Meeting the planned outcomes and targets of its Strategic Plan
4. Delivering benefits to members, levy payers and the broader community
5. Consulting with levy payers and their representative bodies.

In addition, consider:

1. The cross-sector collaborative activities by Dairy Australia with other Rural Research and Development Corporations and other partners
2. Review the implementation of actions in response to the recommendations from the prior performance review.

## 1.2. Overall Finding

The overall finding of this independent review is very positive. Dairy Australia is an effective, outcomes focussed organisation with a strong service culture to the Australian dairy industry. It is managed by professional people who seem to care about what they do. There is strong and appropriate governance and a healthy focus on continuous improvement of structures, systems and processes.

## 1.3. Background

The independent review has been undertaken in the context of the current issues affecting the dairy industry and Dairy Australia. There have been significant industry challenges during the review period. These include continued downward pressure on profitability, prolonged drought in many dairying regions, water scarcity and bushfires. Our changing climate is driving the requirement for some dairy farmers in some regions to make significant changes to adapt their production systems to new climatic conditions. COVID-19 has required adjustments to production, transport, processing and supply chains including increased compliance. Escalating trade tensions with China have also demanded industry attention.

The significant improvement in seasonal conditions in the 2020 winter/spring has been a positive for many dairying regions. Given the improved season, most farmers were very busy with hay and silage production while this independent review was being completed, making consultation challenging. The reviewers wish to thank and acknowledge those dairy farmers who found the time (even from their tractors) to be interviewed or participate in group discussions about Dairy Australia's performance so that the independent review heard the perspectives of levy payers.

Dairy Australia has been deeply involved in the Australian Dairy Plan (ADP) process which has been underway since late 2018. Development of the Plan was independently chaired by John Brumby AO and was led by dairy representative bodies Australian Dairy Farmers (ADF) and Australian Dairy Products Federation (ADPF). The ADP was released in September 2020. Most industry feedback to this independent review indicates that the ADP process has achieved high levels of positive industry engagement and a desire for unity moving forward.

Dairy Australia delayed the release of its new Strategic Plan until September 2020. This was to allow for maximum alignment to be achieved between the Australian Dairy Plan and Dairy Australia's new Strategic Plan. An extension of Dairy Australia's previous Strategic Plan for another year allowed this delay to happen. This means that the 2016-17 Strategic Plan covers three of the four-years considered by this independent review.

## 1.4. Commonwealth Agricultural Innovation Agenda

The modernisation process of Australia's rural Research and Development Corporations (RDCs), has been led by the Australian Government during the last two years. It is another important influence which has been considered by the independent review. Dairy Australia is a solid contributor to the

Council of Rural Research and Development Corporations and also sits on the National Primary Industries RDE Framework Research and Innovation Committee, including being a long-term advocate for the Framework approach.

Probably the most significant initiative of the RDCs is the launch of Agricultural Innovation Australia Ltd (AIA) in 2020. All fifteen RDCs are members of this new entity and other organisations are expected to join including the private sector and some research providers. AIA assists in the RDCs response to the Australian Government's priorities around stronger coordination and co-investment in cross-sectoral, transformative R&D initiatives for Australian agriculture.

## 1.5. Approach

Dairy Australia commissioned Anwen Lovett Consulting (in association with Ancer Consulting) to undertake this independent review. This report outlines the methodology, outcomes and recommendations of the independent review. It has been structured to align with the independent review's terms of reference. The key questions used by the reviewers to help frame this report were:

Is Dairy Australia complying with the obligations contained within its legal framework? – Compliance

Is the governance around the management of funds appropriate? – Governance

Is Dairy Australia making appropriate plans and meeting those plans and outcomes? – Operations

Is Dairy Australia creating value for its stakeholders? – Delivering Benefits

Is Dairy Australia communicating effectively? – Stakeholder Engagement

Is Dairy Australia collaborating effectively? – Collaboration

The timing of completion of the ADP and Dairy Australia Strategic Plan created some challenges for Dairy Australia about when to commence this independent performance review. As stated earlier, the independent review must be completed six months prior to expiry of the SFC, which for Dairy Australia was December 2020. Dairy Australia decided to not commence the independent review until the ADP and Dairy Australia Strategic Plan were released in September 2020. This led to a very narrow window of time available for the independent review to be completed and for the December deadline to be met. Consultation with stakeholders by the review team, particularly industry suggested that more time was needed for farmers to contribute their views to the independent review. A request was made by Dairy Australia to the Commonwealth for more time which led to the granting of an extension until January 2021.

The extension in time has been used to expand industry consultation. Nearly 100 stakeholder engagements have been completed through interviews, online meetings and regional farmer online forums hosted by Dairy Australia's Regional Development Programs (RDPs). Dairy Australia, RDPs and ADF's state dairy farmer organisations have assisted in promoting the independent review via websites, farmer targeted emails and newsletters. An online industry survey was also distributed to dairy farmers with nearly 60 responses submitted. The reviewers are satisfied that dairy farmers have had the opportunity to provide their views to this independent review.



This independent review has been conducted during COVID-19 restrictions, including the Victorian shutdown in late 2020. This has required that there be no face-to-face meetings with Dairy Australia and its stakeholders, which an independent review of this kind would normally expect to undertake. Online technology has been heavily utilised to enable visual and audio group meetings and interviews. The reviewers acknowledge that there are benefits from face-to-face meetings which online forums cannot replace. While the impact of COVID-19 should be noted, ultimately, the reviewers do not believe there has been any diminishment to access or engagement with Dairy Australia and its stakeholders.

## 1.6. Findings

The findings of this independent review are generally very positive. Dairy Australia is a service focussed organisation which is committed to delivering benefits for Australian dairy farmers. The independent review has made a number of findings and recommendations which are summarised here against the key themes which have emerged. The recommendations are made in the spirit of Dairy Australia's continuous improvement in order to increase the efficiency and effectiveness of its performance in delivering value to dairy farmers.

There have also been some real highlights in the last four years which include:

**Community Trust:** Dairy Australia has adopted a major shift in its consumer and community marketing and communications approach. The transition from driving consumption of dairy to community acceptance and trust in the dairy industry has resulted in Dairy Matters. Dairy Matters is responding to consumers wanting to know where their food comes from and what the industry is doing for their animals and the environment. Of particular credit to Dairy Australia, has been its engagement with dairy farmers to give them confidence that focusing on trust over consumption will benefit the industry.

**Crisis responses:** Industry and government stakeholder feedback consistently identifies that Dairy Australia's responses in support of industry members and the assistance they provide during industry crises are exceptional. A leading example is COVID-19 which raised complex issues for the industry.

**Regional Development Program:** The RDPs are shining examples of de-centralised industry services and extension provision. Dairy Australia has allowed RDPs to continue with the independent governance and operations which enable the RDPs to tailor their activities and services to meet the regional circumstances and specific needs of their farmers.

**Longevity and Security of R&D Investment:** Dairy Australia's RDE portfolio is dominated by large, long term collaborative partnerships with a small number of research partners. These partnerships have achieved significant critical mass in dairy research and development and have motivated additional investment in and the retention of key research infrastructure and talent by partners.

**Australian Dairy Plan:** The ADP process has largely been viewed as a success by most industry members consulted under this independent review. The willingness of Dairy Australia to engage and assist the industry during this process is seen as a positive demonstration of Dairy Australia's commitment to the industry it serves.

**Internal reforms of Structure, Systems and Processes:** Dairy Australia has embarked on an ambitious and extended reform program to modernise all dimensions of the operations of the company. While it is clear team members have operated under high workloads to deliver this reform, there is a positive intent, confidence and commitment expressed by management about what has been achieved.

The industry challenges and the internal changes within Dairy Australia during the last four years has inevitably provided the independent review with some opportunities to make recommendations for Dairy Australia to consider. The following provides a summary:

<b>Item</b>	<b>Business Systems and Processes</b>
<b>Theme:</b>	<b>Striking the Right Balance</b>
<p>The rigour which underpins Dairy Australia's compliance, systems and processes is considered by the review team to be a real strength. Dairy Australia is not overly burdened by process. However, there has been a very strong focus on the internal reform process which continues today. Dairy Australia will have the opportunity to refine, rationalise and streamline processes when opportunities arise, thereby ensuring that the appropriate balance is achieved between attention on internal requirements versus outward focussed dairy industry services. There are likely to be opportunities as the new arrangements are bedded down to simplify and make refinements.</p>	
<b>Recommendation</b>	The leadership team continue to monitor the development and implementation of company systems and processes with an eye to optimising the value-add that they provide through the right balance of rigour and responsiveness.
<b>Theme:</b>	<b>Board Reading Material</b>
<p>The reviewers observe that the Board seems to continue to be provided with a large amount of written material. It is noted that the independent review was undertaken at a time when the Board was dealing with a large number of approvals – such as the reform of policies and procedures. Most Directors interviewed did indicate that the issue is being proactively addressed and papers have become more succinct.</p>	
<b>Recommendation</b>	The Board continue to work with management to reduce the amount of compulsory reading within the board meeting papers to ensure that the Board's time is used to the greatest value to the organisation.
<b>Item</b>	<b>Australian Dairy Plan</b>
<b>Theme:</b>	<b>Focus on the Mandate</b>
<p>It is clear that Dairy Australia have put a lot of effort into supporting and resourcing the ADP processes and it has created a significant workload for the MD, Board and management. There is a risk of the ADP distracting Dairy Australia attention and resources away from its core business. Given the implementation of the ADP continues in 2021 and is dealing with – amongst others - the difficult question of reform of industry representation and structures, Dairy Australia's engagement and assistance will continue to be required. There will therefore be a continuing risk of Dairy Australia being distracted from its core business, where this does not overlap with that of the ADP.</p>	
<b>Recommendation</b>	The Dairy Australia Board and MD monitor Dairy Australia's continued engagement in the ADP to ensure it doesn't create too great a distraction away from core business or is not creating excessive workloads for key personnel. Corraling the impact of the ADP on the organisation through specific responsibilities for it within the company structure would seem appropriate.

	Having a plan to manage the extra workload, potentially bringing in outside contractors to help with key tasks, may also be valuable.
<b>Theme:</b>	<b>Expectations about Industry Structures</b>
	<p>“Making Promises you can’t keep” – dairy farmers largely do not appreciate the differences between service provision (Dairy Australia) and representation (ADF and ADPF). When farmers pay levies, it is with an expectation of full-service delivery and returns in all of the areas important to them. One of the ADP objectives is “Unity”. This points towards new industry structures where advocacy and other services like RDE and marketing/ communications/ trade are performed under one roof. There is a possibility that the aspirations of many dairy farmers for the industry to have a single entity will prove to be challenging, with a number of different stakeholders to be aligned for this to happen. The independent review has concerns that if levy payer desires are not met, the unjustified responsibility pointed at Dairy Australia could be significant.</p>
<b>Recommendation</b>	The expectations about the future of industry representation need to be proactively managed. A sustained, consistent communication campaign around Dairy Reform is important for transparency to industry and to manage expectations and needs to be delivered with strong spokespeople from relevant industry bodies. It needs to be clear to levy payers that this is an industry initiative and not one of Dairy Australia alone.
<b>Item</b>	<b>Dairy Farmer Communications</b>
<b>Theme:</b>	<b>Seeking Continuous Improvement</b>
	<p>The independent review believes that Dairy Australia invests significantly in building its understanding about the needs of dairy farmer levy payers and how it can service those needs through its RDE, trade and policy, and communication activities. Dairy Australia also seeks feedback annually via surveys from levy payers about its performance. The feedback to this independent review indicates a majority of dairy farmer support for the work done by Dairy Australia. But there is also an active group of Dairy Australia detractors who do not believe Dairy Australia meets their dairy farming needs and who will advocate against Dairy Australia. The critical importance of dairy farmer communication recognised by this recommendation. has not escaped Dairy Australia.</p>
<b>Recommendation</b>	Dairy Australia continue to maintain a high level of attention and effort toward communicating effectively with dairy farmer levy payers. This includes understanding individual needs and motivations. Communication should not only satisfy those who support the work of Dairy Australia but should also seek to share information with those who are less engaged or who have expressed criticism.
<b>Theme:</b>	<b>Communicating Benefit of RDE Partnerships</b>
	<p>Dairy Australia’s major RDE partnerships are important assets to the dairy industry. However, the benefits of those partnerships were poorly understood by many of the dairy farmers consulted during this independent review. There were also some strong views within some regions that these partnerships offered no benefits to their farmers.</p>
<b>Recommendation</b>	Dairy Australia to specifically target farmer communication to demonstrate the benefits of its major RDE investments in the context of specific regions and production systems. This needs to include an explanation by Dairy Australia about how regional RDE priorities are being addressed.
<b>Item</b>	<b>KPI Discipline</b>
<b>Theme:</b>	<b>Annual Targets and Baselines</b>

<p>There has been intense evolution in Dairy Australia's evaluation approach over the last four years which has presented challenges to this independent review in terms of being able to present a consistent performance narrative. There have been two Evaluation Frameworks – published in 2018 and 2020.</p> <p>The independent review is not convinced that the implementation of the 2020 Evaluation Framework is fully bedded down.</p>	
<b>Recommendation</b>	Dairy Australia consider how targets/ measures in the AOP can be used to create stronger linkages between performance year on year with the five-year outcomes of the 2020 Strategic Plan.
<b>Recommendation</b>	Dairy Australia ensure all KPI baselines under the 2020 Evaluation Framework are confirmed and published prior to the end of 2020/21.
<b>Item</b>	<b>Regional Development Programs</b>
<b>Theme:</b>	<b>Realising the Opportunity</b>
<p>The RDPs are Dairy Australia's front-line industry services delivery entities and they take the lead for Dairy Australia in industry extension. Each RDP has its own unique character and attributes which reflect the state/ region that they serve. They are probably one of the strongest examples of a functional, de-centralised industry services and extension network supported by any RDC.</p> <p>The independent review believes there is a specific opportunity for Dairy Australia to further strengthen its relationships with RDPs. This requires creation of a more formalised arrangement for RDPs to provide advice and feedback to Dairy Australia about regional RDE priorities. While this occurs informally now, the absence of a formal pathway for RDPs weakens the connection, reduces transparency to farmers and lessens the obligation on Dairy Australia to respond.</p>	
<b>Recommendation</b>	RDPs be enabled to take on a more formalised role in two-way communication between Dairy Australia and RDPs about regional RDE priorities and Dairy Australia RDE priorities.
<b>Recommendation</b>	A more direct relationship between the Dairy Australia RDP Manager and the Dairy Australia MD should be adopted to strengthen RDP communication with the Dairy Australia executive.
<b>Item</b>	<b>RDE Partnerships</b>
<b>Theme:</b>	<b>Confirm Alignment and Value Proposition</b>
<p>Dairy Australia's RDE portfolio is dominated by large, long term collaborative Joint Ventures and research partnerships. They are DairyBio, Dairy Feedbase, DataGene, Tasmanian Institute of Agriculture and Queensland Department of Agriculture and Fisheries.</p> <p>The independent review considers these partnerships to be very important to dairy industry RDE. They have maintained significant critical research mass for the industry and they have motivated additional investment in and the retention of key research infrastructure, assets and research talent. They have also enabled Dairy Australia to invest in longer-term transformational outcomes for the industry which offer the potential for significant gains for dairy farmers in terms of long-term productivity, profitability and sustainability outcomes.</p> <p>Dairy Australia does require a balanced portfolio between partnerships and stand-alone RDE investment. Stand-alone investment allows Dairy Australia to be responsive to changing industry needs but also enables more lateral thinking about RDE arrangements including pursuing new opportunities, novel partnerships (outside of dairy and agricultural sector) and ways of investing. This</p>	

includes fields such as technology, data and the digital revolution along with new initiatives like Agriculture Innovation Australia.

**Recommendation**

In the context of the new Strategic Plan 2020, Dairy Australia should ensure its RDE portfolio is appropriately balanced between its long-term RDE partnerships and stand-alone funding to ensure there is sufficient investment flexibility for the goals of the plan to be achieved.

## 2. Introduction

Dairy Australia Limited is the Industry Services Body under the *Dairy Produce Act 1986 (Cth)* (the Act) for the Australian dairy industry. The organisation provides marketing, communication and innovation services and is funded through levies from Australian dairy farmers and matching funding through the Commonwealth Government (consistent with the rural research and development (R&D) model which applies across agricultural industries).

Dairy Australia's relationship with the Commonwealth is outlined under the Act and a Statutory Funding Contract 2017-2021 that specifies how the Commonwealth collects marketing and R&D levies on Dairy Australia's behalf, how the Commonwealth provides matching funding for R&D and the conditions applying on Dairy Australia relevant to those payments. The latest version of the Statutory Funding Contract was signed on the 26<sup>th</sup> June 2017 and is valid for a period of four years to the 26<sup>th</sup> June 2021.

Clause 18 of the Statutory Funding Contract deals with the requirement that Dairy Australia undertakes an independent performance review which must be completed and submitted to the Commonwealth not less than six months before its expiry. The mandated terms of reference of the independent review are listed in Clause 18.5 of the Statutory Funding Contract. They specify that the independent review must consider Dairy Australia's performance in:

1. Meeting its obligations under the Statutory Funding Contract and the *Dairy Produce Act 1986*
2. Implementing governance arrangements and practices for ensuring proper use and management of funds
3. Meeting the planned outcomes and targets of its Strategic Plan
4. Delivering benefits to members, levy payers and the broader community
5. Consulting with levy payers and their representative bodies.

For increased clarity, Dairy Australia have added further detail to the above five areas for consideration in the Request for Expressions of Interest document (see Appendices), as well as adding a number of new areas for assessment, as follows:

6. Assess the cross-sector collaborative action by Dairy Australia with other Rural Research and Development Corporations on priority cross-sectoral issues and local and international partners including private companies and other industry service bodies
7. Review the implementation of actions in response to the recommendations from the prior performance review.

Clause 18.2 also includes the requirement that the Commonwealth agree to the terms of reference for the independent review. In doing so, the Commonwealth may identify any other matters consistent with Dairy Australia's Strategic Plan and the Act, that the Commonwealth requires the independent

review to cover. Under this requirement, the Commonwealth has not requested any major additions to the above terms of reference.

This independent performance review has been undertaken considering current issues affecting the dairy industry and Dairy Australia.

Dairy Australia has been deeply involved in the Australian Dairy Plan (ADP) process which has been progressing since late 2018. Development of the Plan was independently chaired by John Brumby AO and was led by dairy representative bodies Australian Dairy Farmers and Australian Dairy Products Federation. Dairy Australia supported and enabled the process, with the Gardiner Foundation also participating. While not all dairy farmers are satisfied with the process or the outcome, the majority of industry feedback to this independent review indicates that overall, the ADP process achieved high levels of positive industry engagement and a desire for unity moving forward.

In order to achieve maximum alignment between the Australian Dairy Plan and Dairy Australia's strategic priorities, Dairy Australia used the draft of the Australian Dairy Plan to formulate the Dairy Australia Strategic Plan and delayed released until the ADP was released. This was facilitated by an extension of Dairy Australia's Strategic Plan 2016/17 – 18/19 to 2019/20 which means that plan covers three of the four-year period of this independent review.

This has allowed Dairy Australia to develop a new Strategic Plan 2020 – 25 which is aligned with the industry outcomes envisaged by the ADP. The Australian Dairy Plan and Dairy Australia's new Strategic Plan are recent, with both released in September 2020. While these Plans relate to only a short period of this independent review, they are important as they set the future directions and priorities for the industry and Dairy Australia. The adoption of the new Strategic Plan by Dairy Australia is reflected in its Annual Operating Plan 2020 – 21.

A requirement of the Statutory Funding Contract is that the independent performance review be completed at least six months prior to its expiry (clause 18.1), making the intended deadline for submission of the independent review report to the Commonwealth late December 2020. The ADP and Dairy Australia Strategic Plan processes which ran until September 2020 made the timing of commencing this independent review challenging for Dairy Australia. If the independent review commenced prior to completion of ADP and the Dairy Australia Strategic Plan, there was a risk of adding complexity and additional workload to already heavily committed industry bodies and farmers.

The dairy industry has also faced significant challenges during the independent review period. These include continued pressure on profitability, prolonged drought in many dairying regions and bushfires. The significant improvement in seasonal conditions in the 2020 winter/spring led to the majority of farmers being very busy with hay and silage production while the independent review was being undertaken and escalating trade tensions with China have also demanded industry attention.

Given these pressures, Dairy Australia delayed commencing the independent review until October 2020 leaving a concentrated and short period of only a few months for the independent review to be completed. This placed considerable pressure on the reviewers, Dairy Australia staff and the industry. Feedback from the industry to the independent review during November 2020 indicated that the timeframe was not adequate for the industry to respond. A request to Dairy Australia was made for an extension in time which Dairy Australia submitted to the Department of Agriculture, Water and the

Environment (DAWE). This resulted in the independent review timeline being extended until January 2021.

The extension in time has been used by the independent review to expand industry consultation. Nearly 100 stakeholder engagements have been completed as one-on-one interviews, online meetings and regional farmer online forums hosted by Dairy Australia's Regional Development Programs. An online industry survey was also distributed to dairy farmers and was promoted through Australian Dairy Farmers member networks and communication channels. Nearly sixty responses were submitted to the survey. The reviewers are satisfied that the voice of dairy farmers is properly entrenched in this report.

The independent review period is also dynamic within Dairy Australia with a series of changes to its leadership and within the organisation. The period commences with Ian Halliday as Managing Director who was replaced by David Nation in July 2018. Following David's appointment, a number of key senior personnel changes also occurred. The leadership of the Board also changed, with Chair Jeff Odgers who served from 2017 – 2020 retiring and being replaced by James Mann. Dairy Australia also embarked on significant reform of its internal systems, processes and role structures. This leads to two distinct periods for this independent review – the pre-July 2018 perspective and the post July 2018 period.

This independent review has been conducted during COVID-19 restrictions, including the Victorian shutdown in late 2020. This has required that there be no face-to-face meetings with Dairy Australia and its stakeholders, which an independent review of this kind would normally expect to undertake. Online technology has been heavily utilised to enable visual and audio group meetings and interviews. The reviewers acknowledge that there are benefits from face-to-face meetings which online forums cannot replace. This includes building trust and consolidating relationships. The duration of conversations between Dairy Australia, its stakeholders and the reviewers may also have been shorter given they were remote. While these restrictions should be noted, ultimately, the reviewers do not believe there has been any diminishment to access or engagement with Dairy Australia and its stakeholders.

There are some particular successes achieved by Dairy Australia during this review period which are highlighted in this report. The findings and recommendations which have been made are pragmatic and contextual to continuous improvement of Dairy Australia's performance.

Dairy Australia commissioned Anwen Lovett Consulting (in association with Ancer Consulting) to undertake this independent performance review. This report outlines the methodology, outcomes and recommendations of the independent review. It has been structured to align with the independent review's terms of reference. The key questions used by the reviewers to help frame this report were:

- Is Dairy Australia complying with the obligations contained within its legal framework? – Compliance
- Is the governance around the management of funds appropriate? – Governance
- Is Dairy Australia making appropriate plans and meeting those plans and outcomes? – Operations
- Is Dairy Australia creating value for its stakeholders? – Delivering Benefits
- Is Dairy Australia communicating effectively? – Stakeholder Engagement
- Is Dairy Australia collaborating effectively? – Collaboration.



## 3. Compliance

This chapter deals with the first of the independent review terms of reference, that is to consider Dairy Australia's performance in meeting its obligations under the Statutory Funding Contract and the *Dairy Produce Act 1986*. The directions set by Dairy Australia's Constitution have also been considered.

The process employed included:

- Interviews with members of the Board and management about how Dairy Australia meets its obligations and the key issues pertaining to compliance
- Interviews with Commonwealth Department of Agriculture, Water and the Environment officials with responsibility oversight of the Dairy Australia – Commonwealth relationship, including Dairy Australia compliance with the Statutory Funding Contract
- Reviews of relevant compliance documents: examples include Strategic Plans; Annual Operating Plans; Annual Reports; Policies and Procedures; Board agendas, papers and minutes; Board Charter, Performance Reports and Board Committee Charters
- Presentation of the compliance requirements within the Dairy Australia Constitution and the Statutory Funding Contract (2017) in a table format
- Completion of those tables with commentary on the level of compliance with each requirement (included in the appendices from page 110).

The reviewers have also made observations about the culture and general attitude of the organisation toward compliance matters at the end of this chapter.

### 3.1. Statutory Funding Contract

The Dairy Australia / Commonwealth Statutory Funding Contract (SFC) was signed on the 26<sup>th</sup> June 2017 and has a term of four years. It obliges Dairy Australia in many areas including confidentiality, use of the "Funds", governance, strategic planning, board skills composition, agri-political activity, constitutional change, operating planning and evaluation, consultation, conflict of interest, responding to government and the undertaking of an Independent Performance Review such as that described in this report. Additionally, the company is obliged in the Contract to develop, maintain and review a series of Plans – the Risk Management Plan, the Fraud Control Plan and the Intellectual Property Management Plan – as well as to document their strategic and operational intentions and to report on them. This is done through the Strategic Plan, the Annual Operating Plan and the Annual Report.

From the perspective of this independent review, Dairy Australia management and the Board demonstrated a high level of awareness of the key conditions within the SFC and relayed a proactive approach toward ensuring Dairy Australia achieves a high level of compliance. The sections below outline some more detail in terms of some of the key conditions.

#### 3.1.1. Industry Representative Bodies and Agri-Political Activity

Dairy Australia is the prescribed Industry Services Body (ISB) in the enabling legislation for Australia's dairy industry, meaning that it has the mandate to provide innovation, marketing, communications and strategic policy development services to dairy industry levy payers. It does not have responsibility for industry representation which is held by Australian Dairy Farmers (ADF) and it

is a condition of the SFC that Dairy Australia does not engage in agri-political activity (meaning according to the SFC "...engaging in or financing any form of external or internal political campaigning, and/or advocating the adoption of particular public policy and resource allocation decisions...").

Page six of the *Dairy Produce Act 1986* refers to dairy service payments being used for (amongst others) strategic policy development for the benefit of the Australian dairy industry. This is followed up in the SFC with strategic policy development being included under the definition of industry services for which Dairy Australia is responsible. Very few of the rural research and development corporations have this reference to strategic policy development in their enabling legislation or funding contracts with government (Australian Pork Limited being the notable exception but understanding that it is also the industry representative body).

This strategic policy development mandate is carried through mainly by Dairy Australia's Trade and Industry Strategy team. ADF's Policy Advisory Groups (PAGs) play a key role in informing Dairy Australia about industry priorities for investment in strategic policy. Feedback indicates that this arrangement works well. The PAGs and Dairy Australia team members appear to have effective working relationships, including Dairy Australia attending PAG meetings. There was some feedback that the resourcing/staffing imbalance between Dairy Australia and ADF may lead to Dairy Australia having a greater influence over strategic policy prioritisation than is ideal. However, the feedback also emphasised that Dairy Australia's strategic policy work is valuable to the industry and is appreciated by ADF and the Australian Dairy Products Federation (ADPF) who both have limited resources. The independent review found no evidence of Dairy Australia getting involved in the advocacy side of the policy process nor any other form of agri-political activity.

Consultation with ADPF confirmed that dairy processors also see value in Dairy Australia's strategic policy, data analysis and communications capability. The industry's Sustainability Framework along with Dairy Australia's outreach communication activity which targets key dairy market consumer segments were considered to be important for building consumer confidence and the education of influencers and consumers about dairy products. Dairy Australia is generally considered to be ahead of the consumer engagement curve and is agile and responsive to shifts in consumer trends. Dairy Australia's activities were considered to be complementary to processor individual brand and product promotion.

The Regional Development Programs (RDPs) are independent incorporated bodies that are tasked with the provision of local extension and professional development services to dairy farmers. For most RDPs, Dairy Australia funding represents the majority of their income and it is their most secure source of funds. There are eight RDPs located across all of Australia's major dairy regions. RDPs are at the forefront of servicing the needs of dairy farmer levy payers. They are strictly independent with their own Boards who oversee governance and operations. Ties with Dairy Australia have strengthened over time, including RDP staff becoming employees of Dairy Australia. The role and recognition of RDPs has increased significantly since 2016. This follows the withdrawal of state government funded extension services. This void was filled by Dairy Australia increasing funding to and expanding the role of RDPs into extension. Feedback from dairy farmers indicates this expansion in RDP services is overall considered to be very positive.

The RDPs in most cases operate alongside the state dairy farming organisations (SDFOs). While most relationships between RDPs and SDFOs were found to be harmonious, some were not, and it is possible that they are in greater competition for the attention and engagement of regional dairy farmers than is acknowledged, particularly since RDPs in comparison to SDFOs are well resourced. Having paid their levies, and not always understanding the difference in function and responsibilities between RDPs and SDFOs, dairy farmers question the need to also pay fees to their SDFOs. The appreciation that RDPs do not have an advocacy function may also be blurred. Examples were given of the better resourced RDPs being approached by media for local case studies and comment on events which may impact the industry; this leads to the profile of the RDP being raised over the SDFO. SDFO successes may also have been wrongly attributed to RDPs where there are misperceptions about who is responsible for advocacy. The independent review found that RDP staff and Board members have strong awareness that RDPs must not stray into advocacy. It was also clear that all RDPs operate with a strong culture of servicing regional farmer needs, which can lead them to being seen as the de facto voice for the local industry.

Confusion about Dairy Australia's obligations to the Commonwealth under its Statutory Funding Contract were also evident. One SDFO expressed the view that they believed Dairy Australia was participating in advocacy by attending meetings with the Federal Minister for Agriculture. This view does not stand up to scrutiny however given that all RDCs are required to meet with the Minister every six months to discuss issues related to the appropriate delivery of services under their SFC. As a significant funder of Dairy Australia and other RDCs, the Commonwealth, via its elected representative, the Minister for Agriculture has a strong interest in Dairy Australia's performance. For some SDFOs however, Dairy Australia's access due to its SFC obligations with the Commonwealth may seem enviable.

It seems that some dairy farmers do not fully understand (or agree with) the different roles and obligations of Dairy Australia versus ADF (and its SDFOs). For them, their levies should be used to "work for dairy farmers" and they interpret this in the broadest possible context. This view continues to be expressed in spite of the recent and comprehensive industry engagement around the Australian Dairy Plan (ADP), a key focus of which was restructuring and resourcing to achieve a more unified voice for dairy farmers.

The independent review notes that the Newco B recommendation from the ADP Joint Transition Team (JTT) puts forward a new single body to carry out the current functions of Dairy Australia plus industry representation – for both farmers and processors. It is beyond this independent review's scope to express a view on future structures. However, the reviewers observe that any expansion of Dairy Australia's role may increase the possibility of "crossing the line" into advocacy. Given Dairy Australia services two primary stakeholders – industry and the Commonwealth, further engagement will be necessary between the parties to achieve a model that aligns with Commonwealth requirements to not engage in agri-political activity, whilst meeting the aspirations of the industry around representation unity.

### **3.1.2. Board Skills and Recruitment**

The Dairy Australia Constitution outlines a detailed and comprehensive set of instructions for the recruitment of board directors. This involves a Selection Committee made up of a Dairy Australia Board appointed chair plus four Group B member (ADF and ADPF) nominations. The Dairy Australia

Board provides a brief to the Selection Committee which outlines the target skills being sought for director nominees. This assists the Selection Committee to recommend appointments which ensure that the Board has the right skills mix. There is also a second mechanism for director recruitment which is through a candidate securing the support of 100 Group A (levy payer) members by signature. The Board appointment process is discussed in more detail in section 3.2.1 Director Election, Skills, Number and Remuneration.

Dairy Australia's SFC states that the Board should have skills in corporate governance, production and/or processing in the dairy industry, finance and business management and a grouping of R&D, technology and technology transfer, commercialisation and adoption. The Dairy Australia Board maintains a comprehensive skills matrix which reflects the skills requirements outlined in the SFC. Directors skills are assessed across seven different domains. Each domain is further divided into sub-domains where the skills of each director are (self) assessed according to a four-point scale. Dairy Australia keeps a tally of its directors' skills within each category and compares that to a target number. This enables any gaps to be highlighted and addressed in subsequent director recruitment. Retiring director's skills can also be removed which assists the Board Selection Committee to identify skills deficiencies. The reviewers consider these processes around ensuring the right mix of skills and experience fully satisfy Dairy Australia's SFC requirements around board skills. The current cohort of Board directors' skills also fully meet the Dairy Australia skills matrix.

### **3.1.3. Independence of Directors**

The issue of independence of Dairy Australia directors has clearly been discussed by the Dairy Australia Board. Dairy Australia has a policy around this independence which specifies how the Board assesses director independence, how conflicts of interest should be identified and managed (also separate procedures) and how issues about director independence should be communicated with members. The assessment of independence described in the policy is consistent with the Australian Securities Exchange (ASX) Corporate Governance Principles and Recommendations.

The Dairy Australia Board Charter specifies that the majority of Dairy Australia directors and the Chair should be independent. Dairy Australia's 'Independence of Directors' policy states that the independence of each director will be reported in the Annual Report. Upon inspection however, this could not be found in the draft of the Dairy Australia Annual Report 2019-20. Considering Dairy Australia's own Charter and its SFC requirements for independence of directors, it is important that this is recorded for transparency and compliance purposes. The Dairy Australia Constitution and Dairy Australia's Audit and Risk Management Committee (ARMC) Charter also specify that at least half of the ARMC members should be independent.

While there are currently no directors on the Dairy Australia Board recruited via the Group A nomination process, it should be noted that any director recruited via this process would not have guaranteed independence. See section 3.2.1 Director Election, Skills, Number and Remuneration.

Retaining the right levels of independence on industry boards can be a challenge. An appropriate balance needs to be struck between independence and ensuring the Board has access to the right skills and depth of experience, in this case, in dairy farming and dairy processing. In Dairy Australia's case, dairy farmers or processors are considered to be independent because the test of their independence is that their interests do not conflict with those of Dairy Australia. This judgement

seems to have been applied to the present Chair, James Mann who is a dairy farmer from South Australia. Consultation with Dairy Australia Board directors indicates that all Dairy Australia directors are considered independent and they perform their director's duties independently – regardless of whether they have been recruited as general or milk producer skills-based directors. Where there is potential for a conflict of interest to occur, strict processes around managing conflicts are required, for which Dairy Australia does have an appropriate procedure. The Board also maintains and tables an appropriate Director Register of Interests at each meeting.

The reviewers found no evidence to dispute the independent status of the Dairy Australia Board directors.

### **3.1.4. The “Plans” – Risk, Fraud, Intellectual Property**

The Dairy Australia SFC mandates the requirement for these plans. They outline the company's approach to specific identified risks (including fraud) and their approach to managing intellectual property.

Dairy Australia takes a systems approach to risk management, the components of which are:

- An online Risk Register which records the risk, the likelihoods and consequences ratings (calculating overall risk rating) and controls amongst other contents (categories, responsibilities, etc.)
- A Risk Management Policy which is a very high-level statement of the overall philosophy towards risk
- A Risk Management Plan which outlines the framework and procedures to manage risk. This Plan also stipulates the risk appetite by fourteen different risk areas
- A Corporate and Project Risk Assessment Guide.

The reviewers were not able to access the online risk register but by viewing some of the risk management updates provided to the ARMC, it was possible to create an outline of how the system is intended to work. Dairy Australia has identified over 40 risks, all of which have been categorised and rated according to likelihood and consequence, all have identified controls, owners and appetites. Within this structure, the Company Secretary is also the Risk Manager.

The system provides an efficient mechanism for elevating risks to Board level when they exceed the approved Board risk appetite. It enables the Board's attention to be focussed on the highest priority risks and allows for specific mitigation controls be applied, directing effort to where it is of most use. This is important given that over 40 identified risks is a reasonable number to be monitoring at any time.

The Risk Management Plan provides the framework and describes how the system is intended to work. But it does not include the specific risks being managed by Dairy Australia. This Plan is provided to DAWE as part of Dairy Australia's SFC compliance obligations. The reviewers suggest that Dairy Australia could also share with DAWE the risk updates which are prepared for the ARMC. This would give DAWE a more complete understanding not only of Dairy Australia's risk management system but also the specific risks that are being managed.

Risk management requires engagement by the entire organisation. Dairy Australia has a comprehensive risk management system and actively maintains it; this is good business practice.

There is a downside however to such a prescriptive and potentially complex system, which relates to process fatigue for those charged with its maintenance. Monitoring a high number of risks increases workload and potentially diminishes risk significance as some become immemorable. There is also the potential for the task to be delegated to a small number of individuals. There is no evidence of this occurring within Dairy Australia. However, the reviewers suggest that Dairy Australia should keep an eye on the complexity and workload embodied in their risk management system as it may lead to this vulnerability. Looking at ways to simplify the task for each manager to update the status and rating of the risks they are responsible for may be beneficial.

The independent review was also provided with Dairy Australia's Antibribery, Corruption and Fraud Control Plan, which is a comprehensive outline of how Dairy Australia defines, identifies, monitors, prevents and reports on fraud and bribery incidents. It also has an Intellectual Property (IP) Management Plan which takes a practical approach to IP. Dairy Australia's first priority is not to generate income from IP; the aim is to disseminate Dairy Australia funded RDE results to industry where the value can be realised. Where IP commercialisation leads to industry adoption and benefit, Dairy Australia will engage with that pathway.

### **3.1.5. Activity Plans and Reports – Strategic Plan, Annual Operating Plan, Performance and Annual Reports**

Dairy Australia has operated a three-year Strategic Plan cycle for a number of years. The 2016 Independent Performance Review recommended that this continue. This resulted in the Dairy Australia Strategic Plan 2016/17 to 2018/19 (extended to 2019/20). This Plan is very comprehensive; an enormous amount of work must have gone into its preparation. Unlike previous plans, which identified up to eight priorities, this plan was structured around three strategic objectives – Profitable Dairy Farms, Capable People and Trusted Dairy Industry. Feedback indicates that the aim of consolidating down to three was to assist in clarity of communication by Dairy Australia with its stakeholders.

Outcomes against each of the Strategic Priorities were to be achieved through investment in Strategic Programs. Each of the Programs had objectives against which performance would be measured. Within the Plan's Appendices were program KPIs and success measures to monitor progress. The independent review has found that the intended reporting framework was replaced during the review period with the adoption of a new Evaluation Framework in 2018. Chapter 6 – Delivering Benefits discusses the Dairy Australia evaluation approach in more detail.

The Dairy Australia Strategic Plan 2020 – 2025 represents a logical and appropriate evolution from the previous strategy. It includes seven goals supported by defined outcomes. Dairy Australia's aim was to achieve alignment between the strategy goals and the ADP. The goals embody the industry fundamentals of profit, people and trust along with contemporary areas such as new technologies and sustainability. Consistent with Dairy Australia's philosophy that all Dairy Australia activities must contribute to the strategy, the seventh goal requires that Dairy Australia's internal operations lead to an efficient and effective service delivery company.

The move of the strategic cycle back to a five-year format is seen as a positive development at present. It gives the right amount of forward view and aligns with the forward projections talked about in the ADP.

Industry stakeholder consultation to inform the development of the strategy was largely done through the extensive ADP industry engagement process (there was also a separate process for ADF and ADPF), about which the independent review has received mostly positive feedback. Dairy Australia's Board, staff and RDPs also contributed to plan development. Whilst industry representative bodies (IRB) acknowledged that they were consulted about the development of the new Strategic Plan, there was feedback from one IRB that the final draft version of the strategy came to them as 'fait accompli'. Expansion of the strategy to seven goals (moving away from the three priorities in the previous plan) is described as one way of giving confidence to industry that Dairy Australia is paying attention to the full spectrum of industry needs.

The new Strategy also reflects Dairy Australia's commitment to a strengthened focus on measuring and reporting the benefits (impact) achieved by its investments and activities. This focus is the culmination of work by Dairy Australia over the last four years to significantly improve its approach to measuring and reporting on impact. The Plan includes a detailed Monitoring and Evaluation framework. For each of the seven goals, strategic outcomes are listed. For each outcome, one or more success indicators are nominated which have 2020 baselines and target KPIs for 2025. This structured approach should enable Dairy Australia to consistently capture the metrics it requires to report on the impact of its investments and is considered to be a strong positive by the reviewers. More information can be found on evaluation in Chapter 6 – Delivering Benefits.

Dairy Australia's Annual Operating Plans are public documents which explain in plain language the intentions of the organisation for the coming year in implementing the Strategic Plan. The 2020 – 21 Plan outlines spending detail to the level of the seven goals but not to any greater detail. It is therefore not used as an internal working document. For each goal the major projects which will contribute to the goal outcomes are described.

The reviewers note that the AOP 2020 – 21 does not include the Strategic Plan KPIs. Rather it proposes qualitative success measures for each of the major projects. This will make it difficult to track progress against the Strategic Plan KPIs on a year-on-year basis. Dairy Australia management advice indicates that there were some timing issues for this AOP due to the delayed launch of the ADP and the Dairy Australia Strategic Plan 2020 – 25 which led to no quantitative KPI targets being included within the AOP. Publishing in the AOP the targets an organisation wishes to report against in its annual report is a standard practice.

Dairy Australia uses two public reports to report on its performance. They are the Annual Report and the Performance Report, the intention being that the Performance Report accompanies the Annual Report. The Annual Report is presented as a readable summary of the past year from the perspective of the organisation without going too deeply into specific project outcomes and target achievement (which seems to be the purview of the Performance Report). The majority of the document is occupied with compliance material that would seem to be corporations law reporting requirements. Dairy Australia has attempted to keep the earlier part of the document interesting and relatively concise.

The Performance Report provides detailed information about Dairy Australia's range of program investments on behalf of levy payers during the year. It is intended to give transparency around Dairy Australia's funding allocations to programs, along with outcomes and highlights. It also includes the results of its benefit cost evaluations of a cross section of projects. Performance metrics are outlined

across different aspects of the business including financial, people, stakeholder satisfaction, technology and infrastructure, and risk management.

Between the Annual Report and the Performance Report, all of the reporting requirements of the SFC are met.

## 3.2. Dairy Australia Constitution

The Dairy Australia Constitution deals with the company objects, membership, voting, board selection, director numbers and appointments, meetings and processes. The key compliance and related matters are considered below.

### 3.2.1. Director Election, Skills, Number and Remuneration

The Dairy Australia Constitution outlines a detailed and comprehensive set of instructions for the appointment of directors. There are two pathways through which directors can be appointed. The first and most commonly used route involves a Selection Committee made up of a Dairy Australia Board appointed chair plus four Group B member nominations. The Dairy Australia Board is required to provide a brief to the Selection Committee outlining the target skills of the director nominees; this ensures that the total Board has the right skills mix and the four milk producer directors have the right producer skills.

The second pathway within the Constitution allows anyone to nominate as a director candidate if they have the support of 100 Group A members as evidenced by signature. This process does not mandate that nominees meet any skill set requirement, and in taking this path, potential directors miss the comprehensive board nomination process and the associated 'fit and proper person' tests and background checks. When nominations are received by this route, the Board is required to allocate a Board nominated director candidate to stand against the Group A nominated candidate at the AGM.

This process creates the possibility that a newly appointed director may not enhance, or address identified skills needs within the total Board skills matrix. Considering that the SFC dictates a certain requirement for skills within the Board, this presents a theoretical contradiction between the Dairy Australia Constitution and the SFC.

Since 2017, no Group A member nominations have been elected to the Dairy Australia Board. At the 2020 AGM while there were three Group A member nominated director candidates, none secured a board position. The potential for a deficiency in the board skills matrix due to this nominations process has therefore not arisen during the independent review period.

The Board is required to have a maximum number of directors of nine and a minimum of seven (including the Managing Director). At least four directors are to have milk producer skills.

The Dairy Australia Constitution requires that a Board Skills Matrix is maintained. This is defined as a statement which outlines (1) the skills and experience the Board should possess, (2) that which the Board does possess and (3) the skills and experience those directors to be recruited should possess, noting that when certain directors are to retire. The Skills Matrix version viewed on the Dairy Australia website outlines the target skills and experience of the Dairy Australia Board, but it does not include



the actual skills status of the Board. This means that Dairy Australia are not compliant with this requirement at present.

The Constitution provides no direction on succession and no information was provided to the independent review that succession objectives are pursued by the Dairy Australia Board. For example, succession objectives are not included in the Board brief to the Selection Committee. It seems however that there is informal attention given to succession. This mostly comes in the form of scouting for future directors with milk production skills through “tapping on the shoulder” to nominate. A positive example of succession management is also found in the relatively smooth hand-over of the Chair role from Jeff Odgers to James Mann in 2020. The fact that the Dairy Australia Board had access to a quality, experienced Chair alternative, when the Chair resigned unexpectedly for personal reasons is testament that the Board does pay attention to succession.

Director remuneration is decided through general resolution at General Meetings. A resolution was supported at the 2020 AGM to increase the total director remuneration pool from \$430,000 to \$490,000.

### **3.2.2. Membership**

The Constitution allows for two types of Dairy Australia member; Group A who are levy-paying milk producers and who have full rights including being able to vote at general meetings and; Group B who are corporate bodies representing the dairy industry. Group B members have particular rights and obligations, for example in the Selection Committee member nomination. Group A members voting rights are proportionate to the levies they paid in the preceding year. Dairy Australia (through the Board) are responsible for the correct allocation of votes to members based on information provided by DAWE.

Around 62% of levy payers by number are Group A members which, as a proportion of total milk production, calculates to around 70% by volume according to Dairy Australia.

There are two Group B members who are the Australian Dairy Farmers and Australian Dairy Products Federation.

Dairy Australia treats levy payers and levy payer members equally in terms of full access to the value adding services and products developed by the organisation. In this way, the only difference between a levy payer and a levy payer member is that the latter can vote at Dairy Australia AGMs.

### **3.2.3. Voting Procedures**

The Constitution dictates that voting at AGMs takes place by a show of hands (one levy-payer, one vote) or, if demanded by a member, on a poll basis. A poll requires voting using the allocation calculated on the basis of levy paid in the preceding year (one-dollar levy paid equivalent to one vote). The preferred and common practice at Dairy Australia AGMs has been voting done on a poll basis as a default.

### 3.3. Organisational Compliance Culture

There have been many changes within Dairy Australia during the period of this independent review. This commenced prior to the appointment of David Nation as Managing Director in 2018 and has included movement at senior and middle management levels. These changes also include Dairy Australia taking on some clear goals around adopting more robust and defensible systems and processes in areas including human resources, investment decision making, project management, impact evaluation, risk management and policies and procedures. In doing so, there is evidence of clear respect for and attention to matters of compliance; not only in terms of Dairy Australia's Constitution, corporations' law and funding contracts but also with what is considered to be good business practice. These improvements are significant, and the review team consider them to be highly commendable. Our observation is that Dairy Australia has a high level of appreciation of and attention to compliance.

Consultation with DAWE adds to our belief that in general, compliance levels are high within Dairy Australia. They are an RDC which has not drawn any negative Commonwealth attention with regard to compliance within the obligations of its SFC.

DAWE have advised that the next SFC that is likely to be negotiated with Dairy Australia has been newly drafted on a principles-based approach and is built around the five sections being:

- Stakeholder engagement
- RDE activities
- Collaboration
- Governance, and
- Monitoring and evaluation.

Our prediction would be that Dairy Australia's compliance culture, as expressed by their attitudes, discipline and rigour, will equip them well to work under the new SFC approach and should continue Dairy Australia's reputation as a cooperative and competent government partner.

Not addressed in previous parts of this chapter are compliance issues related to the *Dairy Produce (Dairy Service Levy Poll) Instrument 2016* pertaining to the obligatory processes around decisions and voting on the quantum of levy for producers to pay. As there has not been a full levy cycle within the definitions of the instrument there are no significant obligations for Dairy Australia to this point, but there will be in 2021. This is shown in more detail in the compliance table on page 131.

The rigour which underpins Dairy Australia's compliance, systems and processes is considered by the review team to be a real strength. Dairy Australia does however have the opportunity to seek to refine, rationalise and streamline processes when opportunities arise, thereby ensuring that the appropriate balance is achieved by Dairy Australia between inward focussed operational effort versus outward focussed service delivery to the dairy industry, while not compromising on its high levels of compliance and governance.

## 4. Governance

This chapter deals with the second independent review terms of reference which considers the performance of Dairy Australia around implementing governance arrangements and practices for ensuring proper use and management of the Funds. The “Funds” is a defined term in the Statutory Funding Contract 2017-21 including levies and Commonwealth matching contributions.

Quoting from the ASX Corporate Governance Principles and Recommendations (4<sup>th</sup> Edition, 2019), the phrase “corporate governance” describes “the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled within corporations. It encompasses the mechanisms by which companies, and those in control, are held to account” (Justice Owen in the HIH Royal Commission).

Assessing this part of the terms of reference overlaps with many of the compliance obligations already discussed in the previous chapter. Through reviewing and studying the relevant documents (including the Board Charter, Board Committee Charters, Board Governance Policy, Board Diversity Policy, Board Independence Policy and delegations of authority) and interviewing Dairy Australia directors and management, a picture of these systems and processes with the accountabilities around them has been built. This has enabled assessment of the company’s governance processes against the guidelines from the ASX Corporate Governance Principles and Recommendations. Whilst these principles and guidelines are designed for listed corporations, they give direction towards corporate governance best practice for all entities; albeit with some contextual interpretations necessary to allow for the nature of the entity.

To help us in this pursuit, it has become normal practice for Dairy Australia to report on their governance behaviours, instruments and processes in their annual report against the ASX Principles. This has helped to complete the governance table mentioned below. It is also an indication of the positive attention the organisation gives to good governance.

This chapter can be read in conjunction with the governance tables on page 116 which test the organisations governance practices against both the ASX Corporate Governance Principles and Recommendations and the Australian Institute of Company Directors (AICD) Not For Profit Governance Principles, the latter of which are discussed further in the following sections of this chapter and which in many ways provides a better fit for Dairy Australia.

### 4.1. AICD Not for Profit Governance Principles

#### 4.1.1. Purpose and strategy

*“The organisation has a clear purpose and a strategy which aligns its activities to its purpose”*

#### 4.1.1.1. Strategic Plans

For the term of this independent review, Dairy Australia has had two strategic plans. The first was the three-year plan 2016/17 –18/19 which was later extended by one year to include 2019/20. This Strategic Plan has been followed by the five-year Dairy Australia Strategic Plan 2020 – 25. This plan aligns with the priorities identified by the ADP and reflects the industry consultation and engagement processes which were undertaken.

Both plans outline the purpose and strategy for the organisation. Strategic Priorities or Goals are articulated which describe the overall direction and focus areas for each plan. Strategic Programs or Outcomes provide the next level of detail where most of the activity lies. Success indicators and KPIs are proposed against which success will be measured and evaluated.

The 2016 Strategic Plan purpose states: “To drive improved levy payer profitability and to promote and protect the Australian dairy industry” which in the new Plan has been replaced by “To provide services that collectively benefit and advance dairy farm businesses and the industry, including investment in research and innovation, learning and capability development, marketing, policy research, market insights and trade development.”

While industries will consistently identify profitability as the overarching imperative for any industry services organisation, it is quite difficult for an RDC to directly target profitability as an outcome of their efforts in RDE, communications, strategic policy and marketing. This is because profitability has a way of correcting itself (through new entrants/ increased supply) - “there’s no better cure for high prices than high prices” - in a way which no RDC has any direct influence over.

Profitability is an important and sensitive issue for the dairy industry with some parts of the industry facing significant profitability challenges, an issue which was highlighted to the reviewers during the regional consultations in particular. Many dairy farmers have been impacted by higher costs of production, drought and low milk prices during the past four years and they do look to Dairy Australia to help them overcome these challenges.

While increased profitability is the ultimate outcome, assisting industry to be more competitive is what an RDC can most effectively influence and achieve outcomes in. Improved competitiveness comes in the form of innovative new products (demanding higher prices), lower costs of production, improved demand through marketing, higher levels of community support, open trade arrangements or better risk management (e.g. biosecurity, food safety).

The reviewers believe that the new Strategic Plan’s purpose is a stronger reflection of what it is that Dairy Australia is directly mandated to do when compared to the earlier plan.

#### 4.1.2. Roles and responsibilities

*“There is clarity about the roles, responsibilities and relationships of the board”*

##### 4.1.2.1. Board Charter

The Board Charter outlines the operating framework of the board and is reviewed annually, including in March of 2020. It includes a detailed list of the responsibilities of the Board, Company Secretary

and Management. These listed responsibilities are consistent with good governance practices. The Board's primary roles are described as approving and reviewing strategy, overseeing management, oversight of finances, governance and risk management, delegations, evaluation and remuneration policy.

The Charter also summarises the constitutional requirements for the composition of the Board, including the necessity of four milk producer directors and the fulfilling of a Board approved Skills Matrix. It then goes on to describe the process of appointment of directors, which in the Dairy Australia case is through two parallel streams for election – Board nominations and Group A member nominations which are discussed in Chapter 3 Section 3.2.1.

#### 4.1.2.2. Board Committees

The Dairy Australia Board has three committees. Each Committee has a Charter which describes the role, composition, responsibilities and operating procedures of the Committee. The Committees are:

##### 1. Audit and Risk Management Committee

The role of the ARMC is to assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to the company's financial reporting, internal control structure, the internal and external audit functions, risk management, compliance and investment management. The responsibilities of the ARMC include considering all matters relating to its objectives that it deems necessary and advising the Board.

##### 2. Human Resources

The Committee's role is to assist the Board by providing oversight and direction on people and remuneration policies and practices that support delivery of Dairy Australia's strategic direction and culture. Its responsibilities include HR strategy; people and culture; diversity and inclusion; retention and succession planning; reward strategy; annual remuneration review; board skills, vacancies, succession, performance and education and HR compliance.

##### 3. Selection Committee

The role of the Committee is to provide industry input regarding the identification and sourcing of candidates for appointment as Directors to the Dairy Australia Board. Responsibilities include: providing a review and oversight function for the Board regarding director selection; liaising with the Board Human Resources Committee (HRC) regarding the skills required of new Director candidates; complying with the reporting schedule provided to the Selection Committee by HRC; identifying and nominating candidates for appointment as directors by choosing from the available candidates those persons who will in the Committee's view best ensure that the Board as a whole has an appropriate balance of skills and experience; and ensuring that the Board has at least four directors with milk producer skills.

#### 4.1.3. Board composition

*"The board's structure and composition enable it to fulfil its role effectively"*

#### 4.1.3.1. [Board Skills Matrix](#)

The composition of the Board is the subject of both the Dairy Australia Constitution and the SFC.

The Dairy Australia Constitution dictates that the Board will be comprised of seven to nine directors (including the Managing Director) and will have no less than four milk producer directors. The SFC lists a simple grouping of skills required of Directors who sit on the Dairy Australia Board; this is outlined in Chapter 3.

The Board Charter requires that there will be a detailed board skills matrix which is maintained by the HRC and approved by the Board. The skills matrix (desired skill levels rather than an actual assessment) is available on the Dairy Australia website and lists seven skill areas. These include dairy industry knowledge, farm systems/ milk producer skills, research and development, strategy and planning, stakeholder engagement, finance and governance and human resources and leadership.

Accompanying the Skills Matrix is a consolidated self-assessment document which is completed by each individual director against the matrix. The assessment is completed on a four-point scale – from no experience through to expert. Directors rate themselves against 43 sub-skills of the seven skill areas, making the process detailed and thorough. The sub-skills each have a target number of skilled directors which is above two directors with “reasonable experience” or “expert” skill levels. When a skill area does not meet this threshold, they are highlighted for action.

Leading up to director elections, the skills matrix, including the director self-assessments is adjusted to remove the skills of those directors who are exiting the Board. This is then used as a guide for the Board Selection Committee to highlight where there are skills gaps according to the Matrix which need to be addressed during the director selection process.

The Board skills matrix summary prepared for the Selection Committee showed the areas that could have been sub-optimal depending on the results of the director elections at the Dairy Australia AGM in November 2020. These were dairy processing and manufacturing, health and nutrition, IP management and commercialisation, digital strategy, formal accounting qualifications, current accounting experience and legal experience. The uncertainty created when there are Group A member nominations means that there is some risk that the election process may lead to a Board composition which is sub-optimal according to the Skills Matrix. The Board may then need to take action to correct any deficiencies such as through training, development or invitations for external members who bring additional skills to join Board Committees. The result of the 2020 elections poses no problems for a complete and satisfactory board skills matrix.

#### 4.1.4. **Board effectiveness**

*“The board is run effectively and its performance is periodically evaluated”*

##### 4.1.4.1. [Board Performance and Evaluation](#)

The Board Charter outlines the expectation for board evaluation. Every three years an external board evaluation is required and in the intervening years, an internal evaluation is undertaken. The Board is assessed against the requirements of the Board Charter and what is considered accepted best practice.

The most recent external board performance evaluation was completed in 2018. It scored the Board at 7.4 out of 10 and the Board Committees 8.2 out of 10. The areas where improvement was recommended included tweaking the balance of operational versus strategic discussion and focus, developing clearer expectations from key stakeholders around strategy development, execution and impact, and constructive challenging of management.

There have been many changes within Dairy Australia since this external evaluation was conducted. These include senior and middle management changes, policy and procedure renewal, a new Chair and new directors, and the establishment of new operational areas including the Project Management Office. The Australian Dairy Plan (ADP) initiative and new Dairy Australia Strategic Plan 2020 – 25 have, according to feedback from directors, resulted in strong strategic engagement by the Board and a new, robust performance evaluation framework has also been established.

The report on the internal Board evaluation for 2020 was also made available to the independent review. This evaluation was undertaken using a director survey, the questions being repeated from the earlier evaluation in 2019 allowing for comparison year on year and trends to be noted. The 2020 evaluation showed there has been consistent improvement over a number of Board performance areas which includes “assisting management to prioritise demands” and “papers contain succinct and relevant information” although more room for improvement in the latter was also noted. The report highlighted the ongoing and significant challenge for the Board and management around effective communication with levy payers. See Chapter 7 Stakeholder Engagement.

The reviewers observe that the Board seems to continue to be provided with a large amount of written material. Most Directors interviewed indicated that the issue is being proactively addressed and papers have become more succinct. Other directors suggested that one of the drivers of large reports to the Board could be a preference by management to share more detail, particularly as it relates to RDE activities.

One strategy employed by the Board is to deal with ‘matters by exception.’ That is, only matters for decision where there is an expected need for Board discussion are tabled. Matters not expected to require discussion are taken as read and approved (as agreed at the commencement of the meeting), even those with decision. While this is one way to achieve process efficiency and to save time in meetings, there is a moderate risk that assumptions may be being made about matters which should be tabled for discussion not being identified at the start of the meeting. To mitigate such a risk, it is incumbent on directors to notify Dairy Australia of any matters they identify within papers that should be discussed. Encouragement for this to be done should be promoted by the Chair and MD.

The reviewers also observe that both the Board and senior management appear to be operating under a high workload. This could be due to the timing of this independent review. In particular, the workload generated by Dairy Australia’s support function for the Australian Dairy Plan (ADP) process during the preceding 18 months has been significant. This is confirmed by feedback that the ADP has required both time and attention which has competed with Dairy Australia’s core business. There was some motivation expressed for Dairy Australia to refocus on core business given that the ADP is now approaching maturity. The reviewers note however that given the question of industry representative structural reform is unresolved, Dairy Australia’s engagement with ADP into 2021 will continue.

Overall, the reviewers are confident that the Dairy Australia Board takes the need to evaluate and continuously improve its performance seriously. Both the external and internal evaluation mechanisms appear to be effective, informative and used by the Board. The reviewers note that the Board and management are currently facing some workload challenges and there is a need to continue to proactively address the small number of challenges to Board performance which have been identified.

#### 4.1.4.2. Board Procedures

Feedback from the directors interviewed would indicate that the Board is run effectively, meetings are well chaired, contributions are forthcoming from all directors and the business of the meeting is covered.

There is a practice at Board meetings whereby at the commencement of the meeting, the Board discusses which items in the agenda are to be noted for full discussion. Other items may not be discussed at all but noted as read. This practice, especially when there are a large number of agenda items, must help to manage time in the meeting and allocate it appropriate to where it can be best used.

The expectations on the directors in terms of meeting preparation would seem to be relatively heavy; the past three board meeting papers inspected had 487, 222 and 558 pages for reading. Dairy Australia management did point out that this wasn't necessarily representative as there has been a lot of new policies, Annual Reports and the new Strategic Plan for approval. The Board and senior management may consider agreeing on how to reduce the size of board papers through some timely use of separate provision of appendices (that may not be compulsory reading) and instilling a culture of more brevity in management reporting.

The size of board papers is not a problem in the RDCs unique to Dairy Australia as these organisations have significant expectations on them from members, levy payers and government. The ability in a limited number of annual meetings however for the Board to put their efforts into the areas where they can add the most value is a very important one and novel solutions should be tried to continuously improve in this respect.

#### 4.1.5. Risk management

*“Board decision making is informed by an understanding of risk and how it is managed”*

Dairy Australia appears to take risk management seriously as described in its risk management framework, a document which is submitted to DAWE under the SFC. How Dairy Australia approaches and manages risk is described fully in Chapter 3 section 3.1.4 The “Plans” – Risk, Fraud and Intellectual Property.

#### 4.1.6. Performance

*“The organisation uses its resources appropriately and evaluates its performance”*

In line with the requirements of the SFC, Dairy Australia maintains an Evaluation Framework. There have been two versions of the Framework during the term of this independent review; one published



in early 2018 and the latest version being dated October 2020. These Frameworks are documents which must be submitted to DAWE as a condition of the SFC.

The 2018 version focussed on evaluation of the organisation (“Group Evaluation Framework”) and the activities being performed (“Project Evaluation Framework”). The Framework was linked to the 2016 Strategic Plan through the projects.

The recent version of the Evaluation Framework 2020 recognises there are a variety of sources of evidence which can contribute to the measurement of success indicators. It continues the Dairy Australia approach of cascading measurement from the Strategic Plan KPIs through to each Annual Operating Plan which defines investment at Program level, progress within each program is tracked at project level through quarterly reporting which is then consolidated into the annual Performance Report.

The Performance Report also includes benefit-cost analyses that are conducted by independent consultants against a sample of Dairy Australia projects each year once they have been completed. These analyses are conducted under guidelines developed by the Council of Rural Research and Development Corporations (CRRDC).

Chapter 6 discusses in more detail how the Evaluation Framework is used to capture and report on industry benefit.

Dairy Australia reports its performance annually through the combination of its Annual Report and its Performance Report which are discussed in the next section 4.1.7.

#### **4.1.7. Accountability and transparency**

*“The board demonstrates accountability by providing information to stakeholders about the organisation and its performance”*

##### 4.1.7.1. Annual Reports and Performance Reports

The Dairy Australia Annual Report and Performance Report between them publicly share in some depth the activities undertaken by the organisation and the achievements over the previous year. Combined, these reports share as much detail as any reader could desire.

The Annual Report provides a high-level summary of Dairy Australia achievements along with satisfying all of the requirements of corporations’ law, including financial information for those looking for it.

The Performance Report is refreshingly transparent. It contains the results of activities against established targets, independent benefit-cost analyses which assess impact, qualitative descriptions of project outcomes, case studies, and deep dives into a limited number of featured initiatives. The appendices list each of the key project measures with their targets and achieved results. A traffic light system is used to assist in the reader’s interpretation, such as positive progress indicated as green through to lack of progress indicated as red. In some case the targets are more aspirational such as “% of farmers using blunt force trauma” – target 0%, achieved 25%, the lack of perceived progress against which could leave Dairy Australia open to criticism.

### 4.1.8. Stakeholder engagement

*“There is meaningful engagement of stakeholders and their interests are understood and considered by the board”*

#### 4.1.8.1. Levy Paying Dairy Farmers

Chapter 7 deals with stakeholder engagement in some detail. From a governance perspective, Dairy Australia is required under its SFC to communicate with dairy farmer levy payers and Group B members being the representative bodies. Dairy Australia is also required to generate benefit for levy payers. Benefit is discussed in more detail in Chapter 6.

Dairy Australia employs a number of mechanisms to consult and seek feedback from dairy farmers. This is mostly done through annual farmer surveys – online and telephone. Dairy Australia’s eight RDPs provide intelligence to Dairy Australia about the issues, priorities and needs of the industry from a regional perspective. Dairy Australia also regularly consults with its two Group B member representative bodies, with both confirming to this independent review that the lines of communication with Dairy Australia are generally good.

It is however no easy feat for Dairy Australia to achieve levy payer engagement that is acceptable to all dairy industry members. It was clear early on in this independent review that there are parts of the industry that are more vocal and politicised than others. These parts of the industry were also the most consistently sceptical about Dairy Australia, to the extent that achieving constructive engagement, which could ultimately lead to more successful relationships, proved to be extremely difficult.

Levy payers rely on Dairy Australia to provide them with the information they need to run their businesses successfully and to respond to crises when they arise. The complexity and diversity of dairy farming means that the information requirements for the industry are expansive and varied. Multiple times the comment was made that “Dairy Australia communicates with farmers and makes the information available, if you are willing to look for it”. There were some areas where Dairy Australia received particular recognition and positive comment. They included during crisis responses; provision of information and courses that address core needs like business management, HR, recruiting people and on-farm skills – such as the “Cups on Cups Off” program. RDP extension services were also acknowledged as a positive. In spite of this significant service offering to farmers, many still report that they are either unaware of Dairy Australia resources or that they are not useful to them.

The levy payer communication challenge will continue to be enormous. Some farmers feel bombarded with newsletters and emails from Dairy Australia or their RDP but at the same time will say they are starving for the relevant information to help them run their business. Being busy people, they don’t necessarily have time to read what is sent to them, but they are always looking out for new ideas.

Dairy Australia has gone to great lengths to understand how it should most effectively communicate with dairy farmers. It has invested significantly in better understanding individual farmer communication preferences. This includes surveys and farmer interviews. It continues to support the

RDP network through which closer ties with individual farmers can be forged and it provides multiple channels and formats for making contact and disseminating information.

The reviewers observe that the polarisation in views about the performance of Dairy Australia is possibly starker in dairy than in some other agricultural sectors. It is possible that the regional diversity and some of the challenges faced by the industry over recent years may contribute to this. The more recent history of industry deregulation and the transition of cooperatives to multinational processors seem to have left a shadow of distrust for some farmers. The diversity of the dairy regions around the country brings particular challenges for Dairy Australia in RDE where it seeks a balance between broad industry applicability and regional specificity. It may also be to do with the complexity of being a dairy farmer; needing to understand animal biology, plant biology, human resources and all of the engineering associated with a functioning dairy. Finally, the concentration of the industry in Victoria (around 70%), which is also the primary source of levy paid, adds to Dairy Australia's challenge. The criticism of Dairy Australia's services and RDE portfolio being Victoria-centric is difficult to dissuade.

While Dairy Australia is not responsible for all of the challenges the industry faces, it is looked to by the industry to help solve their major challenges. The Australian Dairy Plan aspires to address some of this polarisation. The ADP overall seems to have been very positively received, with consistent feedback to the independent review about support for its objectives toward profitability, confidence and unity for the industry. There is recognition across the industry – including those who are and those who are not satisfied that disunity is a significant threat to the industry. The ADP has brokered a renewed commitment to achieve a single, consistently supported credible voice to take up critical industry issues with governments – state and federal – and the community.

Board documents indicate that Dairy Australia is highly aware of and sensitive to the issue of communication and engagement with levy payers. The reviewers don't envisage that all tensions can be resolved or that there are easy "solutions" to the difficulties of effective farmer communication. A strong focus on levy payer consultation and engagement will continue to be a fundamental requirement into the future. All indications to this independent review are that Dairy Australia will continue its focus on this critical issue.

#### **4.1.9. Conduct and compliance**

*"The expectations of behaviour for the people involved in the organisation are clear and understood"*

Dairy Australia has a Code of Conduct Policy which lays out expectations with respect to proper behaviour in the context of discrimination, bullying and harassment, complying with the law, conflict of interest, giving and receiving gifts, confidentiality and complaint handling. It cross-references to a number of other Dairy Australia policies including whistleblowing, social media, IT security and anti-bribery, corruption and fraud.

Incidents where there are violations of the code are recorded but it is not clear whether these are automatically passed on to the Board for information.

#### **4.1.10. Culture**

*"The board models and works to instil a culture that supports the organisation's purpose and strategy"*

Our observations are that the Dairy Australia Board reflects the recently amended company values of:

“Farmer First, One Team, Innovative Thinking, Decisive Action”.

Being a combination of milk producer and specialist directors, the Board has the appropriate mix of industry knowledge, “skin in the game” passion for outcomes for Australian dairy farmers and the corporate skills required to ensure good governance of an organisation of the scale and complexity of Dairy Australia. Board directors consistently reflected a culture of independence and coherency with the shared purpose of Dairy Australia.

The Board has overseen significant process and staff renewal within Dairy Australia. Under the guidance of the Board, Dairy Australia has substantially enhanced its systems and processes around investment decision making, risk management and strategic alignment with industry priorities via the ADP. It has a portfolio of services, programs and projects which reflect a bold mix of basic research for industry value creation and future industry needs through to service delivery assisting industry capacity now which are tailored to regional needs.

Despite significant upper and middle management changes in the past four years, the reviewers observe Dairy Australia to be a united company with clear lines of engagement between Board and management. The company appears to be genuinely committed to the delivery of value and benefit to Australian dairy farmers. This single focus is a credit to the leadership of Dairy Australia’s Board and senior management. Whilst Dairy Australia appears to have a robustness which is enabling it to weather the ups and downs of the dairy industry, it must continue to improve its communication with dairy farmer levy payers, including demonstrating the value and service proposition for the industry. This should include the new values which seem fitting for the organisation, but as yet have not been promoted outside of Dairy Australia.

## 4.2. General Governance Comments

The Dairy Australia Annual Report “Governance” section references the ASX Corporate Governance Principles and Recommendations and describes how these fit within Dairy Australia’s processes and controls. The inclusion of such a section in the Report exhibits and exemplifies the overall attitude that both Board and management recognise the importance of good governance.

Investment in the avoidance of poor governance incidents pays back management handsomely. Examples of poor governance stemming from management practices brought to the attention of a Board usually and rightfully leads to more stringent and frequent reporting obligations, with onerous processes and practices. Erosion of trust lies at the heart of most poor governance outcomes.

There has been a litany of changes at Dairy Australia since the last independent performance review in 2017 which are discussed throughout this report. This includes the management changes, adoption of the Project Management Office (PMO) and Investment Review Panel (IRP), refresh of policies and procedures and the ADP process. This level of change places good governance outcomes at risk, such as through poor implementation of new processes, lack of understanding about new requirements, erosion of established channels of communication and confusion about roles and responsibilities. The capacity to implement and digest this level of change is reliant on the robustness of the governance framework. This independent review has found strong governance outcomes

throughout the period of this independent review which is a credit to both Dairy Australia's Board and senior management.

Within Dairy Australia, accountability seems to be owned and accepted by team members. There appears to be confidence among senior and middle management about responsibilities and lines of authority. The independent review has found no evidence of confusion about expectations around new systems, policies or procedures nor any rejection of new controls required of employees. Evidence of consistent internal communication about the processes of change have been provided to the independent review.

DAWE have confirmed this is also their experience of Dairy Australia. They consider Dairy Australia to have been a responsible partner, which exhibits the right behaviours of a strong relationship, consistency and reliability in meeting SFC obligations and none of the particular difficulties which have been encountered in other Commonwealth – RDC relations.

The Board and management appear aligned in their endeavours for and on behalf of the dairy industry, and for the Australian taxpayer, in terms of the governance requirements on them.

One could argue that the state of the dairy industry represents the most material potential risk to governance for Dairy Australia. From the outside looking in, the industry can be perceived as being in turmoil – fighting with itself – which in some parts of the industry seems to continue today in spite of the excellent seasonal conditions in many dairy regions and the strong desire for unity coming from the ADP. In this environment, Dairy Australia is a constant target for criticism. Critical feedback was provided to this independent review about failures in Dairy Australia governance and processes, however no evidence was provided which support these assertions.

Dairy Australia's involvement in the ADP while overall a strong positive, brings potential governance risks for Dairy Australia as the aspirations of industry for a single entity/representative voice could become blurred with the functions and obligations of the RDC. The reviewers consider this structural reform stage under the ADP will require Dairy Australia to place heightened attention on its role and obligations as an RDC, both to levy payers and the Commonwealth. Indications are that Dairy Australia will continue in an assisting/enabling role while the industry resolves how to achieve unity in industry representation, which includes the possibility of new functions for Dairy Australia. This structural reform process must be navigated with care by Dairy Australia to ensure that the strong governance demonstrated during this independent review is maintained. All indications are that Dairy Australia's Board and management are aware of this risk and are working to actively manage it.

## 5. Operations

### 5.1. Operational Effectiveness

#### 5.1.1. Culture

Organisational culture, often described as “the way we do things around here” is the bedrock of sustained high performance for any organisation. The right culture empowers employees, creates attractive work environments, builds loyalty, enables cross-divisional collaboration and can cement preferred employer status amongst industry talent. Strong culture results in engaged employees who are motivated to work for themselves and are loyal to the organisation – the two being intimately aligned.

Company values drive the typical behaviours that reflect the culture. Dairy Australia has been through a process within the independent review period to update its company values. This process has apparently been bottom-up, meaning the engagement of all levels within the Dairy Australia team and in parallel with the Australian Dairy Plan consultations enabling the industry perspective to inform the internal process.

The former company values were Motivated, Integrity, Leadership and Knowledge or “M I L K”. The new values are Farmer First, One Team, Innovative Thinking, Decisive Action. These reinforce the commitment Dairy Australia has made toward being an expert engager of its primary stakeholders, Australia’s levy-payer dairy farmers. The organisation has placed Australia’s dairy farmers at the heart of its corporate culture. To succeed, Dairy Australia will need to continue to build its understanding of dairy farmers, their needs and motivations at an intimate level.

The new values have been in place since September 2020. A search of the Dairy Australia website suggests that as yet they have not been publicly released. The external publication of an organisation’s values is an important step in announcing what is important to it. It also increases transparency about its motivations. Given the powerful messages embodied in Dairy Australia’s values, in particular Farmer First, not publicly sharing them seems to be a missed opportunity.

While staff turn-over was relatively high at the start of the independent review period, this can be mostly attributed to the change in MD. Such turn-over is not uncommon when the leader changes. Staff turn-over now seems reasonably stable. As with many organisations, it is likely the COVID-19 pandemic has acted as a dampener on turn-over given its negative impacts on the jobs market. There is however a possibility that the ADP process may increase anxiety among staff given there is uncertainty about the consequences of the industry representative body restructure expected in 2021 for Dairy Australia. Consistent communication from the executive about Dairy Australia’s future will be needed to give confidence about job security and will be important for staff morale.

The level of engagement by staff is often used as an indicator of the strength of company culture. Dairy Australia carries out annual staff engagement surveys with some “pulse-checks” half yearly. Two summarised sets of results were made available to the independent review which showed strong participation rates and what would appear to be sound and improving engagement rates of

employees. Discussions with Dairy Australia team members also indicates that they understand the organisation's purpose and where their roles fit in the delivery of that purpose. In general, Dairy Australia staff come across as genuinely motivated to make a difference for farmer levy-payers.

A key factor, that will have influenced this generally positive impression the independent review has about culture, is the reinvigorated role of the Human Resources (HR) team. This includes the influence of a relatively new manager (also in recent times supported by an acting manager while taking maternity leave). Feedback suggests that the changes within this team have led to a stronger focus on staff and a sense among them that HR "has their back". The logistics of HR seem to be well managed as well as the attention to employee well-being including flexible working arrangements, COVID-19 support (working from home), access to a confidential employee assistance program and looking after the needs of the individual. It seems the new team has made an excellent start and are well supported by the MD. As an observation it may be that in some of the more nuanced HR management areas, performance may be slightly lower. Examples include fair distribution of work, recognition of the heavy lifters, professional development and career opportunities. This is most likely to be more a reflection that HR, like so many Dairy Australia's divisions has been through a period of significant change. There would seem now to be an opportunity to increase HR's focus on these equally important areas which are a must if the organisation wants to be an employer of choice.

The ability for the independent review to form a really firm view about Dairy Australia culture has been limited by COVID-19 restrictions. The inability to meet one on one with staff, teams and executives makes it difficult for the reviewers to observe the subtleties that play out between and among individuals within an organisation which can give signals about attitude, motivation, where power sits and collaborative willingness. Nevertheless, the reviewers have held a large number of meetings with individuals and teams and there has been no hint that there are any cultural deficiencies within Dairy Australia that would cause this independent review any concern. A positive, values driven culture was also found among Board Directors.

### **5.1.2. Strategy**

Strategy has already been discussed in this report from the context of compliance and governance. This section will focus on strategy as a driver of organisational effectiveness.

Dairy Australia has had two strategic plans over this independent review period; the first being the Dairy Australia Strategic Plan 2016/17 to 2018/19. This three-year plan was extended, due to the commencement of the ADP process, for one year to ensure the next strategic plan could be fully aligned with the outcomes of the ADP.

This plan had three strategic priorities, being Profitable Dairy Farms (split into activities that were either pre or post farm gate), Capable People and Trusted Dairy Industry. Despite the apparent simplicity of this approach, the potential contributing factors to these three aspirations for industry (particularly the profitability aspect) are numerous. Released in a period of turmoil for the industry with the milk price wind-backs by major processors, the idea of a relatively simple set of priorities with profitability at the top would have been an attractive positioning for Dairy Australia enabling it to pick the industry up from a low point.

The more recently released Dairy Australia Strategic Plan 2020-2025 is an appropriate and logical evolution of the previous plan, consistent with the times that the industry now finds itself in. It builds on the priorities from the previous Plan and emphasises the issues for attention identified in the ADP process which include environmental sustainability, trade and market access and new agricultural technologies. Notably, it also recognises as a strategic priority the internal proper functioning of the company through strong service delivery and processes – this enables all activities of Dairy Australia, whether internally or externally focused, to be considered as contributing to the strategic priorities.

The new strategy has attributes that contribute to a high level of operational effectiveness. They include relative simplicity (the strategic priorities are easily understandable and logical), industry ownership (having been established through a parallel process to the ADP consultations) and good alignment to the existing Dairy Australia organisational structure.

The new Strategic Plan is a logical and easily understood document. Each strategic priority lists a number of strategic outcomes being pursued with five-year success indicator targets. For example, the strategic priority “More Resilient Farm Businesses” has a strategic outcome (among others) of “Business planning that leads to better decisions and sustained success” which has a success indicator of “50% of dairy farm businesses perform systematic, periodic business reviews at least annually”.

What seems to be absent in the plan however – and they were also absent in the previous plan, is how progress is tracked year-on-year through the Annual Operating Plans and Annual Reports. Dairy Australia currently uses qualitative descriptions in AOPs about the focus for the coming year around each of the strategic outcomes. The connection of how investment through the AOP contributes to the achievement of the Strategic Outcomes, as measured by the KPIs, is not made.

Information from management indicates that KPIs are absent from the 2020/21 AOP due to timing misalignment between the requirement to have the AOP ready by June 2020 and the release of the new Strategic Plan in October 2020. This seems a reasonable justification for 2020/21.

The independent review understands that Dairy Australia has invested considerable effort in strengthening its metrics to align with outcomes and has built its internal capability (including dedicated roles) to gather and report the evidence against those metrics. The intention seems to be for the evaluation and reporting arrangements against the new Strategic Plan to be finalised before the end of 2020/21. The independent review believes this should be a high priority for Dairy Australia. The unfortunate inconsistency in reporting against the 2016/17 Strategic Plan has been discussed earlier and it is important this is not repeated under the new Strategic Plan.

The independent review believes there are two key tasks which should be addressed prior to the release of the 2021/22 AOP and 2020/21 Annual and Performance Reports:

- (1) Consider how to better align AOPs with the five-year strategic outcomes and KPIs. A stronger link than qualitative narratives in the AOPs would strengthen reporting of progress toward achievement of the five-year outcomes year-on-year
- (2) Finalisation of all KPI baselines currently listed as TBD. It is impossible to assess whether KPIs are aspirational, ambitious, modest or business as usual without baselines.



### 5.1.3. Structure

The old management adage states that “structure follows strategy”. Dairy Australia’s structure has changed over the independent review period and reflects the significant investment made by Dairy Australia toward improving the efficiency and effectiveness of its operations. Dairy Australia’s engagement in the ADP which informed the new Strategic Plan has also assisted in Dairy Australia’s increased orientation toward farmer communication, services and value. The independent review considers that appropriate alignment between the strategy, structure and operations of Dairy Australia has been achieved.

There have been a number of senior management changes including David Nation commencing as Managing Director in July 2018. The Group Manager of the Business and Organisational Performance team joined in 2017 as did the Group Manager Marketing and Communications. The Manager Human Resources joined in 2018. The Farm Profit and Capability team are presently recruiting a new Group Manager.

These management changes have inevitably coincided with a number of middle management changes, either through attrition or due to restructuring – which has occurred in the Farm Profit and Capability, Business and Organisational Performance and Marketing and Communications groups during the independent review period.

Our observation is that Dairy Australia has been through an intensive period of structural, operational and human resource changes at most levels of the organisation in the last four years. While the level of change which has occurred could lead to instability, this does not appear to be the case in Dairy Australia. The reviewers have found Dairy Australia management to be consistent, confident and clear about the envisaged outcomes from each of the change processes. Examples of successful implementation include the Project Management Office, Investment Review Panel and review of policies and procedures.

Dairy Australia has also strengthened its farmer first focus. This can be seen in the investment being made through:

- communications – for example Dairy Australia’s Tailoring our Services program which aims to build better profiles for the approximately 5,000 dairy farmers which reflect their individual needs and motivations. This includes interviews with farmers as part of Dairy Australia’s survey activities
- learning and development – development of courses and services which assist dairy farmers with the fundamentals – for example, the highly valued employment assistance program which includes assistance to dairy farmers with managing staff, workplace health and safety, staff training, recruitment, attraction and retention
- Regional Development Program extension services – all RDPs have at least one if not two extension staff whose roles are to build relationships with the dairy farmers in their region and to coordinate the delivery of Dairy Australia courses and services in ways which align with the specific needs of each region.

These examples are consistent with Dairy Australia’s attitude that better relationships enable better understanding of needs and better communication of knowledge and information.

The strengthening of the relationships and structural ties between Dairy Australia and the eight RDPs is another key feature of the changes during the independent review period. The RDPs have a proud history of independent service delivery to Australian dairy farmers and many have been in existence for a long time. All RDPs operate with an independent board which is recruited through skills-based competitive processes.

Since 2016, Dairy Australia has increased its support for the RDPs, in particular to enable them to deliver extension services to farmers. Most RDPs report that Dairy Australia financial support represents the majority of their funding base. Dairy Australia allows the RDPs to continue to operate with high degrees of independence. Where it has achieved strengthening of ties, is through structural changes including all RDP staff becoming staff members of Dairy Australia and access to some of Dairy Australia's internal systems and processes where it assists RDPs to gain efficiencies in operations.

These changes have been important contributors toward reducing the "regions versus Southbank" paradigm which is still evident to a greater or lesser degree depending on which RDP you talk to. However, importantly, all RDPs expressed a positive attitude toward the support they receive from Dairy Australia Southbank toward their operations. The management of COVID-19 has also been considered a positive in communication between RDPs with Southbank and given the adoption of tools such as Zoom, the frequency and ease of interactions has increased.

It is our observation that the independence, regional acceptance and ongoing success generally of the RDPs makes them a core strength and a valuable asset to Dairy Australia. In addition, this independent review envisages there is an opportunity for Dairy Australia to expand the value and benefit it gains from the RDPs. The RDPs are in a unique front line position with the industry, which means they could have an increased role in sharing information relating to trade, policy development, water, environment, social license, RDE needs and other matters, including providing feedback to Dairy Australia from levy payers.

While lines of communication between RDPs and Dairy Australia exist now, when it comes to feedback from levy payers via RDPs, the arrangements are mostly informal (ad hoc) and the independent review has been informed that feedback given to Dairy Australia by regions can sometimes seem to "fall on deaf ears". An articulated role for RDPs around sharing industry advice and feedback through a structured two-way process with Dairy Australia, which includes obligations on both parties to provide appropriate responses, could be beneficial. Not only could Dairy Australia's industry regional engagement be strengthened, it would also augment its sources of industry intelligence and give RDPs greater confidence that Dairy Australia is receptive and open to advice about regional priorities. The independent review considers this opportunity remains valid irrespective of the outcomes of the pending industry structural reforms.

In addition, given the importance of RDPs, the independent review believes a more direct relationship between the Dairy Australia RDP Manager and the Dairy Australia MD would be beneficial, noting that the role currently reports to the Group Manager for Farm Profit and Capability. Not only would a direct reporting line to the MD strengthen communication between RDPs and the Dairy Australia executive, it would also send a strong signal to stakeholders about the importance of RDPs to Dairy Australia. Advice from the MD indicates that this change is already an identified opportunity and action in this direction has already been taken.

A little different to the structural issues of the organisation, but nevertheless important, is how the activities of the company are structured in a logical fashion for planning, approval, categorisation, resourcing, reporting and evaluation. Most RDCs do this through using projects as the management construct. Projects by definition have defined beginnings and ends, with most trying to change the status quo in some way. Dairy Australia has recognised it has both projects (as per this definition) and activities and services, which aren't projects because they are continuous and maintain a capability over time – examples include ongoing market intelligence gathering for industry and policy research support for representative bodies. This pragmatic approach enables Dairy Australia to avoid some of the problems of trying to mould every significant effort of the organisation into the construct of a project.

#### **5.1.4. Processes**

The re-design of processes has been the source of a lot of work over the period for the Dairy Australia team, particularly in the areas of risk management, human resources, policies and procedures, project management and evaluation. In general, the organisations dedication to good and robust process is praiseworthy and the new areas should lead to a higher level of confidence and trust that everything is being appropriately looked after – at both a board and levy payer level.

Some examples are listed of the strengthening of processes that has paralleled the management and structural changes over the past four or five years (further information is provided in the business group sections):

- Human resources group have introduced new performance management and professional development processes with online tools as well as new remuneration and reward procedures for greater transparency around employee compensation
- The Project Management Office and Investment Review Panel have been established as a part of a re-draft of how the processes work around what's termed the Product and Services Lifecycle which encompasses disciplined project initiation, approval and management
- The re-drafting of policies and procedures and the training packages to accompany these under a learning management system
- New evaluation procedures implemented with a comprehensive annual Performance Report, a new Evaluation Framework and ex-post benefit cost analyses.

Some of these processes and their implementation are still a work in progress. For example, fine tuning the KPI setting and reporting year on year versus over five years. The independent review has been informed that a new financial system is being implemented ready for launch soon and other systems and their efficient use are constantly being updated; these include improvements to Salesforce (the CRM system) utility and capability.

The full implementation of these processes is expected to be ongoing for some time to come. This presents the opportunity for the Dairy Australia leadership group, to ensure that the new processes are not only effective but also efficient. The strategic outcome within strategic priority number seven (“Our infrastructure, resources and processes allow us to be informed, agile and responsive”) talks about efficient processes in the sub-text.

The challenge and opportunity for Dairy Australia will be to observe how the new processes are adopted and how effective they are – that is, which parts achieve the enhanced value add being

sought versus which may generate work (increased cost) but do not add value. There are always ways to improve process efficiency over time. The balance for management is around being prepared to query and test the value of internal processes versus the external value proposition. This balance will shift due to influences such as improvements in process technology, easing or tightening of regulation and compliance obligations and shifts in the priorities and needs of the industry – for example, crises and emergency responses.

The independent review is not arguing that Dairy Australia has become overly burdened by process. However, a very strong focus was evident around the internal reform process which has been ongoing during the period of this independent review.

There are significant downsides if process is allowed to become onerous or the value proposition for the process is not evident. Buy-in by the staff and team members who work within or maintain the process can be lost with the proper intent of a process ignored, avoided, worked around and considered “someone else’s responsibility”. An apparent over-reliance on process can also be interpreted as good management being substituted for “management by recipe”.

One example is in the area of policies or procedures. Since they are critical to the governance, legal compliance and effective operations of the organisation, they do need to be remembered, complied with and understood by staff. This would suggest that usually a “less is more” approach will achieve better understanding and compliance with those policies and procedures that are critical to the functioning of the organisation. It is not necessary for every task within an organisation to be described within a policy or a procedure. Some simple questions can be posed such as:

- Is this asking someone to do their job correctly?
- Is this repeated in other documents?
- Is the system serving the organisation or the organisation serving the system?
- Does this align with the “cure being worse than the disease”?
- Is it reasonable for staff to be expected to be able to read and retain this or is it just to cover us legally?
- Is this taking reasonable initiative away from our team because they have to check what’s expected of them in the “procedure”?
- Are we unnecessarily prohibiting something through a policy that is actually illegal?

As has already been stated, the independent review is not concerned that Dairy Australia has overdone its process, policy or procedure changes. However, the changes in this area have been significant and sometimes the temptation may be to perpetuate the change process versus bedding down and critically assessing the effectiveness of what has been adopted. This balance requires the ongoing attention of the leadership group.

## 5.2. Business Groups

Dairy Australia talks about itself in terms of “the Regions and Southbank” referring to those in Melbourne or not. The total staff numbers sit presently at around 196, 60 or so of whom are with the RDPs (which are counted as Dairy Australia staff since Dairy Australia is the responsible legal entity for employing them). RDPs are also supported by Dairy Australia back office functions. This is despite the relatively high level of independence of the RDPs who have separate strategies and boards and

their clear focus on their regional dairy farmers. Due to the RDPs' independence, they are discussed in this document under the chapter of Stakeholder Engagement on page 73.

As a generalisation, our observation would be that Dairy Australia tends to prefer to house core competencies within its teams as technically skilled employees rather than to buy "off the shelf" as required through contractors. Examples include the design team within the Marketing and Communications group and in-house evaluation skills.

All companies need to strike the right balance for their business in terms of contracting or employing depending on the amount of work required in the particular field, the ability to keep employees at the leading edge of the qualifications required to be competitive in their field and the relative costs of both options. Typically, contractors provide a more flexible option but will be more expensive if they are required on a semi-permanent basis. The relationship with an employee means that they can't be turned on and off like a tap and the obligations to them are more substantial and longer term.

### **5.2.1. Farm Profit and Capability**

Farm Profit and Capability is the group which manages Dairy Australia's RDE investment. Within this group are Technical and Innovation, the eight Regional Development Programs and the Learning and Development team. Much of the activity of this group is delivered through major partnerships in which Dairy Australia is significantly invested. These include – the Joint Ventures DairyBio, Dairy Feedbase and DataGene; research agreements with Queensland Department of Agriculture and Fisheries (QDAF) and the Tasmanian Institute of Agriculture (TIA) and the eight RDPs.

#### **5.2.1.1. Advisory Structures and Priority Setting**

The Dairy Moving Forward Strategy established under the National Primary Industries RDE Framework over 10 years ago continues to be Dairy Australia's overarching strategy which guides research, development and extension priority setting. Dairy Australia Strategic Plans provide the three- and five-year horizons.

The primary source of advice, intelligence and feedback about RDE priorities sourced by Dairy Australia is from the Dairy Moving Forward Communities of Interest (COI). Dairy Australia appears to have one of (if not the) longest standing RDC commitments to the NPIRDEF sectoral strategies; a key driver of the NPIRDEF being to consolidate investment to maintain core RDE commodity capability and second to respond to the exit of state-agency funded extension services, which in Dairy Australia's case, was resolved through expansion of RDP functions.

Feedback to this independent review about the effectiveness of COI's has been mixed. As with any advisory/consultative forum it seems that the success of a COI is determined by the relative importance or currency of the topic under its responsibility at any particular time, the level of investment being made by Dairy Australia and others and the individuals involved. Given the longevity of Dairy Moving Forward and COIs there may be a need to consider renewal and reshaping of the COIs to achieve stronger alignment with the new Strategy. This could include recruitment of new individuals and the retirement of some COIs where the alignment with the new strategy is less strong.

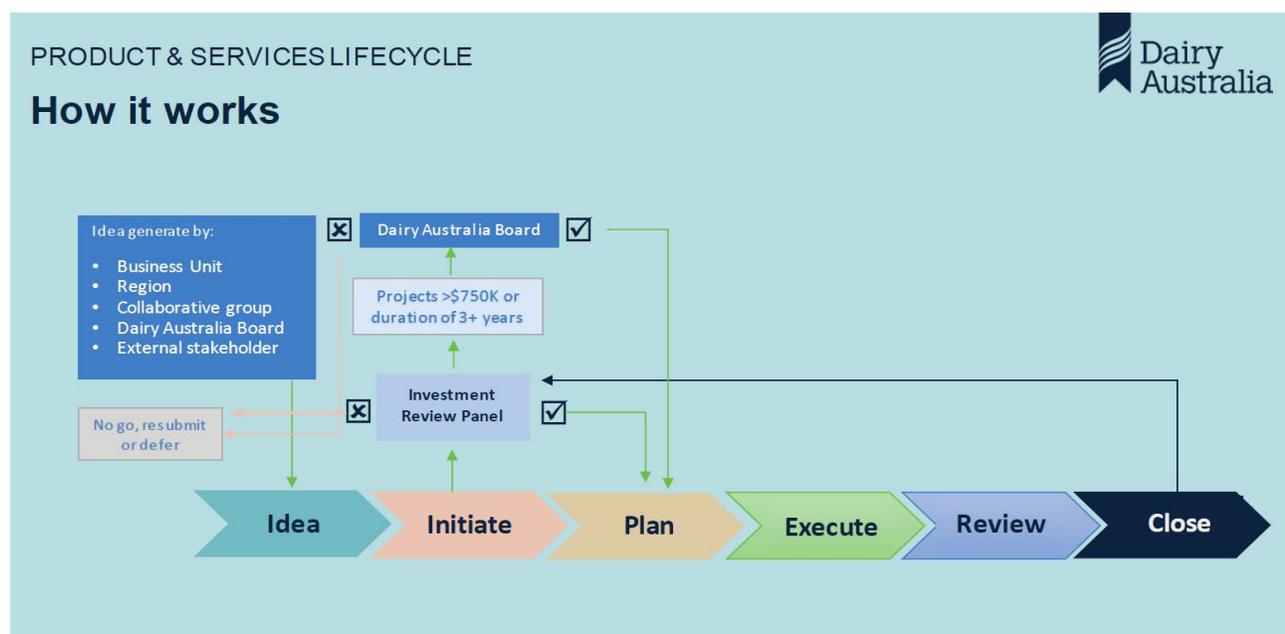
The Dairy Australia annual surveys of dairy farmers are another source of information which Dairy Australia uses to determine RDE priorities. The surveys include questions about the impact of existing

Dairy Australia RDE programs and seek feedback about new and emerging priorities. Dairy Australia also has access to a broad network of intelligence to inform RDE priorities through the eight RDPs, ADF's Policy Advisory Groups (PAGs), and other external groups such as the Sustainability Framework Consultative Committee.

Feedback during RDP consultation and the reviewers' own observation is that the RDP network provides a robust and overall industry supported presence for Dairy Australia within dairy regions. There may therefore be an opportunity to strengthen the function of RDPs as a pathway for grass-roots RDE priorities to be submitted to Dairy Australia. Consultation with dairy farmer members of RDPs (including some boards) indicated that while they were generally very positive about the quality of communication with Dairy Australia, there were a number of examples where feedback given or RDE ideas proposed to Dairy Australia seemed to fall upon deaf ears without an adequate response from Dairy Australia. Such an issue is easily resolved through establishing clearer channels for sharing RDE priorities and a commitment by Dairy Australia to give feedback. For example, RDPs could be invited to submit regional RDE priorities on a quarterly or six-monthly basis which are tabled with the Dairy Australia Investment Review Panel with feedback provided via the Farm Profit and Capability team.

### 5.2.1.2. Procurement

The Dairy Australia RDE procurement approach is dominated by commissioning and investment via large multi-year agreements. Dairy Australia has ceased conducting open annual calls for R&D proposals. Investment is through the Product and Service Lifecycle which aims to provide a clear and consistent process across the business for the prioritisation, development, management and delivery of projects and services.



For Farm Profit and Capability, it is the responsibility of the Technical Leads within the team to take ideas generated forward from initiation through to project planning, execution and close. All ideas worthy of funding must be scoped, developed and submitted to the Investment Review Panel for approval. Projects with a budget exceeding \$750,000 or three-years' duration require Board approval.

Other projects which the IRP consider having particular significance, may also be referred to the Board. All proposals must be submitted via the IRP process ensuring that small projects through to large partnerships are considered in a consistent way.

Once a project is approved, a member of the Project Management Office (PMO) – Project Manager - takes on the project's administrative, contracting and financial responsibilities. This leads to two staff members being required to work closely together to execute, manage and complete a project – one from a technical perspective and the second from a management perspective. In Dairy Australia's view, splitting these functions recognises that technical and management skills are specialised, which if recognised, should ultimately deliver benefits of efficiency and effectiveness in execution and delivery of projects.

While there may be some risks in sharing ownership of a project between two individuals, it seems that Dairy Australia has successfully articulated clear roles and responsibilities to avoid duplication of effort or confusion about who does what. It is too early to tell if the transition to the PMO will lead to the efficiency gains in RDE which are envisaged by Dairy Australia. Early indications are however, that adoption of the new arrangements has been reasonably smooth with staff members said to have responded positively.

Dairy Australia's approach to procuring RDE services through a combination of commissioning and partnerships makes sense for Dairy Australia. Through Dairy Moving Forward, Dairy Australia identified the small number of expert dairy R&D providers on which the industry depends for innovation in Australia. Committing to longer-term partnerships with these providers has enabled Dairy Australia to secure their capacity for the industry. This is important given continuing downward pressure on state government and university funds for agricultural RDE and the potential for competition between commodities for research talent. Dairy Australia's major R&D partnerships are discussed in more detail under the next heading.

These major partnerships leave Dairy Australia with relatively modest stand-alone funding each year for additional investment in RDE. Dairy Australia requires flexible funding in order to be responsive to changing industry needs or novel opportunities. The independent review generally views Dairy Australia's major R&D partnerships in a very positive light, however, there has been some feedback which queries whether the current balance of Dairy Australia investment between partnerships and stand-alone funding is right. The implementation of the new Strategic Plan creates the opportunity for Dairy Australia to consider the goals and the RDE investment pathways/ arrangements which are most suited to delivery of the intended outcomes against those goals. This could also be a task given to the IRP.

#### 5.2.1.3. Major Partnerships

Dairy Australia's R&D portfolio is dominated by three major partnerships. DairyBio and Dairy Feedbase which are unincorporated joint ventures between Dairy Australia, the Victorian Government and Gardiner Foundation. The third major partnership is Data Gene. Dairy Australia also has long-term research partnership programs with the Tasmanian Institute of Agriculture (TIA) and the Queensland Government.

Dairy Australia also invests through a small number of international partnerships with other dairy funding bodies including DairyNZ and Teagasc (Ireland). This includes investment by DairyNZ in DairyBio. It has also entered into a new partnership with Michigan State University to tap into R&D in the United States. The investment in the US recognises that for some parts of Australia, intensification of dairy production systems could be what is required for future profitability with the US recognised as a world leader in intensive dairy systems.

## **DairyBio**

DairyBio aims to create improved pastures and improved herds for the Australian dairy industry through the latest approaches in bioscience. It represents over 15 years of government and Australian dairy industry co-investment to create world class capability in animal and plant molecular technologies, housed together, to address performance opportunities in both pastures and animals. It builds off the Dairy Futures CRC (2010-2016).

DairyBio has bold aims which include:

- The Animal Program targeting an additional value of \$350 per cow per year in Australian dairy herds through genetic improvement, lower costs by enabling selection for health traits and developing improved breeding management tools
- The forage program projects aim to breed plants with higher yield, higher energy and higher persistence for future commercial release and are aiming to have cultivars available in 2030 that will improve pasture productivity by up to \$800 per hectare per year.

Highlights from DairyBio reported in Dairy Australia's 2019/20 Performance Report were:

- New F1 perennial ryegrass varieties have been developed from the four parental pools and are being evaluated in four trials across Australia and New Zealand. Extensive field trial resources from F1 varieties have shown significant heterosis in both countries and represent some of the leading varieties from the current breeding program, which are targeting yield improvements of 10-20 per cent.

DairyBio is due to complete its first five years of investment in 2021 with the Dairy Australia Board currently considering a new business case to continue investment for a further five years. Indications to this independent review are that Dairy Australia will continue to invest in DairyBio. An independent mid-term review of DairyBio was completed in June 2019. The findings of that review were generally very positive and included:

- DairyBio is a world class scientific investment and part of a sequence of investment in science and innovation following on from the Dairy Futures CRC
- The design, development and implementation of DairyBio has responded well to the 2015 Bioscience Advisory Committee Review recommendations
- DairyBio investment is already making industry impacts
- DairyBio is an innovative, well integrated and generally well governed multi-partner investment scanning the value chain
- DairyBio is addressing key productivity and profit issues in the two critical resources for dairy (pastures and cows) at an important time in history for the Australian Dairy Industry
- DairyBio has established successful international and national scientific and commercial relationships which should be continued and expanded – continually seeking new opportunities



- The scope and ambition for the future will require ongoing investment as the work must continue if the industry is to remain viable.

The mid-term review also included the following advice:

- There is however an urgent need to align the current and new programs to respond to the changing climatic, technological and social environments, addressing the needs of not only the 'farm of the future' but also the 'dairy industry of the future'. 'Business as usual' will not be a viable option for the industry if the equally important imperatives of productivity, profitability and sustainability are to be simultaneously achieved.

This observation has been mirrored in feedback during this independent review. While DairyBio is a sound investment by Dairy Australia, there are current and emerging issues which are also demanding increased attention by Dairy Australia for the industry. Whilst adapting R&D programs within Dairy Australia's major partnerships such as DairyBio can go some way to responding to these urgent needs, Dairy Australia may also need to consider alternative investments. This raises the question about the portfolio balance between major partnerships and stand-alone funds.

Feedback from some dairy farmers suggest views that DairyBio has been slow to respond to the changing needs of the industry, particularly the impact of climate change on pasture species and productivity. The independent review has been advised that the new business case for DairyBio includes responses to some of the new needs and emerging issues which have been raised.

### **Dairy Feedbase**

Dairy Feedbase was established in 2018 with the aim of revolutionising feed base management in the dairy industry. It offers the potential for returns to the industry of \$100 million in value over 10 years. While it is an independent UJV, it has the same partners DairyBio shares for governance and management.

Dairy Feedbase differs from DairyBio as its focus is the application of technology and bioscience to enable productivity and profitability gains for dairy farms by focussing on individual cows, herd feeding and forage productivity. Delivery to farmers is in the form of digital tools and real-time information to improve decision-making in the paddock and strategically allocate feed at an individual cow level.

Dairy Feedbase and DairyBio also share reporting – for example a combined Annual Report is produced every year.

Highlights from Dairy Feedbase reported in Dairy Australia's 2019/20 Performance Report were:

- The Smart Feeding project has explored the effects of time away from the paddock on milk yield and dry matter intake. Results show gains in milk yield of over 5 kg/cow per day if pasture can be more evenly allocated across a herd.

### **DataGene**

Data Gene was formed in July 2016 and brings together pre-competitive herd improvement functions, including genetics, software for herd testing and herd recording and data systems. This included the pre-existing Australian Dairy Herd Improvement Scheme (ADHIS) and MISTRO herd testing software.

It is an industry owned entity with an independent Board. The foundation members are Dairy Australia, Australian Dairy Farmers and the National Herd Improvement Association (NHIA). It has more than 20 industry members which include herd test centres, genetics companies, genomic service providers, breed associations and animal health companies.

DataGene products and services are delivered to Australian dairy farmers either directly or through third parties. Some products and services are free while for those where there is a direct economic benefit, fees are charged.

DataGene monitors genetics trends, numbers of females genomically tested, number of cows in the Central Data Repository (CDR), numbers of bulls genomically tested and National Artificial Insemination Sire Identification System (NASIS) bull registrations.

For example, one of DataGene's key purposes is to provide tools and services to improve the rate of genetic gain in the Australian dairy herd. Genetic trends are tracked through the rate of genetic gain of sires of cows through the Balanced Performance Index (BPI). DataGene has a target of a long-term average of \$30/year. Currently the average rate of genetic gain for BPI in sires of cows over the past five years (2015-2019) has accelerated to \$29.50/year in Holsteins and \$14/ year for Jerseys born from 2015 onwards. This is favourable when compared to the longer-term trend of \$15 in Holsteins and \$12 in Jerseys from 2007. The 2018 to 2019 annual gain was \$44.50 in Holsteins and \$19.60 in Jersey cows.

### **Tasmanian Institute of Agriculture (TIA)**

TIA is a joint venture between the Tasmanian Government and University of Tasmania founded in 1997. It is a specialised institute for agriculture and food research, development, extension and education which operates through four RDE centres – Horticulture, Dairy, Grains and Grazing, Agricultural Systems, and Food Safety and Innovation. The partnership between Dairy Australia and TIA has been long term. It enables Dairy Australia to invest in RDE specific to the needs of Tasmanian dairy. The RDE focus is productivity around temperate pasture-based systems, in particular non-GM pastures and feed base. TIA is a unique partner as it includes extension expertise; this allows for the inclusion of extension services to industry and enables two-way feedback between TIA and farmers about research needs and priorities.

Dairy is Tasmania's most important agricultural industry and as such, TIA receives strong support from the Tasmanian Government. The long-term secure agreements with Dairy Australia assist TIA to make the case for continued strong levels of Government investment in dairy RDE. As the economic benefits of beef production in Tasmania are growing, TIA sees growth in demand for beef RDE which includes investment by MLA. There is some overlap between dairy and beef researchers leading to enhanced capacity.

The TIA partnership with Dairy Australia operates on the basis of a five-year Strategic Agreement under which projects for the dairy industry are delivered. The previous TIA agreement commenced in 2016 and recently expired and a new agreement has been negotiated. TIA sees strong benefits in Dairy Australia committing to a further five years but noted that the new agreement is significantly tighter with new expectations when compared to the prior agreement. Projects are now confirmed up front and locked in for five years. The new agreement has three main projects.

Examples of projects include:

- Dairy HIGH - (High Integrity Grass-fed Herds) focuses on sustainable and profitable growth in Tasmania's pasture based dairy industry. The project will research and combine the accessible and emerging technologies and practices that are driving productivity and efficiency improvements, with environmental management, animal welfare and people
- The Forage Value Index (FVI) is a rating system that helps Australian dairy producers to make more informed decisions when selecting perennial ryegrass cultivars. TIA's Dairy Research Facility is the trial site for evaluating the performance of 30 perennial ryegrass cultivars that have been nominated for testing by the Australian pasture seed industry.

### **Queensland Department of Agriculture and Fisheries (QDAF)**

QDAF is another RDE partner with whom Dairy Australia has maintained long term investment partnerships. Unlike Tasmania, the Queensland dairy industry plays a less significant role in the state's economy compared to other agricultural sectors such as beef, making the Dairy Australia co-investment critically important to retention of key dairy RDE infrastructure in the state and investment by the Queensland government. The current Dairy Australia-QDAF agreement expires in 2022 and is valued at around \$2.63 million. Given the increasing competition for state-funding, QDAF have approached Dairy Australia with a view to negotiation of a new five-year agreement in the near future in order to secure state funds for dairy. Partnering with MLA is also increasing in importance for the group as the dairy industry becomes smaller.

The Dairy Australia-QDAF partnership leverages significant other dairy investment being made in Queensland. This includes the Gatton Dairy where a \$7 million upgrade was recently completed with the facility now under joint QDAF-UQ management, the QDAF led Dairy Dashboard and the Queensland Dairy Accounting Scheme (QDAS) project which collects and supplies data from Queensland dairy farms to the DairyBase farm financial database, using the Queensland Dairy Accounting Scheme according to nationally agreed KPIs and timelines.

Dairy Australia funded projects include:

- C4 Milk 2017 – 2022 is an applied research program which has as its aim to increase operating profit margin through the development of management strategies that increase milk production from forage and reduce overall feed related costs. This includes improving the quality of forage consumed; increasing the proportion of the forage in the diet; and testing low cost feeding systems
- The Pop Sorghum project is aiming to increase the starch availability of sorghum grain through dry popping. Sorghum grain is a cheaper and more readily available grain source for Queensland dairy farms. However, many dairy farmers struggle to achieve higher production levels due to the poor digestive characteristics associated with feeding sorghum grain. The project investigates if the starch availability and degradability of sorghum can be increased by popping the grain using heat, similar to popping maize grain as popcorn.

#### **5.2.1.4. Partnerships versus Stand Alone Investment**

Dairy Australia clearly has a strong preference for larger-scale, long-term and partnership-based arrangements for investing in and delivering R&D to the industry. There is clear evidence that these partnerships generate significant value to the Australian dairy industry and achieve considerable

leverage against every levy payer dollar which is invested. These partnerships have real strengths which include:

- Scale – which increases impact potential of RDE outcomes
- Strong research management approaches including scheduled evaluations and reviews
- Reduced technical risk and increased capability
- Retention (and increase) of dairy RDE assets and infrastructure
- Longer timeframes allow for transformational research outcomes to be sought
- Freedom to operate within the partnerships
- Increased human capital
- Confidence and trust in investment relationships
- Effective de-risking of program delivery
- Leverage against levy payer funds.

The independent review found these attributes to be evident in all of Dairy Australia's long term RDE investment partnerships. Feedback from all R&D partners was very positive about the security, trust and confidence to co-invest in dairy RDE that their organisations have, due to Dairy Australia's resilient and consistent investment.

In addition, RDCs as a general rule endeavour to achieve a balanced portfolio of R&D across the horizons of innovation being (H1) incremental – (H2) transformational – (H3) disruptive. While disruptive innovation is rare, there is increasing attention by RDCs toward transformational industry outcomes from RDE investments. These outcomes offer levy payers options they can adopt which meaningfully “move the dial” on long-term productivity, profitability or sustainability. Such outcomes can be found in Dairy Australia's major partnerships – such as in the dairy cow and feed base genetic gains in DairyBio. As with any arrangement however there are downsides and some trade-offs which play out when such a large proportion of RDE funds are committed “locked in” to partnership arrangements. These include:

- Loss of flexibility and slower responses to industry needs – concern has been expressed to the independent review about the Victoria-centric nature of DairyBio and Dairy Feedbase and the slowness of Dairy Australia's response to engage in emerging RDE needs for regions other than Victoria. For example, plant breeding to increase productivity of warm climate pastures and intensification of dairy production systems
- Risk of diminished influence of the Board over RDE investment. Business cases for investment in major partnerships are required to be submitted to the Dairy Australia Board for approval. The observation was made to the independent review, that given there are relationship imperatives built into those business cases, the Dairy Australia Board does not necessarily have full discretion over its funding decisions as the consequences on all partner interests must be considered
- Risk of reduced capacity and motivation internally for R&D business development, investment seeking and engaging commercial opportunities. By outsourcing large proportions of funding, the need for and capacity within the Farm Profit and Capacity team may decline. With limited funds, there is an absence of motivation for the team to scout, seek, develop and advance new opportunities. In addition, feedback to the independent review suggests a concern that Dairy Australia may be lacking sufficient internal commercial capability
- Risk of loss of agility and reduced opportunity to engage in new modes and players in innovation. Dairy Australia requires some flexibility in access to and authority over its own R&D funds so that it can be responsive to changes in industry needs and to pursue opportunities when they arise.

The innovation investment landscape, and the players within that landscape, is rapidly evolving world-wide. The rate of technical and digital advancement is occurring faster than most investors or industry members can comprehend. This challenges investors in R&D to consider the pros and cons of engaging in new methods and demands that new understanding and capabilities be developed. Organisations which do not engage may risk being left behind.

The RDCs are collectively investigating new models for investment to motivate transformational outcomes. This includes the launch of Agricultural Innovation Australia which Dairy Australia has joined as a partner.

Dairy Australia is engaged in leading edge innovation, such as through DairyBio. Based on what has been shared with this independent review, it seems that the most innovative R&D being supported by Dairy Australia probably resides within its major partnership arrangements. Where there may be a gap is the extent to which Dairy Australia is engaging with innovation beyond the boundaries of dairy. Often innovation can come from ideas generated in other commodities or from sectors outside of agriculture. For a start, encouraging the direction of some internal resources and attention toward seeking and scouting for novel innovation may assist in informing where and how Dairy Australia could best engage with the potentially disruptive sources of innovation beyond the boundaries of its existing partnerships.

Notwithstanding this commentary, the independent review is generally very positive about Dairy Australia's R&D partnerships. These observations have been made to suggest that with the implementation of the new Strategic Plan, it may be a good time to critically assess the balance of investment between partnerships and stand-alone funding to ensure Dairy Australia can fully execute the investment required to deliver that plan and is not missing opportunities to engage in its own right, proactively with novel innovation opportunities. The independent review notes that Dairy Australia has not undertaken an internal or independent review of its RDE investment approach in the last four years.

#### 5.2.1.5. [Intellectual Property Management](#)

As previously discussed, Dairy Australia takes a pragmatic approach to intellectual property (IP) which is outlined in its Intellectual Property Management Plan (IPMP) which was updated in 2018. Dairy Australia has an IP portfolio which is mostly made up of copyright within reports from R&D projects, materials generated by subject matter experts and a small number of patents, trademarks, domain names and interests in plant breeders' rights.

In the plan Dairy Australia identifies that:

*"...R&D activities are undertaken by Dairy Australia to deliver a general benefit to the Australian dairy industry ("the Industry")"*

*"The commissioning or funding of R&D initiatives by Dairy Australia is not driven by the prospect of generating a portfolio of intellectual property capable of returning a revenue stream through commercialisation. Rather, the goal ... is to return a real and direct benefit to Industry by generating relevant and valuable outputs and delivering these to levy-paying farmers (and, where relevant, other Industry stakeholders) efficiently and free-of-charge."*

The driver for Dairy Australia's R&D investment is the ability to deliver to its levy payers valuable information, tools and other solution-focused outputs to assist with key issues such as farm management, animal fertility and wellbeing and economic and other on-farm efficiencies including, specifically, fodder-related efficiencies. This principle continues to provide the key rationale for a levy on milk production, as well as the rationale for the Commonwealth government continuing to provide matching payments for expenditure on R&D activities.

There are five core objectives which provide the framework for management:

1. To ensure that the intellectual property provisions contained in its contracts with third party educational institutions, research organisations and consultants commissioned to perform R&D or provide services requiring specialist knowledge and technical expertise allow Dairy Australia to own or use all outputs (hereafter "Foreground IP") in order to enable the free dissemination of the same to levy-paying farmers and generally make use of the Foreground IP to achieve Dairy Australia's objectives and mission as the Industry services body
2. To maximise the benefit of R&D expenditure by ensuring all relevant Foreground IP is disseminated to Industry without charge or other encumbrances, in a timely manner and in a form or format that is easily digestible and user-friendly
3. To ensure that all Foreground IP stemming from its R&D expenditure is competently examined and assessed at the time of its creation to ensure that opportunities to secure statutory protection or commercialise the IP are not overlooked
4. To ensure that all Foreground IP stemming from Dairy Australia's R&D expenditure is competently examined and assessed so that any likely benefits in pursuing further R&D in the relevant area are identified and, where commercially viable, pursued
5. To establish procedures to effectively manage ongoing costs of protection of registered intellectual property.

#### 5.2.1.6. [Adoption](#)

The pathways for adoption of Dairy Australia funded R&D varies depending on the type of R&D. For example, in DairyBio, adoption is through access by dairy farmers to new grass varieties and dairy cow genetic traits. Because Dairy Feedbase is strongly at the applied end of R&D, its discoveries will add to farmers' existing tools and technologies to improve management practices.

Dairy Australia's attitude toward IP, as has already been discussed, is pragmatic. Dairy Australia's focus is clearly stated as delivering to levy payer's valuable information, tools and other solution-focused outputs. Commercialisation of IP is only supported if it presents the most appropriate adoption pathway for farmers.

As such, a key plank of Dairy Australia's adoption effort is through communication platforms such as its website. The website contains farmer-focussed information about just about every aspect of dairy farming. Many farmers told this independent review that "if you want to find the information, Dairy Australia will have made it available for you.... you just have to be willing to look for it".

Dairy Australia's RDPs are also the front line of extension and are therefore a valuable pathway for adoption of R&D. As has already been discussed, the expansion since 2016 of RDP services into extension is considered to be a real strength. Farmers are able to easily identify the Dairy Australia services, courses and training opportunities provided through the RDPs.

The independent review believes there is a very strong opportunity for Dairy Australia to achieve greater RDE adoption impact through continuing to build the role of RDPs in R&D extension. Not only in terms of RDPs being best placed to advise Dairy Australia about grass-roots farmer RDE priorities, but also as a trusted source of information and advice for farmers to raise their awareness and confidence to adopt. For RDPs to increase in their effectiveness in R&D adoption, Dairy Australia will need to work with them in order to ensure R&D outcomes are communicated and extended in the context of each region. Feedback from farmers indicates Dairy Australia's generic courses – such as Cups on Cups Off and Farm Business Management are excellent and broadly relevant. Where Dairy Australia faces greater challenges, is regionalising the outputs of its R&D which is needed in order to give farmers greater confidence to adopt.

#### 5.2.1.7. Measuring Impact of RDE

Chapter 6, which deals with benefits, discusses in more detail Dairy Australia's monitoring and evaluation framework. For RDE projects, progress is tracked quarterly through the Quarterly Reports which are submitted to the Board and Group B members. This provides a detailed view of the status of every Dairy Australia project. The Quarterly Reports are consolidated at the end of each year with the outcomes reported in the Performance Report. The Performance Report also provides a traffic light summary in its appendices which uses a green (on track) through to red (delayed) summary of the status of progress in each program against the targets (measures of success). This is a high degree of transparency in reporting by Dairy Australia.

Ex-ante project benefit cost analyses (BCAs) are completed internally by Dairy Australia. This gives internally evaluated measures of impact. A small number of ex-post evaluations are completed externally by independent economists each year. This approach generates valuable information for Dairy Australia to understand actual impact at project conclusion versus the expectation and the reasons behind the outcome.

The Performance Report is the opportunity for Dairy Australia to showcase the impact of its RDE portfolio. It draws together in detail a variety of sources of information to tell the Dairy Australia impact story against the Strategic Plan priorities. This includes snapshots of achievements each year, research progress reports, the results of BCAs (internal and external), case studies of adoption by industry, quantitative metrics of progress toward intended long term outcomes and the traffic light summary.

### **5.2.2. Trade and Industry Strategy**

The Trade and Industry Strategy (T&S) team are responsible for issues around international market access, market insights and supporting an overall industry policy process through building evidence bases and facilitating policy development processes. This is mostly done in consultation and working with ADPF and ADF who make use of the outputs of the work of this team.

### 5.2.2.1. [Market Insights](#)

Before deregulation of the industry in 2000, the dairy industry had mandatory reporting requirements for processors to supply production and market data. Dairy Australia received this data and their role was to confidentially process and analyse it to a point where it could be presented in an aggregated format and made available for use by the rest of the industry.

Following deregulation, the mandatory nature of this reporting disappeared, however Dairy Australia has been successful at maintaining the trust of the processors who continue to supply the production and sales data voluntarily. This is a sustaining value proposition as processors and farmers get greater transparency about what is going on in the market.

Dairy Australia adheres to strict protocols agreed with processors for the submission of the data and how it can be shared. Those protocols protect commercial confidences and give processors confidence to continue to share the data with Dairy Australia.

Additional market insights are provided to the industry by the three times yearly publication of the Situation and Outlook Report which is targeted at farmers. This is available as a written version and podcast and includes information about seasonal conditions in the production regions and international market and trade reports.

### 5.2.2.2. [International Trade](#)

International trade access and promotion are also managed by the T&S team. This is a very important area which works to maintain access to key export markets for Australian dairy through strategic relationships. It is an area that does not have a great deal of visibility to farmer levy payers as it primarily functions to avoid adverse impacts on the industry's export markets. Dairy Australia has a presence in many Asian markets through Austrade offices or external consultants. The strategy employed by Dairy Australia is to forge trusted and resilient relationships with trade partners which are resistant to the ups and downs of international deals and politics.

One example is the Greater China and Japan Scholarship programs which have been operating for 20 years and the South East Asia Scholarship program which has been operating for six years. These programs have created a network of "alumni" (around 850 people) from China, Japan and SE Asia. The Greater China program alone has trained over 300 senior and middle managers from the three markets of China Mainland, Hong Kong and Taiwan over the past two decades. This is an excellent initiative as Dairy Australia scholarships provide them with professional development opportunities, gives Dairy Australia the opportunity to educate and promote the Australian dairy industry to international associates and as their careers develop Dairy Australia has existing relationships with senior connections within major buyers.

This group is surveyed by Dairy Australia for their sentiments toward Australian dairy products. This is valuable intelligence as the group provides more informed feedback than a random group of import buyers would. Australian dairy so far has weathered current trade tensions with China well. While Dairy Australia is not unrealistic that dairy could be targeted, the strong relationships Dairy Australia has will continue to be used to maintain trust in Australian dairy products.



Dairy Australia is also involved in extensive work to support industry access to key export markets. One example is work done to combat the European Union's push to impose a Geographical Indicators (GI) regime on Australia. This is designed to restrict Australian manufacturers using many of the common cheese names including parmesan and feta. Dairy Australia activities have included a comprehensive industry submission to the Australian Government and an extensive communications strategy to engage industry.

The shift of Australia's milk product processing industry from generally cooperative based structures to ownership through major multinationals has meant that processors motivation to tell the story behind the Australian dairy industry has diminished. This important narrative about the grassroots of the industry is now filled by the T&S team. The key attributes of the "Australianness" of our dairy industry are seen as the environmental credentials, the continuity of supply, the very high food safety standards and the relationships built up over decades across the world.

The T&S group have also been working with other RDC's and Austrade on a joint promotional campaign (which has been around for a number of years) on the general Buy Australian concept which is built around healthy, safe and natural attributes. A lot of the effort is expended engaging with the Australian government representatives in other international markets to build their capability to successfully represent the industry and to satisfy regulators in-country that Australian products meet import requirements, such as food safety standards.

In conversation with a representative of the Department of Foreign Affairs and Trade (DFAT) regarding their dealings with Dairy Australia, they related the excellent support they received from Dairy Australia in bringing the industry together around the market facts and insights, enabling the facilitation of an industry position that the trade negotiators could work with, for example, around Free Trade Agreements. The T&S group also works with DAWE and their embassy staff around the world in the Trade and Market Access and Exports divisions.

#### 5.2.2.3. Policy Research and Support

The third core function of the T&S group is policy analysis and policy support. Much of this work is informed by the various industry reference groups that the T&S group engages with. These groups exist for Export (Trade Reference Group) and Nutrition (Nutritional Policy Reference Group).

These reference groups act as a forum for information sharing and market insights. They have external membership as well as the Dairy Australia staff, including industry players (such as exporters or brand owners) and representative body delegates. Discussion in those groups do get into policy issues with Dairy Australia providing evidence and information to assist.

For example, in the trade area, the Trade Reference Group assist industry to collate industry positions to take to government to help with negotiations on trade arrangements with international partners (as mentioned above). This applies particularly to some difficult issues such as the position of the European Union on geographical indicators and the potential to significantly disrupt Australian dairy trade through limiting their use.

The Nutritional Policy Reference Group deals with human health and nutrition issues including health star rating systems, dietary guidelines and dairy nutrition communication strategies.

The Australian Dairy Farmers (ADF) also leads Policy Advisory Groups (PAGs) in a number of different policy domains to which members of the Dairy Australia team are often invited to bring insights and information to feed into the policy development process of the representative bodies. These PAGs exist for:

- Animal health and welfare
- Farming systems and herd improvement
- Markets, trade and value chain
- Natural resources
- People and human capacity.

There are some areas of policy research and support that the T&S group avoids due to political sensitivity. For example, areas such as the dairy mandatory code of conduct and competition policy generally. There is lesser scope for useful policy research into these more subjective and internally disputed areas.

#### 5.2.2.4. [Team Evaluation](#)

As a measure of success, the T&S group aspire to be seen as a trusted source of market insights and policy information. This could apply to perceptions of both the broader dairy industry and government stakeholders. Other potential measures of their engagement in the dairy insights arena could include being the primary stated source on media articles quoting dairy industry market information. They also look at the proportion of market coverage of the cooperative data provision agreement with processors as an important KPI.

Much of what the T&S group does is around risk management – minimising the risk of trade closures, risks around nutritional misinformation, controversies to do with animal welfare – these types of projects and activities which are about mitigation and avoidance, prove more difficult to evaluate through a typical benefit cost analysis. They are in many cases protecting the status quo and so a comparison with the counterintuitive doesn't demonstrate their value. A threshold analysis can be performed (which apparently the Evaluation team within the Strategy and Planning/ BOP group can do) which tests a project's value through understanding how much it would have to reduce the amount of risk of a bad scenario to achieve payback. This gives a reasonable ability to make a management decision around potential return on investment.

The T&S group have been the main contact point within the organisation for issues associated with the Senate Inquiry into the Dairy Industry (correct name: "Performance of Australia's dairy industry and the profitability of Australian dairy farmers since deregulation in 2000"). This inquiry was instigated through Senator Pauline Hanson in late 2019 and was initially focused on the difficult industry conditions in the northern regions of the industry. It is not due to report until early 2021.

In discussions with RDPs and individual farmers, it was notable that many of them knew individuals from the T&S group and had a high opinion of their levels of knowledge around the critical issues they were responsible for. In the case of the RDPs, the T&S team were praised around the quality of the information and help they could provide around even more regional and localised policy issues coming from the team.

### **5.2.3. Marketing and Communication**

The Marketing and Communications team has 26.2 staff (FTE) and has two primary functions. The first is farmer communications and the second is consumer marketing. Farmer communications is about promoting and driving practice change on farms and to promote the value that Dairy Australia brings to levy payers. The aim is to give farmers confidence that Dairy Australia is doing a good job with their levy funds. In consumer marketing, the strategy is to drive trust and acceptance in the industry, maintain dairy's social licence to operate and promote that the industry takes long term sustainability seriously. There is a clear distinction between Dairy Australia's role in industry-level marketing and processors who focus on product driven sales.

#### **5.2.3.1. Consumers**

There has been a major shift over the independent review period by Dairy Australia away from driving consumption on behalf of industry to communicating the credentials of the industry in terms of environmental sustainability, climate change, animal welfare, nutrition and other more human and community issues. The Dairy Australia consumer communication and marketing strategy is built around Dairy Matters which was launched in 2019. Dairy Matters represents a critical turning point in the Dairy Australia consumer strategy as it shifted the focus from driving consumption of dairy – Legendairy campaign - to building trust and acceptance of dairy through building a conversation with consumers.

This shift in focus to trust followed a review in 2016 by Futureye, which did an outward-in and inward-out review. At that time, the Legendairy campaign did not address social licence, however, shifts in consumer interest were evident with the reputation of the industry and the agricultural sector as a whole becoming more important. Consumers wanted to know where their food came from and what the industry was doing for their animals and the environment.

The industry's Sustainability Framework provided a robust existing platform from which Dairy Australia could engage with consumers more strongly around sustainability and social licence. Maintenance of the Framework is therefore an important foundation for Dairy Australia as it pursues this strategy. More detail on the Framework is in the next section.

Acceptance of this shift required strong socialisation with dairy farmer levy payers to gain their confidence that building consumer trust would be a more effective use of their marketing levy funds than driving consumption. This included presentations at dairy conferences and sharing the consumer research which showed the positive response of consumers to the new strategy.

This was a big leap for Dairy Australia to choose to go public and talk more openly about what the industry was doing and where it was at. Implementation was challenging. There was nervousness about taking on such a warts and all strategy. Dairy Australia did a lot of consumer market testing and checks on the campaign, but overall, it has landed very well, and farmers and processors have been supportive.

Dairy Australia's target is a particular consumer audience who are the socially conscious people which they define as change makers. Dairy Australia aims to be part of the conversation with these people. This includes engaging influencers, such as health professionals – GPs and dieticians; and

educators – schools and teachers. Dairy Australia tracks the perceptions of these professionals and believes it has positively “moved the dial” toward greater acceptance of dairy by those groups.

The campaign is delivered through TV, podcast, digital advertising, media articles, social media content and partnerships with ambassadors and influencers. The You Ask, We Answer platform on [dairy.com.au](http://dairy.com.au) also demonstrates the industry’s commitment to transparency receiving almost 400 questions from the public in 2019/20. The annual Australian Grand Dairy Awards raises awareness about Australia’s high-quality dairy by profiling finalists through the media and educating consumers about their local producers through a People’s Choice.

Dairy Australia also has a significant education and schools’ program. This includes the Picasso Cows program which was delivered to 150 schools in 2019/20 aiming to educate students about the industry and dairy foods. Farmer ambassadors also drive greater industry presence in schools.

During COVID-19, Dairy Australia has also been on the front foot by adapting its marketing plans to reassure the Australian public and dairy community that the industry is “here for you” despite COVID-19 restrictions. A TV commercial using footage sourced from farmers, processors and consumers during the lockdown reached 4.8 million people across metro and regional areas.

Recent annual tracking of a randomised group of 1300 people showed:

- Trust in Dairy Matters increased from 68% to 74%
- Agreed the campaign helps understanding of dairy and drives trust
- Explained how dairy is used in diets.

Trust in dairy foods in 2019 was 81% and 2020 82%. Consumption in Australia has dropped off slightly, but it has remained strong and high for a long time compared to other global markets and so overall, Australian dairy is holding its position.

Dairy Australia conducts this tracking themselves with the assistance of an external research company to help with execution. Dairy Australia’s tracker insights are well respected and are used to inform Dairy Australia strategy. The tracking is continuous throughout the year with quarterly dips and consolidation into the annual Performance Report. The dips are useful for providing information on whether campaigns are getting the intended traction and whether there is a need/opportunity to “dial up or dial down” a campaign.

The tracking is used throughout Dairy Australia activities. It is shared in the Board Quarterly Report which also goes to Group B members and in the Performance Report. It is also shared with processors and manufacturers. Dairy Australia uses tracking data when communicating with farmers to explain how the industry is tracking against consumer trust.

Dairy Australia is also partnering with other RDCs in the social licence space. RDCs like Australian Eggs and Meat and Livestock Australia are also leaning into the issue of trust.

Since 2019, Dairy Australia has been on a journey to build stronger and more connected relationships with processors and retailers, not just with the representative body - ADPF. Dairy Australia believes these relationships are currently stronger than ever following significant efforts to engage. This includes open conversations to ask where Dairy Australia can add value and complement their marketing activities. This has included customised packages to value add and bring dairy brands to

life. Processors have been quite supportive and enabling of Dairy Australia with joint investment to sell the credentials of dairy. Dairy Australia focusses on category promotion, overall benefits and best practice. Dairy Australia also has good relationships with most retailers. This includes Aldi, Woolworths, Coles; also, now with Metcash, Dairy Australia has sought to engage with them about how “we” can do better as a collective.

Dairy Australia is currently working to flex Dairy Matters in response to the Australian Dairy Plan (ADP). Key messages for marketing and communications from farmers out of the ADP process were: keeping consumption strong – maintaining trust – address emerging disruptive products – maintain relevance of dairy within the community. Dairy Matters since the start of 2020 has expanded beyond trust to also include continued support for dairy including ensuring Australians make an effort to consume dairy every day.

#### 5.2.3.2. Farmers

Dairy Australia’s farmer communications have two main purposes. The first is to support the adoption of Dairy Australia services and outputs of RDE. The second is to maintain confidence that Dairy Australia is investing levy funds wisely by communicating with farmers about the activities and the benefits of Dairy Australia. The RDPs also play a lead role in communicating with farmers, in particular providing Dairy Australia extension services.

Dairy Australia has a strong commitment to understanding what is important to farmers and how best to communicate. One example is the National Dairy Farmer Survey which is a contextual study conducted in February each year with 800 farmers interviewed from Dairy Australia’s levy payer database. The survey commenced in 2004. It assesses farmer confidence in the dairy industry, in their own businesses and identifies primary drivers. The survey provides insights into how farmers are doing by region and how they can best be supported to meet their challenges. Dairy Australia publishes the key findings from the survey in the Situation and Outlook report in June each year.

Dairy Australia is trying to be much more deliberate about not just creating content for information seekers – or innovation hungry farmers. The Tailoring our Services initiative is a novel project to ascertain farmer attitudes toward change and to understand their communication preferences. Individual profiles for the majority of the around 5,000 dairy farmers are being prepared. So far 2,800 farmers have been profiled with 3,800 to be completed by the end of 2020/21. The insights should result in more targeted and appropriate media for individual farmers with the content that is most likely to be of interest to them, targeted at them, ultimately building trust and confidence in Dairy Australia.

The communications team supports the communication and extension of R&D by working with technical content leads from the Farm Profit and Capability group, Trade and Industry Strategy group, R&D Program/Project Leaders and the RDPs. Each RDP has a communication officer; they meet regularly through what is called the National Communications Network to focus on how to develop regional content for farmers which can be leveraged nationally. The RDP regional newsletters are recognised as one of the most effective ways Dairy Australia has of reaching farmers.

Dairy Australia identifies a range of channels for reaching farmers – social media, website, newsletters, magazines, media activities and face to face. For example, extension for the Smarter Irrigation for Profit 2 – What’s my Yield Gap? project has been supported by communication to build

awareness. This has included social media posts, a media release, an article in Australian Dairy Farmer, articles in RDP newsletters and regional publications and a focus topic at the EvokeAg conference. Dairy Australia gathers metrics to monitor the impact of its communication. From this project the impact was measured as:

- two videos promoted via social media received more than 11,000 views and 10,000 impressions
- the media release resulted in more than 14 published articles including in major rural publications, and a further 25 articles of related media coverage, and
- more than 150 farmers, service providers and regional extension officers attended national webinars.

Feedback to the independent review from RDPs and individual farmers indicates that Dairy Australia is thought to communicate well. For some, the volume of communication from Dairy Australia may be excessive, while others who seek information find it valuable. This is a key challenge for any RDC to get the balance right between overloading emails/ letter boxes with ensuring the information levy payers need is shared. Farmers also told the independent review that if you need information and you are willing to look for it, Dairy Australia will have it available.

There is one key area of improvement in farmer communication for Dairy Australia which the independent review considers to be really important. It relates to communicating and demonstrating in the regional context, the benefit of Dairy Australia investment in R&D. The independent review consistently found that farmers had strong recall of Dairy Australia services – such as online resources to assist with recruiting and managing staff through to the courses available through the RDPs. However, there was much poorer understanding about Dairy Australia's major R&D programs. While many people could name the programs – such as DairyBio - few could describe what benefit the program would deliver for them. Worst still were some strong misconceptions in some regions that the major R&D programs offered no benefit to their region. The independent review also found that the RDP extension officers, who are excellent advocates for Dairy Australia, could probably do more in this space if they had support from Dairy Australia so that they were confident to talk about the R&D.

#### **5.2.4. Business and Organisational Performance**

The Business and Organisational Performance (BOP) team is an amalgamation of groups focused on providing services to the other, more farmer-facing teams within Dairy Australia. It consists of an information technology (IT) team, the Company Secretary/ Risk Manager, a finance team, the Project Management Office (PMO), legal team, Strategy and Planning group, a facilities group and information services. It aims to add value back to the business through high levels of internal service provision. It is acknowledged that while the team does not have as direct working connections with the farmers, they aim to enable Dairy Australia to achieve impact for levy payers through the services they provide internally.

A more detailed description of some of the core functions of the BOP team's activities is provided in the following sections.

#### 5.2.4.1. Project Management Office

The BOP team restructured in 2018-19, which included the establishment of the PMO. Coinciding with this was the re-writing of the processes around the initiation, approval and execution of Dairy Australia projects and activities.

Project management was previously the domain of technical staff, particularly in the Farm Profit and Capability team. The establishment of the PMO was designed to bring specific project management skills into the organisation to support the more technically skilled project executors, the idea being to separate finance and administration of projects from technical management requirements.

Within the Dairy Australia system, projects have sponsors (typically a leadership team member with overall responsibility for project delivery), leaders (technical drivers of the project) and managers (expert project managers within the PMO team).

The Product and Services Life Cycle is a keystone of the new processes around Dairy Australia investments. It starts with ideation (“Initial Project Request” being a high level easy to complete summary of an idea and its strategic alignment), then initiate (where the “meat is put around the bones” in terms of building up a plan and budget for the pre-project) and then approval (through the IRP described below) which if successful is followed by the working up of a full project management plan.

The key management decision group which determines Dairy Australia investment is the Investment Review Panel (IRP) which consists of the leadership team. This panel is a relatively new part of the investment process and is still bedding down in terms of where to focus its attention. There is a tension between being a body that stewards the whole of Dairy Australia portfolio of projects and activities and one that concentrates on major decisions regarding the largest or most material investments. Feedback from group managers indicates that they are enjoying the transparency that the IRP provides with the increased transparency across the whole of the Dairy Australia investment portfolio which they find beneficial as the leadership group. This visibility and access to the details of projects within other parts of the business enables stronger sharing of advice and insights across Dairy Australia divisions. There have been minor concerns raised amongst the leadership team that if the workload of the IRP becomes too great, the process may become unwieldy and slow, but so far, the IRP is considered a very useful forum. As with any new process, the role and functions of the IRP are expected to refine and focus to where it can provide the most value to Dairy Australia investment decision making.

There has been some feedback from research providers that the IRP has led to more stringent requirements (hurdles) for long term program proposals compared to previous approvals processes. This was particularly raised for the long term RDE partnerships where prescriptive information relating to outcomes many years out have been requested. While Dairy Australia does need clarity over expected investment outcomes, it is also important that the IRP process does not stymie the benefits of its existing long-term RDE partnerships which have served Dairy Australia so well.

These long-term agreements need appropriate levels of inbuilt flexibility to allow for adaptation and evolution of research activities as required. This is beneficial to Dairy Australia and providers as it enables the partnership to be responsive to changes in industry needs and emerging opportunities

over time. For the IRP, there will be a need to strike the right balance between the detail required about activities and outcomes with which to make an appropriate investment decision (versus a guarantee of success) and not overly burdening providers with in-depth proposal preparation. Dairy Australia may inadvertently create an environment of increasing transaction costs to providers of doing business with Dairy Australia, reducing its attractiveness as a research partner. The creativity and motivation to value-add for the dairy industry, which is currently evident in partnerships, may also be suppressed.

#### 5.2.4.2. Finance

The finance team administer the financial resources of the organisation, ensuring efficient accounts receivable and payable roles, budgeting and reporting, and stewarding the process of calculating, claiming and justifying the matching funding for qualifying R&D expenditure.

The finance team ensures that the \$60-65 million turnover Dairy Australia budget is properly administered in support of the more external facing business groups.

The financial reporting structures – profit and loss in this case - show company income split by:

- Levy income – the dairy industry – unlike a lot of other agricultural sectors – only has one levy for both R&D and marketing together. The rate of this levy is specified as 2.87c/kg milk fat plus 6.99c/kg protein which roughly works out to around 0.354c/litre of milk at average fat and protein contents
- Matching funding – since the dairy industry has no specific levy for R&D (the only part of expenditure which is matchable), the calculation of the maximum amount of matching funding for which Dairy Australia qualifies is based on 0.5% of the Gross Value of Production (GVP) of the dairy industry at farm gate, averaged over three years (as opposed to the other maximum limit on claims for other RDCs which is the actual amount of cumulative R&D levy collected over the RDC lifetime). Each year the government sends Dairy Australia a statement of the average GVP which is used to calculate the maximum matching funding available for that year
- Other income – which includes contributions from partners where Dairy Australia is the lead agent for specific projects partly funded through, for example, government grants (RuralR&D4Profit as one).

Company expenditure is split by:

- Projects – which from this financial year for the first time, includes a portion of salaries of Dairy Australia staff and other on-costs which can be directly assigned to individual projects. In past years, this has been a net figure – only counting the direct external project costs. The difference between the two figures for the FY21 – with allocation = \$40.2 million versus without allocation = \$31.6 million
- Activities and services – which represents the costs of those ongoing initiatives that Dairy Australia performs year in year out (and thus can't be considered projects). Similar to projects, this cost is now shown with allocated staff on-costs. For FY21 - with allocation = \$14.5 million versus without allocation = \$10 million
- Overheads – which represents internal costs of supporting the whole organisation, after the allocation of salaries and other on-costs to projects, activities and services. For FY21 - with allocation = \$9.7 million versus without allocation = \$22.7 million
- Australian Dairy Plan – Dairy Australia has a small budget to fund events and consultation around the ADP process



- Industry Reform – consultants have been commissioned to help with the deliberations around industry structural reform, for which Dairy Australia have put aside some funds.

Dairy Australia's internal or corporate costs are a large proportion of the total company costs reflecting the preference of the company to use in-house skills and resources over contractors which was discussed earlier. Most of these costs can be appropriately allocated to projects, activities and services. Whilst there is a downside to this approach in the loss of transparency to external readers over the full internal cost structure of the organisation, the benefit is that the allocation of internal costs to projects and activities provides a more accurate measure of their full cost profiles. This change does not seem to be driven by any intent on the part of Dairy Australia to hide the full quantum of internal costs. Dairy Australia in fact has a track record of transparent reporting of its internal costs in its Annual Operating Plans.

At the time of budgeting, the leadership team submits for their group budgets the allocation of projects, activities and services to either qualify for R&D matching funding or not (or partial if relevant). Any doubts for specific projects around the R&D qualification can be tested or challenged at this point.

The team are presently commissioning a new finance system that will connect to the contract management system.

#### 5.2.4.3. [Strategy and Planning](#)

The Strategy and Planning group are responsible for working with the rest of the organisation to develop the company strategy, implement the monitoring and evaluation framework, prepare the annual operating plans and annual and performance reports each year. Evaluation is discussed earlier and in Chapter 6.

The new Dairy Australia Strategic Plan 2020-25 was released in October 2020. There are seven Strategic Priorities:

1. More resilient farm businesses
2. Attract and develop great people for dairy
3. Strong community support for dairy
4. Thrive in a changing environment
5. Success in domestic and overseas markets
6. Technology and data-enabled dairy farms
7. Innovative and responsive organisation

There is a goal described for each of the strategic priorities. Three or four outcomes against each priority are described with success indicators against which progress will be evaluated. Dairy Australia projects and activities are mapped against the priorities they contribute to and are presented in the AOP. It is the role of the Strategy and Planning team to coordinate sourcing, gathering the evidence for success indicators, tracking progress and preparing the reports.

For the last two years, a Performance Report has been prepared which gives a detailed account of progress against strategic priorities at a project level for each year. This allows the Annual Report to be more concise in its reporting about performance and to concentrate on Dairy Australia's compliance obligations under corporations' law requirements. Since the new strategic plan has only recently been released, Performance Reports have been aligned to the Strategic Plan 2016-17 to 2018/19 (extended for 2019/20).

The previous Performance Review resulted in a recommendation regarding dashboard reporting. Dairy Australia was encouraged to establish and maintain key objective target reporting at a strategic level through a dashboard. Two reports have been established since that recommendation; the annual Performance Report which is publicly available and quarterly "dashboard" reports for the Dairy Australia Board and Group B members (ADF and ADPF).

The quarterly reports shared with the independent review are thorough and comprehensive and are a great example of reporting transparency by Dairy Australia (the latest being 86 pages long). They are not however what the reviewers would consider to be a "dashboard". Dashboards by definition are intended to provide a visual interpretation which enables at-a-glance views of progress against key performance indicators (KPIs) relevant to a particular objective or outcome. By this definition, a dashboard report to Dairy Australia's Board and Group B members would be more succinct and focus specifically on KPIs – for example, the traffic light reporting found in the Performance Reports is a form of dashboard reporting. The diagrams provided on the inside cover of the Dairy Australia Strategic Plan are also perhaps better examples of a dashboard style of presentation.

The evaluation group within Strategy and Planning support the Product and Services Lifecycle through in-house ex-ante benefit cost analysis prior to project approval and in-house ex-post analyses (including threshold analyses which are more suited to risk management type projects). External ex post benefit cost analyses (BCAs) are also conducted for a small sample of Dairy Australia projects and activities each year, ensuring an independent view of value is also provided. The independent review notes that during the last four years, there seems to have been a limited number of independent ex-post BCAs – perhaps 3 to 4 per year spread across the various business groups. Given the size and complexity of Dairy Australia's business, consideration should be given to increasing the number under the new Strategy. Independent BCAs also strengthen the capacity to report on impact which is a key focus of Dairy Australia under the new plan.

It's to the credit of Dairy Australia that most of the new Strategic Plan's measures of success are measures of outcomes on dairy farms and for the industry. This is compared to previous KPIs, which were more activity-based measures. While activities are easier to measure, they rarely provide a convincing link to outcomes. By their very nature, outcome KPIs are more difficult to measure and attribute to the efforts of Dairy Australia. Strong rationales, evidence and narratives around how Dairy Australia has attributed its influence on outcome KPIs will be required to convince stakeholders.

### **5.2.5. Human Resources**

There has been a lot of work done around this team over the past few years including the recruitment of a new HR Manager. The attitude of this group seems to be to treat the company human asset management (learning and growth) as a business in itself which pays back in productivity, preferred employer status, loyalty and a better working environment.

The human resources team looks after the normal recruitment, employment and policy issues associated with HR but have additionally taken on tasks around facilitation of cultural and values issues for the organisation and staff engagement.

Feedback from the broader Dairy Australia team reflects that changes instigated have resulted in a greater level of trust in the HR group. The impression is that they are in tune with the feelings of the staff and in general the team feels more valued.

Other group managers have pointed out that they have been very happy with the support they have received from HR in sorting out issues with their teams and personnel. Putting action plans in place and seeing them through for a better long-term outcome (which involves some difficult shorter-term professional challenges at times) is now a preferred route for the organisation than perhaps what might have been in the past a problem swept under the carpet. We understand that the Managing Director has also been supportive of this shift in attitudes.

The common theme when discussing the impact of COVID-19 with staff was that the company had handled the situation particularly well. Staff felt supported – a new Employee Assistance Program was apparently launched at the same time which has had excellent feedback. In working from home, early reflections were that productivity was very good because people could catch up with work without the normal day to day interruptions. Over time however, the lack of personal and professional contact (Dairy Australia being based in Victoria) meant that it was more difficult for the team to hold their sights up and keep their connectedness with industry happenings.

Learning and development forward planning is still a work in progress, largely to do with limitations imposed through COVID-19.

The HR team recently facilitated the re-writing of the company values through a grass roots process involving staff at all levels of the organisation. The resulting values – Farmer First, One Team, Innovative Thinking, Decisive Action – are also reflective of who the team feels that farmers want them to be according to Australian Dairy Plan consultations. These values drive an approach to recruitment where accountability and stakeholder-centricity are key.

There is now a formal process around the measurement of employee engagement. This is done annually with some additional six-monthly pulse checks and reported through to staff and Board level. There is also now a 360° leadership effectiveness survey conducted to assess and improve leadership behaviours.

The list of what the HR team have done over the past couple of years keeps going and additionally includes:

- A new Remuneration and Reward policy involving market testing of all employee packages against benchmarks
- A new on-line performance management and goal setting system – Culture Amp
- A formal professional development and feedback system is being developed
- Establishment of an HR service desk for employees
- New HR policies and procedures and a learning managements system around them
- New employee induction processes and experiences for better integration.

In short, the HR team has been highly active, particularly over the past two years and it has been noticed very positively by the rest of the organisation.

### **5.2.6. Sustainability Framework**

The Australian Dairy Industry Sustainability Framework is a whole of industry initiative. Both dairy manufacturing companies and dairy farming groups asked Dairy Australia to take on the coordination function for sustainability. The Framework is jointly owned by ADIC/ADF/ADPF which ensures full dairy value chain coverage. Dairy Australia leads its ongoing development, implementation and external stakeholder engagement. The industry focus on sustainability ramped up in 2012 and included a 2020 target.

Significant consultation during framework development was undertaken. This included consumers, international buyers, retailers, non-government organisations such as the Worldwide Fund for Nature (WWF) and Australian Conservation Foundation (ACF), and governments about what they were looking for from industry on sustainability and what was needed to demonstrate the industry response. That process identified issues which included people, enhancing livelihoods, caring for animals, reducing environmental impact and the promise to produce nutritious food.

The development of the Framework was also informed by international guidelines and standards, including the United Nations Global Compact and the Global Reporting Initiative (GRI) G4 and was influenced by the United Nations Sustainable Development Goals (SDGs). The global Dairy Sustainability Framework and the Sustainable Agriculture Initiative (SAI) Platforms were also inputs.

The framework is intended as a proactive response which engages with the issues identified by the community, consumers and buyers as being important to them that the dairy industry needs to address to maintain trust and social licence. It has also, so far, proven to be an efficient solution for individual farms and companies as the need for dairy farms to undergo on-farm audits of sustainable practices.

Dairy Australia has a dedicated Manager Sustainability who is a direct report to the Managing Director. This reporting arrangement recognises the joint-industry ownership of the Sustainability Framework and assists in communication between partners. Dairy Australia continues to convene an external consultative group which was first established in 2013 and includes organisations such as the RSPCA, WWF and the Ethics Centre. This group provides some level of external accountability and they bring the perspectives of external stakeholders about Framework priorities.

During the independent review period, a report and scorecard have been published online in 2016, 2018 and 2019 which reports on industry progress against goals and targets. The scorecard has 11 goals with progress reported via a traffic light system. The goals relate to economic prosperity, nutrition, animal welfare and natural resource management and take a whole of industry value chain perspective. The 2020 report will be released in March/April 2021.

The framework is a living initiative which is under regular review and adjustment to ensure it continues to be aligned with international and local community expectations and industry priorities. This is a key challenge for the industry given that the “goal posts” in the sustainability space are constantly moving. In the last four years, the Frameworks goals, targets and indicators have all been reviewed, with the horizon moved from 2020 to 2030. Materiality reviews have been undertaken in 2012, 2016 and 2019.

These reviews are used to identify emerging issues and have led to the adoption in the 2018 and 2019 framework of antimicrobial stewardship, human rights, food waste and climate change as industry targets. The 2019 review reaffirmed those priority issues but also identified the issue of physical climate risk and GHG emissions.

Dairy Australia holds Sustainability Consultative Forums twice each year which are attended by around 45 external participants. Dairy Australia has advised this independent review that those meetings consistently rate the Framework as highly valuable. With the arrival of COVID-19, these forums have moved online with Dairy Australia hosting six webinars in 2020. A recording of the first series of webinars and feedback from them was sent to all 230 webinar participants and the Sustainability Steering Committee has reviewed the feedback for further action.

An ex-ante BCA for the Sustainability Framework was completed during development of the 2016/17 Strategic Plan, with a BCR of 3.66 proposed. During the period of this independent review, there appears to have been no external independent evaluation (other than the external consultative group) of the impact of the Framework. Given how important the framework is considered to be to community trust and social licence, it may be timely for Dairy Australia to have an external ex-post BCA completed to independently verify its effectiveness and performance in meeting the objectives.

## 6. Delivering Benefits

### 6.1. Evaluation Framework

Dairy Australia's approach to evaluation has evolved during the period of the independent review, including the release of two Evaluation Frameworks. At the commencement of the independent review period, Dairy Australia had released the 2016/17 – 2018/19 Strategic Plan. While an Evaluation Framework was not published to accompany this plan, it did include a hierarchy of three Strategic Priorities, which would be achieved through investment in programs, each having KPIs and measures of success.

While there is very little evidence that Dairy Australia reported its performance against this structure in the following two years, it is clear that Dairy Australia has invested considerably during the independent review period to enhance its performance evaluation and reporting.

The first Evaluation Framework for the independent review period was launched in 2018. This Plan built off Dairy Australia's participation in the Council of Rural RDCs impact reporting collaborative activity. The second Framework was launched in 2020 and accompanies the new 2020 – 2025 Strategic Plan.

The 2018 Evaluation Framework outlined the approach that Dairy Australia would take when reviewing the performance of its business and projects across the project life cycle. Dairy Australia describes this as cascading from the strategy through to activity. Metrics at a group and stakeholder level were used to gauge the effectiveness and success of programs, the intent being to achieve a consistent methodology across the business so that reporting on returns to levy payers would be clear and transparent.

Consultation with Dairy Australia indicates that there is minimal awareness about the evaluation structure applied in the first two years of the independent review period. This was probably due to the absence of an Evaluation Framework. This was followed by the 2018 Evaluation Framework which has now been replaced by the 2020 Evaluation Framework which does reflect the culmination of Dairy Australia's efforts to transition its evaluation focus to impact reporting and the gathering of metrics and benefit evidence which is required to support impact reporting.

This intense evolution in Dairy Australia's evaluation approach has presented challenges to the independent review. The original KPIs and measures proposed in the 2016 Strategic Plan have not been used, making it difficult to build strong continuity in the narrative about Dairy Australia performance reporting from the commencement of this independent review period until the end of the period.

The best source of performance reporting available to this independent review are the 2019 and 2020 Performance Reports. These reports go to considerable levels of detail to share activity metrics, case studies and benefit cost analyses to report the benefit of its activities to stakeholders.

Dairy Australia has acknowledged the independent reviews observation that the evaluation approach during the independent review period appears inconsistent. Dairy Australia argues however that it

reflects the transition it has made away from measuring inputs and activities to focus on impacts and outcomes.

The new 2020 Strategic Plan and Evaluation Framework have established impact KPIs against which the impacts achieved under each strategic goal will be evaluated and reported. Establishing and measuring impact KPIs are an ongoing challenge faced by all RDCs. Impacts from RDE often arrive some years beyond the RDE investment. In addition, attribution of the influence of Dairy Australia investment versus other factors in the achievement of some KPIs may be difficult to robustly defend. Dairy Australia will face these challenges as it implements its new Evaluation Framework.

The independent review has identified two gaps in the evaluation and reporting approach which would best be resolved prior to the end of the first year of the new Plan in June 2021. The first relates to the absence of KPIs within the 2020/21 Annual Operating Plan (AOP). The reviewers believe that an AOP which is used as a document to communicate the intent of investment to stakeholders (which is the case for Dairy Australia) should include the KPIs against which the performance of the AOP investment will be evaluated. The reviewers note that there is a difference of opinion with Dairy Australia about whether KPIs are needed in AOPs.

The second concern relates to the underpinning metrics for the KPIs in the publicly released 2020 Evaluation Framework. A large number of the KPI baselines are listed as “To Be Determined”, while for those same KPIs, 2025 targets have been proposed. It seems counterintuitive to be clear on the target in the absence of the starting point. The significance of each KPI without its baseline cannot be interpreted, for example is this a stretch or business as usual KPI? Dairy Australia has advised that all baselines will be confirmed by June 2021 and their absence is only a reflection of timing and is not due to an absence of data with which to set the baselines.

## 6.2. Performance Tracking

Dairy Australia invests in annual performance tracking, which is done using an online survey of dairy farmer levy payers. The survey is repeated year on year using the same survey team, consistent format and set of metrics. The focus of the 2019 survey was to measure the cut through, traction and perceived benefit of Dairy Australia’s underpinning farm and post farmgate programs. The survey research can provide direction and advice on priorities to Dairy Australia to improve the quality of the relationship with levy paying dairy farmers.

By investing in performance tracking year on year, Dairy Australia has built a robust foundation from which to understand its performance over time. This provides for an enhanced ability to interpret the source of annual shifts in feedback, both positive and negative, from levy payers. While some shifts would be directly attributed to Dairy Australia’s performance, others may reflect other industry influences at the time the survey was undertaken.

Examples of KPIs and questions which the performance tracker evaluates each year include:

- Farmer sentiment about the future of the industry
- The importance of Dairy Australia
- Satisfaction about the investment of dairy service levies
- Performance of Dairy Australia program areas

- Awareness and use of Dairy Australia programs
- Barriers to and motivations for involvement in Dairy Australia programs
- Engagement by Dairy Australia and RDPs with levy payers
- Awareness of national industry strategies.

The performance tracker provides detailed analysis against these questions and can interrogate the data regionally, by business type, demographic and producer category. Performance of individual RDPs is also captured. Given there is regional diversity in Australian dairy farming, the capacity to understand how the needs and issues of farmers vary by region is important for Dairy Australia to ensure it tailors its service delivery through the RDPs to meet local needs.

Results from the 2019 Performance Tracker include:



The value of the intelligence provided to Dairy Australia by the Performance Tracker year on year can be seen in the interpretation of the results for 2019. The following points are made in the 2019 tracking report:

- For satisfaction, the 2019 survey found a small drop in farmer satisfaction with the investment of levies (5.7 down 0.1) from the 2018 result. The result continues to sit above the long-term average of 5.5
- The importance for the dairy industry to have an industry services organisation (like Dairy Australia) continues to rate strongly (7.9, up 0.1 from 2018); and
- These largely steady results, against a backdrop of very difficult production and trading environments, provide some encouragement to the efforts and initiatives undertaken by Dairy Australia over the last 12 months.

The performance tracker also captures in detail feedback from farmers about their awareness, utilisation and perceived benefits of Dairy Australia's fifteen on farm and off farm programs.

The feedback from 2019 suggests that:

- There are four program areas which achieve high ratings from farmers in terms of awareness, strong utilisation and positive benefits. The areas thought to generate the most benefit are '*managing pastures*', '*managing animal health and welfare*' and '*managing milk quality*'
- The tracker also records underperformance of programs, with seven program areas identified with low awareness and low utilisation in 2019. This feedback indicates that Dairy Australia needs to lift the visibility and opportunities for levy payers to be involved in these programs



- Shifts in program performance since the previous 12 months are also captured. Examples include:
  - *'farm business management'* – an increase in awareness among farmers;
  - *'managing animal nutrition'* – a fall in reported utilisation;
  - *'people management skills'* – a fall in reported utilisation; and
  - *'natural resource management'* – a fall in reported utilisation.

Capturing these shifts gives Dairy Australia the opportunity to evaluate and understand what has influenced these changes and to address this feedback.

## 6.3. Measures of Benefit

There has been an active effort within Dairy Australia to include KPIs which measure the impact achieved rather than recording activity – inputs and outputs. This transition largely commenced in 2018 and included Dairy Australia's engagement in the Council of Rural RDCs joint impact reporting process. There is strong merit in seeking to measure and report impact and Dairy Australia should be commended for committing to this path. There are some challenges and pitfalls in taking this approach.

Choosing the right KPIs for measuring RDC performance is a difficult task because there is often a trade-off between the ability to influence the achievement of an objective and the amount of impact achievement of that objective has across the whole industry. For example, the success indicator "Dairy farm businesses agree they have sufficient access to skilled service providers to meet their needs" whilst being an outcome-oriented success indicator, is clearly not under the full control of Dairy Australia. Many factors will contribute to whether this can be achieved, Dairy Australia's actions and projects are an important element no doubt, but they are not the only factor. Another similar indicator is "Consumers trust the dairy industry".

Nevertheless, these impact indicators are preferable and a more meaningful way of communicating to industry and government stakeholders what Dairy Australia is seeking to achieve versus activity based KPIs such as "Release five new publications on improving pasture productivity". While a KPI such as this is in the full control of Dairy Australia, enabling confidence about its achievement, there is nothing in this KPI measuring that the improved pasture productivity is adopted by dairy farmers which is where the industry impact/benefit lies.

Dairy Australia also undertakes quarterly reporting on project progress. This quarterly report is consolidated into the annual and performance reports each year. These reports appear to fulfill the primary function as a tool for managers to monitor and report on progress to the Board within each year. The Board dashboard report supplied to the independent review was 85 pages long. This does not seem like a dashboard; the terminology of which suggests succinct and targeted tracking and reporting over time. This may be adding to the excess in volume of material supplied to the Board which was discussed earlier.

Dairy Australia also undertakes ex-ante and ex-post benefit cost analyses (BCAs) to assist decision making and to evaluate impact. Based on the information submitted to the reviewers under the 2016/17 Strategy, 32 ex-ante evaluations were completed. Ex-ante benefit cost ratios (BCRs) are produced internally and are inputs to business cases for investment.

A small selection of programs and projects from across all Dairy Australia activities every year are submitted for external (independent) verification of the ex-post evaluations. Dairy Australia has adopted the 2014 impact assessment guidelines of the Council of Rural RDCs which provide for assessment of the effectiveness of a program/project in meeting its key objectives and estimates the net benefits.

Under the 2016/17 Strategy, seven external verifications of ex-post evaluations by independent providers were completed. Some examples of BCRs are listed below. All indicate that Dairy Australia is achieving greater than \$1 return for \$1 invested with positive benefits for stakeholders. BCRs with lower ratings include commentary which identify low rates of adoption as being a key determinant of impact and benefit.

	BCR
Pastures on PAR 2020	1.7
International Market Support – China (partial evaluation) 2018	6.4 – 8
Taking Stock Program 2018	3.6
Future Dairy Program – Automatic Milking System 2017	0.56

BCAs are relied on, by most RDCs, to secure independently verified measures of impact from investments. Whilst BCAs are imperfect, given they rely on assumptions, they are a recognised and accepted measure of independently evaluated impact. Given the size and complexity of the Dairy Australia business, the reviewers suggest that the number of external BCAs undertaken during the independent review period has been very modest. The reviewers suggest an expansion of BCAs under the new 2020 Strategy would be in line with Dairy Australia's strengthened focus on reporting on impact as they would build the independently verified evidence base about impact for dairy industry levy payers and Australian taxpayers. BCAs can also assist in unpacking some of the attribution challenges which can underly quantitative KPI metrics.

Dairy Australia puts significant effort into reporting progress against success measures in its Performance Report each year. It is a refreshingly transparent report. The appendices list each of the key project measures with their targets and achieved results. A traffic light system is used to assist in interpretation which indicates positive progress (green) through to lack of progress (red). In some cases, the reporting could be criticised in that some of the targets set are unrealistically bold – probably more worthy of a Dairy Australia aspiration versus what is being achieved by the industry. One example would include “% of farmers using blunt force trauma” – target 0%, achieved 25%.

Good practice around KPIs would dictate that they should be set before the period over which they are to be achieved. Dairy Australia has put forward timing issues as the reason that not all baselines for the KPIs proposed under the new Strategic Plan Evaluation Framework have been set. The reviewers have recommended this be rectified as soon as possible; more detail can be found in Chapter 6.

## 7. Stakeholder Engagement

To have a full appreciation of the issues associated with Dairy Australia's stakeholders and the relationships they share with Dairy Australia and each other, it's necessary to understand the key contextual issues of the industry.

The dairy industry was one of the last significant agricultural sectors to be regulated through government instruments. The resulting market distortions, like in many other sectors, eventually become so great as to be counterproductive and the deregulation of the industry occurred a couple of decades ago. Many of today's producers went through that difficult process and suffered during it, despite the restructuring packages that were in place to try to ease the pain. Dairy farmers have a variety of memories about the pre-deregulation period and attitudes as to how the industry functions today in comparison.

These different attitudes are one reason that the industry is factionalised around stances towards potential milk price interventions, supermarket levies, the effectiveness of Dairy Australia, the Australian Dairy Plan, the Australian Dairy Farmers and the value received from paying levies. The factions also have a regional nature; partially due to specific regional issues and partially historic, originating via particular individuals who influenced the thinking in surrounding areas. Western Victoria and Queensland are hotspots of negativity towards current industry structures, but they exist in other regions as well.

The second thing about the dairy industry is that it is a relatively complex profession. Dairy farmers have a wide variety of things to know and be expert on, including animal production and husbandry, pasture species, management and optimisation and the engineering parts of running a milking dairy, and hiring employees amongst others. There are lots of things to know if you want to be a successful dairy farmer and the production system you operate varies from region to region. This presents significant challenges for Dairy Australia in terms of the generation and dissemination of knowledge to its farmer constituents.

The bottom line is that the dairy industry is noteworthy for the disagreement which goes on within it. This is a handbrake on the industry's ability to move in a positive direction. The farmer engagement processes of the Australian Dairy Plan have overall been considered a positive by most and provides the potential for a supporting background around the agreement for industry to focus on Profitability, Confidence and Unity.

### 7.1. Levy Payers

There was a consistent theme when discussing the big picture outcomes of the Australian Dairy Plan consultations with industry stakeholders. Overall, the feedback was constantly positive. There was a level of surprise expressed that the thinking about the needs of the industry was remarkably consistent across what are regarded to be very different dairy production regions. The three aspirations declared for industry in the Plan, being Profitability, Confidence and Unity, were universally consistent with the regional discussions and meetings and thus supported by most.

In discussing industry and Dairy Australia issues with levy payers from across the different Australian dairy production regions, whilst the big picture aspirations are quite consistent, the ideas about how to get there deviate. Disregarding market and milk price issues, the key differences between the regions are around the farming systems used and the productivity drivers of those systems. Differences include fully grass-based systems; supplementary feeding; increased intensification; automation; irrigated pastures; pasture species varieties and feed base in line with regional and climatic conditions. These different systems have different demands on Dairy Australia's RDE program, and this is where a lot of the dissatisfaction among levy payers stems from.

We spoke to farmers who were adamant that Dairy Australia should step up and provide leading edge RDE around best practice supplementary or total ration feeding systems instead of spending so many resources on growing better pastures. We had other farmers who were just as adamant that the future profitability of the industry is based purely on pasture systems as giving the lowest cost of production and the RDE must be focused in this area. Contradictions such as these were common in discussions with grass roots dairy farmers about what they considered were the necessary directions for the industry.

The dominance of the industry in Victoria is also a theme picked up by farmers particularly from other states. Victoria represents nearly two thirds of the total milk production in Australia, with Tasmania and NSW next in line with around 11% each, 5% for SA and 4% each for Qld and WA. This is a tricky dynamic for Dairy Australia to manage in terms of appropriate commitment of RDE investment and keeping all constituents happy. On the one hand, Dairy Australia must provide a full and relevant service to Victorian producers; this is the production engine of the industry and where most of the levy is paid. But some other regions/states will argue that to have a national dairy industry with sufficient critical mass to sustain the industry in the long term, their RDE needs must also be met.

One observation is that for some regions the adaptation imperative under a changing climate may be being felt more acutely sooner. Rapid adaptation of some dairy farm systems, in some regions, to persistently drier conditions – drought and water scarcity - has occurred by necessity over the last few years. For those regions the perception is that Dairy Australia has been flat-footed in recognising this step-change and slow to engage with an RDE response which will assist them to be sustainable under already markedly changed climatic and production conditions.

There are things that Dairy Australia consistently is considered to do well among most levy payers – such as trade and policy advice; delivery of courses and training that upskill farmers and employees; and crisis support. Dairy Australia needs to keep the focus on these strengths and continue to do them well.

The other regional influence and divider of farmer attitudes are the markets being served. Queensland, northern NSW and Western Australia predominantly supply the fresh milk market whilst the south eastern corner of Australia focuses on the processing and export business. As an example, this means that the attitude towards supermarkets and their past policy of pricing milk at \$1/ litre varies across regions and depending on their level of exposure to it (acknowledging that none of them were happy about it). This leads to potentially different policy positions across the country towards dealing with supermarket power and conditions of trading with processors.

These dynamics create fractures in the Australian dairy industry, often manifested by minorities who are vocal and active politically versus the quiet majority, some of whom are frustrated by industry infighting. The majority of feedback to this independent review was positive about the future of the industry and was supportive of the work done by Dairy Australia. But there was also a minority who had strong counter views. There was a popular position expressed to this independent review that the absence of a cohesive industry view and direction is holding back any real chance for the industry to take a united and strong relationship with regulators and legislators to bring the industry forward. As one industry leader observed “everyone wants their hands on the wheel”.

This has driven the “unity” aspiration of the ADP, being pushed by moderate dairy farmers who have a stronger overall view of where the industry stands, what it wants and a reasonable expectation of what the future should look like. From our observations, it would seem that the ADP process has achieved some significant gains, but it has not necessarily brought those with the strong counter views with it.

As a contribution to this independent review, a dairy farmer survey was developed and promoted that sought to assess farmer attitudes towards Dairy Australia and the services and projects that they undertake. This survey had less than 60 responses (from an industry of around 5000) despite being widely promoted, including through the assistance of ADF. The general tone of a lot of the responses was rather negative; some tending towards bitterness pointed at Dairy Australia and its management and directors. It’s difficult to make a generalisation about the average dairy farmer view about Dairy Australia from the survey due to the tendency for such surveys to attract a much greater proportion of negative than positive viewpoints. What was consistent (and would be assumed to be so) is that those respondents who seemed to be most familiar with the Dairy Australia team and activities were the most supportive of the organisation.

During the time this independent review was being completed, the Dairy Australia AGM took place virtually in November 2020. A number of votes were taken during the AGM including:

- one for constitutional change (including the recognition of profitability as an objective which was supported by over 90% of votes),
- one for an increase in the pool of funds for director remuneration (which was supported by around 80% of votes), and
- votes for Board selected versus member nominated director candidates (resulting in all of the Board nominated candidates being appointed with voter support between around 60 and 70%).

These voting results would suggest that levy payer support for Dairy Australia exists, with no signal of there being any significant grass roots objection to Dairy Australia’s existence or its contribution to the dairy industry. It should be noted that only around 16% of eligible votes were cast at the AGM, but even this doesn’t provide any meaningful measure of support or otherwise for Dairy Australia. The results of recent stakeholder surveys would also suggest general levels of satisfaction versus dissatisfaction.

The independent review’s observation is that no one in the dairy industry believes that Dairy Australia is without fault. There is a majority of dairy farmers who believe an organisation like Dairy Australia is important for the industry and they support what Dairy Australia does in that (1) it provides useful information and services to the industry and (2) it is generally trying to do the right thing for the

industry. Notwithstanding this support, there seems to be a minority of highly vocal Dairy Australia (and other industry structure) detractors who ensure that their counter views are heard which they have every right to express.

In between these two polarised positions are groups of farmers who provided to this independent review logical and well-argued views about what Dairy Australia does well and where Dairy Australia needs to improve. In most cases this related to whether Dairy Australia had the direction right for RDE investment. Even in this debate, the views of farmers around where the biggest RDE bang for the industry buck was, were diametrically opposed.

Considering the operating context for dairy (1) highly variable dairy production regions, (2) a complex industry with high information requirements and (3) a vocal minority of entrenched and dissatisfied producers, the communication challenge for Dairy Australia is enormous. This is not new news to Dairy Australia's leadership group and the Marketing and Communications team who have put significant resources into better understanding the differing communication preferences and information needs of individual dairy farmers. These are really valuable initiatives which are discussed in Chapter 5 in the communications and marketing section.

To a certain extent, Dairy Australia's support and resourcing of the eight RDPs to be the first point of contact with dairy farmers, sacrifices Dairy Australia's ability to get closer to dairy farmers. RDPs still attract criticism, but much less so than Dairy Australia, probably due to their local nature, the direct services to farmers they provide and higher likelihood that the individuals involved are known to each other. Dairy Australia seems to have made a broad-shouldered choice that a farmer's good relationship with an RDP is more important than Dairy Australia winning a popularity contest.

Building relationships with 5000 dairy farmers is a very difficult task. From a farmer's perspective, a relationship with an entity is formed from the sum of the relationships with individuals associated with that entity. That means the best relationships are built around individuals, probably face to face and one on one. This is impossible for 5000 individual farmers so there needs to be some strict targeting to maximise the return on investment for effort. One option is for Dairy Australia to target the farmers who are engaged but in a slightly negative way due to misunderstandings or lack of information about Dairy Australia's logic and motivation behind certain decisions.

Farmers who are honest, objective and are willing to be challenging are a gift to industry service organisations and should have the opportunity to be heard. In some comments from dairy farmer supporters of Dairy Australia, the independent review heard about their disappointment when Dairy Australia has been unresponsive to feedback and their perceptions that consultations are not two-way or inauthentic. While Dairy Australia may take a more defensive position due to criticism, being open to and inviting such conversations with those who are generally supportive, but may have alternative ideas, is an opportunity which should not be missed.

With respect to levy payer relations and communication generally, the independent review has made a recommendation. This has been done to recognise and highlight what the independent review has found to be a critical area for Dairy Australia rather than any concern that it is presently being done poorly or that there is a silver bullet solution just waiting for implementation which Dairy Australia has not thought of. The critical importance of dairy farmer communication has not escaped Dairy Australia and the independent review has found multiple examples of efforts to improve its effectiveness

already. Our recommendation is around continuing these efforts and remembering that the best communication happens on the basis of building strong relationships and trust.

## 7.2. Representative Body Relations

### 7.2.1. Australian Dairy Farmers

Australian Dairy Farmers (ADF) is the national dairy industry representative body for dairy farmers and it is a Group B member of Dairy Australia. It has a federated structure whereby the six state dairy farming organisations (SDFOs) are its funders and sole members. These SDFOs include:

- NSW Farmers Association - Dairy Committee (NSWF)
- Queensland Dairyfarmers Organisation (QDO)
- South Australian Dairyfarmers Association (SADA)
- Tasmanian Farmers and Graziers Association – Dairy Council (TFGA)
- Victorian Farmers Federation, United Dairyfarmers of Victoria (UDV)
- Western Australian Farmers – Dairy Council (WAF).

Amongst other avenues, Dairy Australia interacts with ADF and SDFOs through ADF's Policy Advisory Groups. Dairy Australia brings information and analysis to these groups which go on to recommend policy positions to the ADF National Council before they go to the ADF Board.

Feedback from ADF and Dairy Australia indicates there is a constructive relationship between the two organisations with alignment over the common purpose of serving the dairy industry. Strong lines of communication exist between senior members of both organisations. The advocacy responsibility of ADF is clear, with Dairy Australia providing policy analysis and support. Where there may be occasional tensions relates to the resourcing balance between ADF and Dairy Australia. ADF operates with limited resources, making it difficult for them to always be on the front foot. There are times when ADF struggles to engage or provide responses to Dairy Australia at the level or within the timeframe the better resourced Dairy Australia would like. Examples were also given where through the sheer number of Dairy Australia staff in the room, plus their respected expertise versus ADF representatives, there was a risk Dairy Australia views may dominate.

There are also a small number of independent dairy farmer advocacy groups who are not aligned with ADF. These groups as entities are not members of Dairy Australia. Most use social media campaigns to promote their positions around industry issues with the intent to influence politicians or other industry groups. Occasionally, they have held farmer rallies.

One group is Dairy Connect in NSW. It does have a reasonable following as its origin was within NSW Farmers. It is independent, having left NSWF in an organised separation. A new Dairy Committee has been established within NSWF that is still in operation.

Discussions were held with all of the individual SDFOs for the purposes of the independent review – usually an executive officer and the president/ chair of each organisation. Dairy regions around the country have very different issues relating to the market for their product, the environment that they are farming in and the choice of farming system. This diversity is naturally reflected in the key issues on the agenda for each of the SDFOs.

### 7.2.1.1. [South Australia](#)

The South Australian Dairyfarmers Association (SADA) is a member of Primary Producers South Australia (PPSA) and has a membership of around 100 dairy farmers of the approximately 220 in total in South Australia. On a volume of production basis, they estimate they cover around 75% of the industry within the state. When necessary, they have worked with Dairy Australia particularly to source credible information. Sometimes SADA also provides information to Dairy Australia relating to relevant local issues of concern.

SADA works closely with DairySA. They have an understanding where DairySA do the things that matter on-farm and SADA do the things that matter off-farm. SADA supports the Policy Advisory Groups facilitated through ADF and works closely from time to time with Dairy Australia's Trade and Industry Strategy group for objective information on which to base policy decisions. An example was the issue of the SA state moratorium on GMOs where Dairy Australia provided information on the existence or not, of any market advantage from it. Similarly, Dairy Australia has provided useful information relating to Murray-Darling Basin irrigation issues despite different parts of the dairy industry being at odds with each other. SADA comment that their experience in working with Dairy Australia is a positive one.

### 7.2.1.2. [Victoria](#)

The United Dairy Farmers of Victoria (UDV) membership covers around 30% of the dairy farmers in the state. Since Victoria is the major milk producing state, their influence has traditionally been strong nationally. Victoria holds six of twelve votes at the ADF National Council but voting rules dictate that not only a majority of votes but a majority of states voting for a resolution is necessary for it to pass.

The state is divided into ten regions in the north, west and east, representatives of which form a state policy council. There are a number of disgruntled producers, more present in the west of the state – some of this seems to be fed by a misunderstanding of the roles of the various industry bodies. Those farmers who took part in the ADP consultations were more likely to have a better understanding of the mandates of the various industry organisations – both before and after the consultations.

UDV is well connected to the relevant RDPs operating in Victoria (noting that Murray Dairy has members on the other side of the Murray River as well).

Being based in the same city (of the largest milk producing state), UDV at an executive officer level has multiple contacts with Dairy Australia weekly. These are mostly around policy issues. The source of many of the contacts this year was over arrangements for the industry to keep operating under the restrictions around COVID-19. The President of UDV is also the chair of one of Dairy Australia's reference groups and is involved in the PAGs as well.

The UDV representatives described Dairy Australia as professional, thoughtful and helpful. They are happy to assist with information supporting policy development and advocacy and responsive to needs in a timely manner.



### 7.2.1.3. [Queensland](#)

The QDO has around 220 members which represents around 75% of the dairy farmers in the state. Queensland is one of the dairy regions where more or less all farmers are selling into the fresh milk market. At present, they receive some of the best milk prices in the country. But their cost of production is also relatively high compared to other regions which has seen profitability pressures continually reducing the number of dairy farmers over the years.

QDO and the Subtropical Dairy RDP, despite having a common director, do not work closely together and in some ways, seem to be almost competing in the market around farmer extension and adoption services. QDO also have a poor relationship with Dairy Australia; a perception that they do not get value for their levy versus the south-east seems to be at the heart of this discontent. Older Dairy Australia programs were mentioned as having been useful. For example, Managing Mastitis, but the position now is that there's nothing coming out of Dairy Australia that is useful. This includes lack of recognition of the partnership Dairy Australia has with QDAF/UQ to invest in sub-tropical pastures nor cattle tick management or other specific problems the north has to face.

QDO are also not satisfied with the direction being taken by the Australian Dairy Plan discussions. They would like to see much greater direct farmer involvement and are concerned that Dairy Australia has too much influence on the agenda. In terms of a sustainable business model, Queensland is probably the state most under pressure within the national dairy industry. Anecdotally, succession is a problem as farmers' children are not continuing with running the farms in many cases. This probably puts a platform under the level of farmer dissatisfaction that will be very hard to turn around.

There are presently discussions between Dairy Connect, NSW Farmers Dairy Committee and the Queensland Dairyfarmers Organisation toward a potential merger between these bodies. Competition for members in NSW and the resourcing issues faced by the SDFO in Queensland would seem to be putting some pressure on these organisations to come together. The Dairy NSW and Subtropical Dairy RDPs have not been involved in these merger discussions. The merger discussions may be a little pre-emptive of the possible direction the industry body reforms may take during 2021. One option under the ADP restructure could be agreed amalgamations of the Regional Development Programs with the SDFOs.

### 7.2.1.4. [New South Wales](#)

The NSW Farmers Dairy Committee has a membership of around 150 dairy farmers of the states total of around 550. This number is no doubt affected by having to share membership with Dairy Connect. Over the past three years, there have been some discussions between memberships of the entities that they might be more effective working together in a united organisation. Negotiations around such an outcome have commenced as discussed above.

Like Queensland, NSW dairy farmers are mainly supplying the fresh milk market. There are also large pockets of the state where the business model is under pressure, farmer numbers are diminishing and there's a perception that Dairy Australia could do more to help the situation. Some farmers feel that they're getting the leftovers from a Dairy Australia RDE program that's attuned only to Victorian business situations.

Specifically, the NSW Farmers Dairy Committee believes that more RDE relevant to the NSW industry situation is required. Examples include increased RDE around new farming systems with higher levels of intensification, sub-tropical pasture species improvement for the northern regions and best use of supplemented grazing systems.

The Committee did acknowledge a very important role that Dairy Australia does well. They mentioned the great work done by Dairy Australia during the bushfires and in the early stages of COVID-19 to keep industry informed about what the issues were and how to manage at a farm level to keep the business rolling on safely. They also mentioned the work done in trade policy and market access maintenance. People in Dairy was mentioned as great and useful work for dairy farmers employing staff, as was the euthanasia information, Young Dairy Network and Dairy Farm Monitor. DairyBio, Dairy Feedbase and general work on newer farming systems was where they wanted to see more relevance to the NSW situation. There was a suggestion made to better coordinate work with Meat and Livestock Australia in delivering to dairy farmers as some significant levies were being paid to them by dairy farmers for little perceived return.

NSW Farmers also mentioned that they'd like to see the NSW Dairy RDP take a stronger role in influencing Dairy Australia about their farming systems RDE needs. In general, they were supportive of NSW Dairy and would like to see more resources made available to them by Dairy Australia.

#### 7.2.1.5. [Tasmania](#)

At the other end of the country there seems to be a very positive attitude about the future of the industry. The Tasmanian dairy industry comes across as vibrant, making good profits and happy to look after its own issues. The Dairy Council within the Tasmanian Farmers and Graziers Association has a membership that represents the bulk of the industry in Tasmania, but it is acknowledged that smaller farmers are less likely to join. One of the unique characteristics of the industry in Tasmania is the dominance of corporate farms as a proportion of the overall industry.

The Dairy Council has good connections to the RDP DairyTas, but it identified that confusion about their roles means it can be difficult to sign up members when farmers don't understand the differences between the two organisations.

It would seem that dairy farmers in Tasmania are pretty happy and this is reflected in almost a level of apathy towards the ADP consultations and processes in that state. Nevertheless, the direction the ADP is taking broadly reflects what the Tasmanian dairy farmers want according to the Dairy Council. Tasmanian farmers don't necessarily see the ADP as a silver bullet and are prepared to take control of their own destiny. The Council's observation would be that other regions expect the ADP to solve a stack of industry problems, which may be unrealistic.

From time to time, the TFGA team engage with the Dairy Australia policy people. This tends to be around specific issues such as geographical indicators, plant-based product labelling or health star ratings and the like. The feedback is that dealing with Dairy Australia is an overwhelmingly positive experience and that they are fully professional and intelligent contributors.

#### 7.2.1.6. Western Australia

The SDFO in Western Australia is the Dairy Council of the Western Australian Farmers Federation. The WA industry is isolated due to the tyranny of distance which makes the demand/ supply balance for fresh milk very tight. Trying to keep volumes up to the market means that dairy farmers are not always producing to the lowest production cost. Industry perceptions are that the supermarkets take advantage of this and squeeze prices unfairly.

WAF mainly interact with Dairy Australia on issues around policy development, during which their feedback suggests Dairy Australia are very helpful and informative as well as prompt in providing knowledge and advice. In general, WAF interactions with Dairy Australia are very positive. WAF observes that dairy farmers highly value the information and programs provided by Dairy Australia. WAF Dairy Council seems to work closely with the Western Dairy RDP.

### 7.2.2. Australian Dairy Products Federation

Dairy Australia's second Group B member is the Australian Dairy Products Federation (ADPF). It represents the processors, brand owners and other businesses involved in the industry post farm gate and its members (approx. 20 out of total of 140) cover around 85% of the industry volume.

ADPF focuses on the policy and advocacy issues around trade, sustainability, health and nutrition. Dairy Australia provides technical support to the policy development process around these issues. The ADPF team are very appreciative of the input they receive from Dairy Australia and consider them to be a highly professional outfit. They particularly mentioned the input from the Trade and Industry Strategy group. ADPF participates in multiple Dairy Australia committees and groups including the Trade Reference Group, the Nutrition Policy Group, "Dairy Moving Forward", the Calving Induction Steering Committee, the ADIC Water Taskforce (not active), the Sustainability Committee and the Dairy Manufacturing Sustainability Council.

They particularly valued the professional handling of the COVID-19 disruptions by Dairy Australia in keeping dairy farms and the broader industry in operation.

They do not agree in all areas with Dairy Australia, however. ADPF were a little disappointed that their feedback about the new Strategic Plan was not taken more into account. They question the number of KPIs in the Plan and the relevance of some of them. They feel that they had limited influence on the supply chain issues within the Plan.

With the ADP process, there is some pressure coming onto ADPF to financially contribute to a joint industry representative/ services body. ADPF claim that there is a significant amount of in-kind contributions coming from themselves and the processors in the form of market information and participation in industry committees that is not recognised. When a financial contribution is agreed, ADPF will want to see it balanced with expectations of value and accountability.

### 7.2.3. Australian Dairy Industry Council

ADPF and ADF join to make up the Australian Dairy Industry Council (ADIC). It was designed to give a whole of industry, farm to supply chain view for collective representation. The presence of ADIC was more significant in previous years than currently. ADIC has in the past played an important role in

coordinating joint submissions and representations to government when there was a need to put forward a whole of supply chain view.

The decline of ADIC seems in part due to key personnel moving on and taking up other roles in the industry. It is also perhaps a result of the 2016 Murray Goulburn/ Fonterra price wind-backs which lead to a spike of mistrust of processors by dairy farmers which is still evident today. Under ADP it seems likely that ADIC may become redundant.

## 7.3. Regional Development Programs

The eight Regional Development Programs (RDPs) have been referred to frequently already in this report. That is because RDPs are Dairy Australia's front-line industry services delivery entities and they take the lead for Dairy Australia in industry extension. Each RDP has its own unique character and attributes which reflect the state/ region that they serve. Many of those characteristics have been discussed in the earlier section about ADF and SDFOs.

From the perspective of this independent review, the RDPs were a real highlight. They are probably one of the strongest examples of a very functional, de-centralised industry services and extension network supported by any RDC.

RDPs are independent incorporated bodies (either incorporated associations or companies limited by guarantee) and are governed by their own Boards who are mostly dairyfarmers recruited from within their regions. Dairy Australia provides around \$5 million in core funding to the RDPs. Each RDP is then allocated a proportion of this funding based on a number of factors including size of the industry in that region. Advice from RDPs indicates that the majority of their funding comes from Dairy Australia on the basis of an annual operating plan. It is also their most secure source of funding. RDPs are free to apply for funding from elsewhere to augment their resources. This is important as it enables RDPs to source funds specifically to address regional issues and needs. These funds come mostly as short-term project funding from state and federal government programs or industry funds.

RDP services are predominantly the delivery of Dairy Australia funded extension, training courses and communication. Some RDPs manage small applied research projects which address regionally specific questions. The RDPs consult with local dairy farmers to understand local needs and priorities. The Dairy Australia offerings which are most aligned with those needs are then made available by the RDP. Most Dairy Australia courses are generic, making courses like Cups on Cups Off, Farm Business Management and employment services the most popular and consistently identified by dairy farmers. Some RDPs also facilitate local farmer learning groups, networks and young farmer activities. When dairy farmers have been going through tough times, some of these groups have been identified as being really important for mental health and connectedness with community.

The independent reviews interactions with RDP Board and staff members found them to be professional with a strong commitment to servicing their local dairy industries. Some of the RDP extension officers advised that they were putting in a real effort to engage with as many new dairy farmers as they could one-on-one. This seems to be consistent with the Dairy Australia's efforts to build more individual relationships and understanding of dairy farmer needs. While COVID-19 has stymied some face to face activities, RDPs have also reported a willingness by many farmers to use online services more than previously, such as participation on Zoom meetings.

The ties between Dairy Australia and RDPs have become stronger over time. In particular since 2016, Dairy Australia has increased its support for and investment in RDPs following the exit of state government agencies from extension services. In response Dairy Australia has increased funds to RDPs and they have taken on communications and extension functions for the industry which is now every RDP's primary activity. All RDP staff (except one on contract) are employees of Dairy Australia. Each RDP employs from four to ten or more staff. Some RDPs also have a small number of contracted providers who assist in delivery of services – such as training courses. RDPs also have access to and use Dairy Australia administrative and back office support.

RDP Executive Officers (EOs) meet regularly as a group with Dairy Australia Southbank staff and the RDP Chairs and EOs are invited to meetings with Dairy Australia in Melbourne at least once per year. RDP communications officers also work with the Dairy Australia marketing and communications team. While these interactions are positive, the independent review observes that there is an opportunity for Dairy Australia to engage more meaningfully with RDP farmer representatives – chairs and directors. These farmers are generally supportive of Dairy Australia but also bring deep local understanding about farmer needs and priorities in their regions and have views, particularly about Dairy Australia RDE, which they would like to share. At times their feedback to this independent review would suggest that these farmers feel “talked to” by Dairy Australia when they attend meetings and they are not necessarily consulted or listened to.

The independent review believes there is a specific opportunity for Dairy Australia to further strengthen its relationships with RDPs. This requires creation of a more formalised arrangement for RDPs to provide advice and feedback to Dairy Australia about regional RDE priorities. While this occurs informally now, the absence of a formal pathway for RDPs weakens the connection, reduces transparency to farmers and lessens the obligation on Dairy Australia to respond.

Given that the primary source of frustration expressed by regions was concerns to do with the regional relevance of Dairy Australia RDE investments, enhancing the RDP advisory role on RDE priorities not only strengthens communication with regions, it would also demonstrate to farmers that Dairy Australia is receptive to hearing about what they think is needed in RDE. It would also provide additional intelligence about RDE for Dairy Australia to feed into the Communities of Interest.

This could include creating additional opportunities for Dairy Australia and RDP connections to be built with a particular focus on farmers being “listened to”. Such as Dairy Australia Board meetings/ visits to regions which include interactions with RDP Board Directors and local farmers.

In addition, given the importance of RDPs, the independent review believes a more direct relationship between the Dairy Australia RDP Manager and the Dairy Australia MD would be beneficial for communication and engagement.

There are some unique issues and notable characteristics for each of the RDPs which include:

**Dairy NSW** – cedes parts of the state to Subtropical Dairy (in the north) and Murray Dairy (in the south). This RDP was established by Dairy Australia in 1996. There are six members of staff and Dairy Australia funds around 65% of all the RDP resource needs. Some of the state's challenges include having enough critical mass to attract the normal array of dairy service providers (geographically diverse), cost of production (being a fresh milk supplier puts pressure on consistent supply volumes year-round), business management skills and managing risk.

**DairySA** – was incorporated in 1992 and has six staff. Local issues include access to skilled labour and a higher proportion of larger herds to service. The South Australians have a relatively positive outlook for the future of the industry. Dairy Australia funds more than 50% of the required resources. Most of the production is destined for the fresh milk market.

**DairyTas** – was formed around 16 years ago and only has four staff, despite dairy now being one of the biggest agricultural industries in the state (TIA is separately contracted to provide extension services in Tasmania). The state govt is a big supporter of the industry. 45% of the milk volume produced comes from corporate farms, mostly operating in the north-west or north east. Dairy Australia funds around half of the required resources. Around 85% of the milk produced ends up with two of the major processors and nearly three quarters of production is processed for export.

**GippsDairy** – based in the east of Victoria and accounting for more than 20% of the national milk volume with 1200 farmers. Large disparity exists between the most progressive and innovative farmers with others very traditional and averse to change. Mostly pasture based systems – perennial ryegrass – but with drier recent years, more fodder being used and necessity to re-sow pastures. Also, many share farmers along with an increasing presence of foreign funds in corporate farms. GippsDairy has six staff members.

**Murray Dairy** – was one of the first RDPs to get up and running and has ten staff at present. Region is in active transition from irrigated grass-based dairy systems to intensification of feeding at key times of the year. The last five years have been torrid – drought, floods and extreme heat events. Farm numbers are down by 30%. Some consolidation is occurring to larger farmers, some farms shifting to other uses. More competition for water for irrigation has halved the use in the industry. They feel that too much of the Dairy Australia RDE program is now irrelevant to them due to the shift in farming systems underway.

**Subtropical Dairy** – Servicing some 500 dairy farmers in their region (with five staff members), three quarters of whom reside in Queensland. Critical regional issues include pressure on profitability due to high costs, more regular occurrence of drought and finding efficient feeding systems. Despite the country's highest milk prices, many producers are not profitable. Poor relationship with the Queensland SDFO for about the last four years.

**Western Dairy** – Western Dairy was first established more than 20 years ago and is today based in Bunbury with four staff. They work closely with the Agriculture and Food group with the state government on regional pasture variety trials. Regional issues include servicing predominantly the fresh milk market, pressures on cost of production across some parts of the year, and cost of supplementary feed. The industry in WA is relatively small producing only 4% of the national volume.

**WestVic Dairy** – operates in Western Victoria since around 2000, presently with ten staff and accounting for more than 20% of the national milk production. Regional issues include labour availability, competition for good dairy land (moving farms into other commodities in some cases) and making the most of pastures/ minimising purchased feed to maximise profitability. Region has a history of vocal producers with strident views and many do not support the ADP.

In spite of the ties between Dairy Australia and RDPs becoming stronger, Dairy Australia has allowed RDPs to continue to operate independently. The independent review considers this to be a real credit to Dairy Australia as it allows each RDP Board to govern relatively autonomously and to be a voice for

their farmers to Dairy Australia on particular issues. RDPs are empowered to tailor their activities and services to meet the regional circumstances and the specific needs of their farmers. It also enables most of the RDPs to work with their SDFOs on local issues.

## 7.4. Government

### 7.4.1. Department of Agriculture, Water and Environment

The relationship of DAWE with Dairy Australia is governed through the Statutory Funding Contract expiring on the 26<sup>th</sup> June 2021.

DAWE were one of the first external stakeholders of Dairy Australia that we met with as a part of this independent review. This was due to the SFC pre-determined obligation to check with DAWE as to whether there were any specific issues they would like addressed that were not covered in the terms of reference for the independent review outlined in the SFC. DAWE had already through Dairy Australia suggested the independent review cover issues around Dairy Australia's collaboration activities; the effectiveness of the cross sectoral collaborations with other RDCs and the success of the co-investments with other research partners in particular.

As mentioned previously in this report, the Dairy Australia enabling legislation and the SFC both mention "strategic policy development" as a service that Dairy Australia is mandated to provide to the industry which is a diversion from the normal RDC provided services. This difference to the standard RDC model does not seem to be fully understood as to how it originated but in practice, it doesn't seem to have significantly changed the types of activities Dairy Australia undertakes. It is realised through Dairy Australia's contributions to the ADF's Policy Advisory Groups, whereby Dairy Australia provides an evidence basis for the representative bodies to use in developing industry policy. Irrespective of this role, Dairy Australia is not permitted to undertake advocacy on its own according to the SFC conditions.

The department mentioned that Dairy Australia was not an RDC that caused them any level of anxiety or extra work; they were a cooperative and active partner that seemingly performed at a high level with strong governance and compliance with the SFC.

The department specifically mentioned the very good cooperation of Dairy Australia during the bushfire and COVID-19 crises where communication between the entities was very effective and any requests of the department were followed up promptly.

The next SFC that will be negotiated with Dairy Australia, commencing with the release of the final version of this independent review report, will be a significant change from previous versions. The department, with input from a lot of the RDCs including Dairy Australia, have developed a new SFC template built around five principles - which is already in place for a handful of other RDCs. The shift away from the much more prescriptive and perhaps less efficient traditional model is a positive move by the department. It is the opinion of the reviewers that this style of document will be well suited to the type of relationship that Dairy Australia and the department should share. Dairy Australia as a responsible partner, will prefer to work with a more open and outcome-based understanding with one of its major financial contributors.

The new SFC template has already been used in the renewal of the Australian Pork Limited (APL) funding agreement with government, with some slightly amended clauses dealing with APL's advocacy responsibilities. This indicates that this style of agreement should be appropriate for any new form of united dairy industry body that exists in the future as a result of the dairy industry structural reforms under the ADP.

With respect to potential future industry organisational structures as a result of the reforms being discussed within the workings of the Australian Dairy Plan, the government seems to be well informed of the subject matter of these discussions. The government advised that it does not have a view at this stage as to what are the right future structures that it would support. They are waiting to see what industry support exists for which model. The department advised that Minister wants strong unity on a future position that the government might consider.

### **7.4.2. Agriculture Victoria**

Agriculture Victoria (AgVic) is the state government agricultural agency for that state. Given the importance of the dairy industry for Victoria, Dairy Australia has had a long relationship with AgVic and its predecessor bodies in together providing services to Victorian dairy farmers.

Consistent with most other states, the Victorian government has been moving out of their traditional services to agriculture, in particular the extension roles. Dairy Australia has attempted to fill this gap through the support and funding of the RDPs, three of which operate in Victoria.

One area that AgVic has not been moving out of, is in the area of dairy RDE where they possess world class facilities for research into the genetic improvement of both dairy cattle and pasture. Along with facilities and expertise in pasture management, these are the bases for the unincorporated joint ventures – DairyBio and Dairy Feedbase – that AgVic hold with Dairy Australia and the Gardiner Foundation. These are described in more detail in Chapter 5.

The facilities and researcher capabilities that AgVic possess are more than a state asset; they are being leveraged for more productive cows and pastures across the whole country. Dairy Australia have a strong motivation to work with AgVic through their joint ventures to help retain and leverage this valuable capability. Consistent with the principles of the NPIRDEF (the Framework), the Victorian government recognises its core competencies in a few agricultural sectors – dairy being the major one – and continues to invest in it.

## **7.5. Processors**

Contact with dairy processors for this independent review was limited; occurring through meetings with ADPF (see separate section in this chapter) and processor involvement in regional meetings organised through the RDPs. Some attempts at more direct individual contact were unsuccessful.

As would be expected, the main focus of dairy processors is on their own brands and their own business. Industry discussions resulted in a consistent theme of a relative unfamiliarity of processors with what Dairy Australia does for the broader industry.



Marketing is a core competence of the processors to support their brands. There is limited recognition of the Dairy Australia marketing strategy by processors and its shift over recent years away from more direct demand creation to building community trust. There is a better understanding of the Dairy Australia role around supporting and maintaining trade volumes through market access efforts.

Processor relationships with dairy farmers and their representative structures, have taken a hit over the past few years as a result of the milk price wind-back controversies and the general trend of multinationals buying up milk cooperatives and local milk processors. This has resulted in a faction of dairy farmers rejecting the intent of the ADP whereby processors are included “in the tent” as an important and recognised part of the industry. They apparently fear that the processor views will dampen and compromise the voice of grass roots farmers and the perception that they have substantial financial resources adds to this.

## 8. Collaboration

Dairy Australia identifies that it collaborates with universities, state and federal governments, RD&E organisations, agricultural industry agencies, commercial agricultural companies, non-government organisations and Cooperative Research Centres. In 2019/20, Dairy Australia contributed \$899,033 into cross-sectoral collaboration (this does not include in-kind contributions).

### 8.1. RDE Collaboration

Dairy Australia's RDE collaborative partnerships are powerful examples of the value, capacity, R&D infrastructure and leverage which can be built from levy payer funds through a willingness to commit to long term RDE partnerships. For a mid-sized RDC with a slowly declining revenue base, these partnerships seem to demonstrate real value to the dairy industry and secure dairy R&D capability for the industry in the long term. The partnerships are described in more detail in Chapter 5.

It could be argued that Dairy Australia has delegated the management and control over a large proportion of its levy payer funds to collaborative RDE joint ventures (JVs) and partnerships. Dairy Australia does not do this lightly. The motivation is the access to world class facilities and capabilities at a price that, if Dairy Australia tried to fund alone, it could never hope to achieve a comparable RDE program. Dairy Australia views the compromise as one that at the end of the day leverages significant additional investment for levy payers into dairy R&D, not only in Victoria but in most parts of the country.

Dairy Australia also has international partnerships with DairyNZ and Michigan State University. In the 2019/20 Annual Report, Dairy Australia also advised that in the final year of the Pastoral Genomics project, they partnered with DairyNZ, Beef & Lamb NZ, AgResearch and a number of commercial partners looking at plant genomic and phonemic research.

Dairy Australia's main collaborative RDE partnerships are:

- DairyBio (UJV)
- Dairy Feedbase (UJV)
- DataGene (JV)
- Partnership with Tasmanian Institute of Agriculture
- Partnership with Queensland Department of Agriculture and Forestry.

## 8.2. Research and Development Corporations

Dairy Australia, being one of the 15 rural research and development corporations, is involved with other RDCs through the regular meetings of the Council of Rural RDCs (CRRDC), joint activities and projects.

Feedback is that Dairy Australia are solid contributors to the Council through both the Chair and CEO. They are generally respectful of the concept around the benefits of working together on issues of common interest. Dairy Australia also sits on the National RDE Framework Research and Innovation Committee and has been a long-term advocate for the Framework approach.

Probably the most significant initiative of the RDCs is the establishment of Agricultural Innovation Australia Ltd (AIA) in 2020. All fifteen RDCs are members of this new entity and other organisations are expected to join including the private sector and some research providers. AIA assists in the RDCs response to DAWE and the Federal Minister's priorities around stronger coordination and co-investment in cross-sectoral, transformative R&D initiatives for Australian agriculture.

The commitment to membership of this new entity occurred in a staggered way among the RDCs, with a core of six first putting their support forward. Dairy Australia committed soon after, followed by the remainder of the RDCs. Discussions with the Federal Minister ultimately secured support at a unanimous level. There are four tiers of membership of AIA, with Dairy Australia occupying a second-tier membership involving an annual payment of \$175,000 to support the base organisational costs. Any investment into a specific cross sectoral RDE strategy within AIA would be on top of this amount. The first likely such strategy will be investing in a climate research for agriculture initiative. A proposal is well advanced having been developed jointly by the RDCs.

Over the years, the Council has also invested in a whole of agricultural industry benefit cost analysis (BCA) of the work of the RDCs with the support of the individual companies providing their own analyses for consolidation. The Council, through a working group, came up with some guidelines as to how BCAs should be conducted by the individual RDCs (or their contractors) to enable a like with like amalgamation, the results of which could be communicated more publicly detailing the positive impacts of the RDC system. The last time this was conducted was in the 2018/19 year and Dairy Australia was a contributor to the study. There were some issues as to the acceptability of certain BCAs from Dairy Australia and quite a few other RDCs due to the strict randomised sampling of project evaluations that was expected. Nevertheless, in the broader picture, Dairy Australia has been a positive contributor of ideas and insights for both the evaluation guidelines that were created as well as the specific multi-party analyses.

Dairy Australia has also used the opportunities of collaboration, at both a Council level and with individual or groups of specific RDCs, through a number of other initiatives, some examples of which are listed below:

- Cross-sectoral National RD&E Strategies – Dairy Australia is or has been an active member of a number of the cross-sectoral strategies including: Animal Biosecurity; Animal Welfare; Plant Biosecurity; Soils; Water Use in Agriculture and the Australian

Food and Wine International Trade Collaboration Group. Dairy Australia was a member of the Climate Research Strategy for Primary Industries until 2018/19, but is no longer a member

- RuralR&D4Profit Program – Dairy Australia participated in a number of projects within the various rounds of this program, both as participant and as lead agency. These included work in the areas of stimulating private sector extension in Australian agriculture, “Smarter Irrigation”, black soldier fly technologies, virtual herding technologies and animal industries waste management
- Emerging National Rural Issues (ENRI) – this program is managed by Agrifutures and facilitates a cooperative approach to investing in emerging issues for agriculture for future R&D or policy work. Most of the RDCs including Dairy Australia are active participants
- People in Agriculture – a number of RDCs including Dairy Australia have supported this initiative to link agricultural employers with employees through a website.
- Dairy Australia also partners in More Profit from Nitrogen; Forewarned is Forearmed; Agroforestry; Phosphorus Efficient Pastures and the National Pasture Genebank.

“Dairy Moving Forward” is the dairy industry strategy established under the National Primary Industries RDE Framework (NPIRDEF) established over 10 years ago. The primary source of advice, intelligence and feedback about RDE priorities is sourced from the Dairy Moving Forward Communities of Interest which continue to operate, Dairy Australia appears to have one of (if not the) longest standing commitments to the sectoral strategies which were first developed under NPIRDEF.

### 8.3. Australian Dairy Plan

The ADP has been mentioned consistently in this independent review report in the context of Dairy Australia’s contribution towards it and the potential changes to the industry structures envisaged within it. The Dairy Australia Strategic Plan 2020-2025 has also been developed in parallel to the ADP and in a way consistent with the directions noted through the dairy farmer consultations.

It is clear that Dairy Australia have put a lot of effort into supporting and resourcing the ADP processes over the last 18 months. This has increased the workload on many Dairy Australia managers on top of their normal day to day responsibilities. The reform of dairy representative structures planning which has followed the ADP also builds some uncertainties for the future about Dairy Australia operations and the managerial roles within it.

It is commendable that during this independent review, we have found no evidence of the underperformance by Dairy Australia against its core business – its normal mandated responsibilities. This is in spite of the significant inevitable distractions caused by involvement in the ADP processes. This has been and remains a risk to the organisation, as the rollout of the Plan and the ongoing deliberations around dairy representation reform proceed. The Dairy Australia leadership team and Board need to be sensitised to the ongoing possibility of the ADP capturing the attention of Dairy Australia, at the expense of the quality of services and programs normally delivered.

The ADP process through its dairy representation reform component has built some high expectations within the industry broadly, of a single future industry body handling all aspects of dairy industry services, representation and advocacy. There are likely to still be some significant hurdles to overcome before this could be a reality. The risk for Dairy Australia is that if the ADP representation

reform is seen as a failure by farmers, Dairy Australia, as the major partner in the process, will be blamed for that failure.

There would seem to be a clear need in the short to medium term for clarity from all of the ADP partners about what future reformed industry structures should look like from their perspectives. The broad and generally successful industry consultations for the ADP give the industry a strong mandate to take a position to the Commonwealth and to negotiate what could be possible. While it is beyond the scope of this independent review to make recommendations about the progression of the ADP, the outcome will have consequences (positive or negative) for Dairy Australia's relationships with its industry stakeholders. Feedback to the reviewers suggest there has been a hiatus in communication with farmers about progress in representative structure reform. The reviewers suggest communication in the near future is therefore important to assist in managing expectations about what is achievable from dairy representative structure reform. Otherwise, there is real risk that Dairy Australia will face a potential backlash due to perceptions of failure when ultimate structures do not line up with single entity aspirations.

## 9. Findings and Recommendations

### 9.1. Findings 2020

Dairy Australia is an effective organisation run by professional people who seem to care about what they do. There is appropriate governance and a healthy focus on continuous improvement of structures, systems and processes. There is a strong orientation toward service and value delivery to Australian dairy farmers.

There are some real highlights in what Dairy Australia has achieved during the last four years. These include:

- **Community Trust:** Dairy Australia has adopted a major shift in its consumer and community marketing and communications approach. The transition from driving consumption of dairy to community acceptance and trust in the dairy industry has resulted in Dairy Matters. Dairy Matters is responding to consumers wanting to know where their food comes from and what the industry is doing for their animals and the environment. The industry's Sustainability Framework is a robust existing platform from which Dairy Australia can engage with consumers on these subjects. The Framework is one of the first and leading examples in the Australian agricultural sector of an industry committed to transparency and accountability for the sustainability of its practices. Of credit to Dairy Australia, has been engagement with dairy farmers to give them confidence that focusing on trust over consumption would benefit the industry in the long term
- **Crisis responses:** Industry and government stakeholder feedback consistently identified that Dairy Australia's responses in support of industry members and the assistance they provide during industry crises are exceptional. A leading example is COVID-19 which raised complex issues for the industry – in particular ensuring dairy was considered an essential service and additional support and advice around staffing, farm to processing transport issues and the movement of products across state borders
- **Regional Development Program:** The RDPs are shining examples of de-centralised industry services and extension provision. Dairy Australia has allowed RDPs to continue with the independent governance and operations which enable the RDPs to tailor their activities and services to meet the regional circumstances and specific needs of their farmers. RDPs are also free to seek additional funding and partnerships independently of Dairy Australia to meet regional needs. The expansion of RDPs into farmer extension since 2016 was a particularly valuable outcome identified by farmers consulted during the independent review
- **Longevity and Security of R&D Investment:** Dairy Australia's RDE portfolio is dominated by large, long term collaborative partnerships with a small number of research partners. These partnerships have achieved significant critical mass in dairy research and development and have motivated additional investment in and the retention of key research infrastructure and talent by partners. Considerable leverage of dairy levy funds has also been achieved in these arrangements. Such partnerships allow for ambitious outcomes to be set with the potential to significantly "move the dial" on profitability and productivity in the industry
- **Australian Dairy Plan:** The ADP process has largely been viewed as a success by most industry members consulted under this independent review. The willingness of Dairy Australia to engage and assist the industry during this process is seen as a

positive demonstration of Dairy Australia's commitment to the industry it serves. While there are some risks for Dairy Australia in the final stages of structural reform, particularly around expectations in 2021, the beneficial role that Dairy Australia has played so far should not be understated

- **Internal reforms of Structure, Systems and Processes:** Dairy Australia has embarked on an ambitious and extended reform program to modernise all dimensions of the operations of the company. It is a credit to Dairy Australia that, while it is clear team members have operated under high workloads to deliver this reform, there is a positive intent, confidence and commitment expressed by management about what has been achieved. While it is not possible to fully evaluate the success or otherwise of these reforms in this independent review period, the changes which have been made are consistent and appropriate for an organisation of the size, complexity and investment capability of Dairy Australia.

The pace of change within Dairy Australia over the past four years has been impressive but has also inevitably provided this independent review with some opportunities to look for different ways of doing things that might represent improvement. The recommendations below are made in the spirit of looking for continuous improvement at a pragmatic level.

### 9.1.1. Business Systems and Processes

Dairy Australia has put a great deal of effort into strengthening their business systems, structures and processes which will no doubt improve organisational governance, accountability and confidence in reporting. Ongoing monitoring of the implementation of these systems and processes is necessary by the leadership team to avoid a shift away from adaptability, flexibility and responsiveness.

The ability of the organisation to focus its efforts on the areas of greatest impact for stakeholders is critical to its success. This also needs to be reflected in the provision of information for the Board, enabling their skills to be used to greatest effect.

Item	Business Systems and Processes
<b>Theme:</b>	<b>Striking the Right Balance</b>
<p>The rigour which underpins Dairy Australia's compliance, systems and processes is considered by the independent review team to be a real strength. Dairy Australia is not overly burdened by process. However, there has been a very strong focus on the internal reform process which continues today. Dairy Australia will have the opportunity to refine, rationalise and streamline processes when opportunities arise, thereby ensuring that the appropriate balance is achieved between attention on internal requirements versus outward focussed dairy industry services. There are likely to be opportunities as the new arrangements are bedded down to simplify and make refinements.</p> <p>There are significant downsides if systems and processes are allowed to become onerous or the value proposition is not evident. Buy-in by team members can be lost leading to the proper intent being ignored, avoided, worked around and considered "someone else's responsibility".</p> <p>Dairy Australia has recently completed a substantial reform of its policies and procedures. These are critical to good governance, legal compliance and effective operations of the organisation. It is important that they are remembered, complied with and understood by staff. This suggests that a "less is more" approach is likely to achieve better compliance with those policies and procedures that are critical to the functioning of the organisation. It is not necessary for every task to be described within a policy or a procedure.</p>	

Item	Business Systems and Processes
<p>As has already been noted, the independent review is not concerned that Dairy Australia has overdone its process, policy or procedure changes. However, the changes in this area have been significant and sometimes the temptation may be to perpetuate the change process rather than bedding down and critically assessing the effectiveness of what has been adopted. This balance requires the ongoing attention of the leadership group.</p> <p>There have been minor concerns raised that if the workload of the Investment Review Panel becomes too great, the process may become unwieldy and slow. So far this has not been the case and the IRP is considered a very useful forum. There will be the opportunity to focus the IRP to where it adds the most value to investment decision making.</p>	
<b>Recommendation</b>	The leadership team continue to monitor the development and implementation of company systems and processes with an eye to optimising the value-add that they provide through the right balance of rigour and responsiveness.
<b>Theme:</b>	<b>Board Reading Material</b>
<p>The reviewers observe that the Board seems to continue to be provided with a large amount of written material. It is noted that the independent review was undertaken at a time when the Board was dealing with a large number of approvals – such as the reform of policies and procedures. Most Directors interviewed did indicate that the issue is being proactively addressed and papers have become more succinct. Appendices might be used for non-essential material provision for the Board to reduce the compulsory reading.</p> <p>Time is limited at Board meetings to get through the agenda and prioritising areas that require discussion is good practice. It's always preferable to discuss decision items even when the outcome seems obvious. Often, giving an opportunity for clarifying or questioning can lead to some non-obvious consequences of decisions coming to light.</p>	
<b>Recommendation</b>	The Board continue to work with management to reduce the amount of compulsory reading within the board meeting papers to ensure that the Board's time is used to the greatest value to the organisation.

### 9.1.2. Australian Dairy Plan

Dairy Australia's engagement in the Australian Dairy Plan (ADP) process during the last 18 months is considered by the independent review to be a very positive contribution toward assisting the industry to move forward on a more unified platform. The workload generated by the ADP has been significant. The reviewers note that given the reform of industry representation continues, ADP will require Dairy Australia attention in 2021.

Item	Australian Dairy Plan
<b>Theme:</b>	<b>Focus on the Mandate</b>
<p>It is clear that Dairy Australia have put a lot of effort into supporting and resourcing the ADP processes and it has created a significant workload for the MD, Board and management. There is a risk of the ADP distracting Dairy Australia attention and resources away from its core business. Given the implementation of the ADP continues in 2021 and is dealing with – amongst others - the difficult question of reform of industry representation and structures, Dairy Australia's engagement and assistance will continue to be required. There will therefore be a continuing risk of Dairy Australia being distracted from its core business, where this does not overlap with the ADP.</p>	



Item	Australian Dairy Plan
	<p>While acknowledging that the Dairy Australia attention to the ADP implementation will continue into 2021, to diminish the impact on Dairy Australia's normal service delivery, Dairy Australia may need to corral the inputs into the ADP processes to a few key and senior staff members, leaving the rest of the team to focus on business as normal.</p> <p>This risk may also increase given the future of the structure of Dairy Australia itself will come under further scrutiny. The reviewers consider this structural reform stage will require Dairy Australia to place heightened attention on its role and obligations as an RDC, both to levy payers and the Commonwealth. All indications are that Dairy Australia's Board and management are aware of this risk and are working to actively manage it.</p> <p>There will also be an increase in uncertainty for Dairy Australia staff, given a new future arrangement may lead to changes in Dairy Australia's structure, operations and management.</p>
<b>Recommendation</b>	<p>The Dairy Australia Board and MD monitor Dairy Australia's continued engagement in the ADP to ensure it doesn't create too great a distraction away from core business or is not creating excessive workloads for key personnel. Corraling the impact of the ADP on the organisation through specific responsibilities for it within the company structure would seem appropriate. Having a plan to manage the extra workload, potentially bringing in outside contractors to help with key tasks, may also be valuable.</p>
<b>Observation</b>	<p>ADP reform may create uncertainty about the future for Dairy Australia staff. Consistent communication from the executive about Dairy Australia's future will be needed to give confidence about job security and to support staff morale.</p>
<b>Theme:</b>	<b>Expectations about Industry Structures</b>
	<p>"Making promises you can't keep" – dairy farmers largely do not appreciate the differences between service provision (Dairy Australia) and representation (ADF and ADPF). When farmers pay levies, it is with an expectation of full-service delivery and returns in all of the areas important to them.</p> <p>One of the ADP objectives is "Unity". This points towards new industry structures where advocacy and other services like RDE and marketing/ communications/ trade are performed under one roof. There is a possibility that the aspirations of many dairy farmers for the industry to have a single entity will prove to be challenging, with a number of different stakeholders to be aligned for this to happen. The independent review has concerns that if levy payer desires are not met, the unjustified responsibility pointed at Dairy Australia could be significant.</p> <p>The levy poll legislative requirement also become active in 2021. There is a risk that if uncertainty continues around representation, and Dairy Australia is seen to have failed to deliver on expectations, that the levy poll process could lead to a negative result for Dairy Australia. This risk needs to be proactively managed by Dairy Australia.</p>
<b>Recommendation</b>	<p>The expectations about the future of industry representation need to be proactively managed. A sustained, consistent communication campaign around Dairy Reform is important for transparency to industry and to manage expectations and needs to be delivered with strong spokespeople from relevant industry bodies. It needs to be clear to levy payers that this is an industry initiative and not one of Dairy Australia alone.</p>
<b>Observation</b>	<p>Increased engagement by Dairy Australia with the Commonwealth is now needed as the ADP moves into the representation reform stage in order for clear messages about workable industry structures that can be shared with stakeholders.</p>

### 9.1.3. Dairy Farmer Communications

With respect to levy payer relations and communication generally, the independent review believes that Dairy Australia applies an appropriate level of attention to this task. The task however is considered so vital to Dairy Australia's future ability to service the needs of dairy farmers and to build and maintain their support, that it is included as a recommendation.

Item	Dairy Farmer Communications
<b>Theme:</b>	<b>Seeking Continuous Improvement</b>
<p>The independent review believes that Dairy Australia invests significantly in building its understanding about the needs of dairy farmer levy payers and how it can service those needs through its RDE, trade and policy, and communication activities. Dairy Australia also seeks feedback annually via surveys from levy payers about its performance. The feedback to this independent review indicates a majority of dairy farmers support the work done by Dairy Australia. But there is also an active group of Dairy Australia detractors who do not believe Dairy Australia meets their dairy farming needs and who will advocate against Dairy Australia.</p> <p>Other recommendations in this independent review also point to the need for ongoing levy payer communication to build understanding about benefits from Dairy Australia activities and to address misconceptions about what Dairy Australia does and does not do.</p> <p>The seeming constant cycle of the turmoil – fighting with itself – which the dairy industry seems to experience creates an environment which will lead to criticism. In this environment, Dairy Australia will always be a target for all of the issues being faced by the industry, regardless of whether they are within Dairy Australia's sphere of influence.</p> <p>The critical nature of dairy farmer communication has not escaped Dairy Australia. The independent review found multiple examples of efforts to improve communication effectiveness. Building a relationship with 5000 dairy farmers is a very difficult task. For farmers, their relationship with Dairy Australia will be the sum of the parts with which they interact and experience. That means the best relationships will be built around those individual interactions.</p>	
<b>Recommendation</b>	Dairy Australia continue to maintain a high level of attention and effort toward communicating effectively with dairy farmer levy payers. This includes understanding individual needs and motivations. Communication should not only satisfy those who support the work of Dairy Australia but should also seek to share information with those who are less engaged or who have expressed criticism.
<b>Theme:</b>	<b>Communicating Benefit of RDE Partnerships</b>
<p>Dairy Australia's major RDE partnerships are important assets to the dairy industry. However, the benefits of those partnerships were poorly understood by many of the dairy farmers consulted during this independent review. There were also some strong views within some regions that these partnerships offered no benefits to their farmers.</p> <p>This is a key area of improvement and an opportunity for Dairy Australia in farmer communication. Dairy Australia needs to get better at explaining what its major RDE partnerships are doing for farmers. For this to have impact and meaning, the communication needs to be regionally and production system relevant.</p> <p>There is the potential for RDP team members, who are excellent advocates for Dairy Australia, to do more in this space but they will need to be well briefed and have access to resources that give them confidence to talk more about Dairy Australia's RDE activities.</p>	
<b>Recommendation</b>	Dairy Australia to specifically target farmer communication to demonstrate the benefits of its major RDE investments in the context of specific regions and

Item	Dairy Farmer Communications
	production systems. This needs to include an explanation by Dairy Australia about how regional RDE priorities are being addressed.
<b>Observation</b>	Dairy Australia could prepare a matrix of regional R&D requirements mapped against its RDE programs to assist in the communication effort.
<b>Observation</b>	RDP executive officers, extension and communication staff are invaluable assets to Dairy Australia in terms of local intelligence about what is important to farmers. They could be more directly engaged and asked to assist in meeting the RDE communication challenge.

#### 9.1.4. KPI Discipline

The effort put in by the Dairy Australia team towards strategic planning, evaluation and reporting has been significant over the past couple of years. High levels of transparency are commendable but there's the risk of the loss of the link between strategic and annual achievement against targets without some further action.

Item	KPI Discipline
<b>Theme:</b>	<b>Annual Targets and Baselines</b>
<p>Dairy Australia's evaluation approach has evolved over the last four years which has weakened the consistency in performance narrative. There have been two Evaluation Frameworks – 2018 and 2020.</p> <p>A key strength of the new Strategic Plan's Evaluation Framework 2020 are the outcomes focussed measures of success. Previous KPIs were more activity-based. There is strong merit in measuring and reporting impact and Dairy Australia should be commended for committing to this path. There will be challenges to manage in terms of the evidence-base that proves the impacts can be attributed to Dairy Australia.</p> <p>Quarterly reporting enables Dairy Australia to track the progress of projects during the year. These reports are referred to as dashboard reports. The example supplied to the independent review was excellent in terms of content but it was 85 pages long, which does not seem to be a dashboard.</p> <p>Ex-ante project benefit cost analyses (BCAs) are completed internally by Dairy Australia. This gives internally evaluated measures of impact. A small number of ex-post evaluations are completed externally by independent economists each year. There has been some disagreement between the review team and Dairy Australia about inclusion of performance targets/ metrics in Annual Operating Plans (AOP). The 2020/21 AOP does not contain any metrics which link the within year activity with the five-year outcomes sought under the Strategic Plan. Qualitative narrative is provided to explain the intent of activities. Dairy Australia advice has been that the 2020/21 AOP is necessarily qualitative given it was released prior to the launch of the 2020 Strategic Plan. The absence of quantitative measures in the AOP will make it more difficult to track how the investment each year is building toward the five-year outcomes.</p> <p>The independent review has noted that many of the baselines for the KPIs proposed under the new Strategic Plan Evaluation Framework 2020 are TBC and yet to be published. It is therefore impossible to assess whether KPIs are aspirational, ambitious, modest or business as usual.</p>	

Item	KPI Discipline
<b>Recommendation</b>	Dairy Australia consider how targets/ measures in the AOP can be used to create stronger linkages between performance year on year with the five-year outcomes of the 2020 Strategic Plan.
<b>Recommendation</b>	Dairy Australia ensure all KPI baselines under the 2020 Evaluation Framework are confirmed and published prior to the end of 2020/21.
<b>Observation</b>	Consider expanding external verification of ex-post Benefit Cost Analyses.
<b>Observation</b>	A Dashboard format for quarterly reporting would achieve more concise reporting on project progress.

### 9.1.5. Regional Development Programs

The eight Regional Development Programs have been a real highlight in this independent review. The autonomy with which they operate enable them to focus on services and extension which meet the specific needs of regional dairy farmers. Allowing this level of independence, whilst being the primary investor, is a credit to Dairy Australia. There are opportunities for Dairy Australia from engaging the RDPs in a few specific areas.

Item	Regional Development Programs
<b>Theme:</b>	<b>Realising the Opportunity</b>
	<p>The RDPs are Dairy Australia's front-line industry services delivery entities and they take the lead for Dairy Australia in industry extension. Each RDP has its own unique character and attributes which reflect the state/ region that they serve. They are probably one of the strongest examples of a functional, de-centralised industry services and extension network supported by any RDC.</p> <p>The ties between Dairy Australia and RDPs have become stronger over time. Feedback from RDPs was positive about their relationship with Dairy Australia and the support it provides. There are high levels of interaction between Dairy Australia and RDP staff members at executive officer level and between extension and communications officers, amongst others.</p> <p>The independent review believes there is a specific opportunity for Dairy Australia to further strengthen its relationships with RDPs. This requires creation of a more formalised arrangement for RDPs to provide advice and feedback to Dairy Australia about regional RDE priorities. While this occurs informally now, the absence of a formal pathway for RDPs weakens the connection, reduces transparency to farmers and lessens the obligation on Dairy Australia to respond.</p> <p>Given that the primary source of frustration expressed by regions was concerns to do with the regional relevance of Dairy Australia RDE investments, enhancing the RDP advisory role on RDE priorities not only strengthens communication with regions, it would also demonstrate to farmers that Dairy Australia is receptive to hearing about what they think is needed in RDE. It would also provide additional intelligence about RDE for Dairy Australia to feed into the Communities of Interest.</p> <p>This could include creating additional opportunities for Dairy Australia and RDP connections to be built with a particular focus on farmers being "listened to". Such as Dairy Australia Board meetings/ visits to regions which include interactions with RDP Board Directors and local farmers.</p>

Item	Regional Development Programs
	In addition, given the importance of RDPs, the independent review believes a more direct relationship between the Dairy Australia RDP Manager and the Dairy Australia MD would be beneficial for communication and engagement.
<b>Recommendation</b>	RDPs be enabled to take on a more formalised role in two-way communication between Dairy Australia and RDPs about regional RDE priorities and Dairy Australia RDE priorities
<b>Recommendation</b>	A more direct relationship between the Dairy Australia RDP Manager and the Dairy Australia MD should be adopted to strengthen RDP communication with the Dairy Australia executive.

### 9.1.6. RDE Partnerships

Dairy Australia's long term RDE Partnerships are an important asset to the dairy industry. Within these partnerships resides significant research infrastructure, assets and talents. It is important to ensure Dairy Australia has struck the right balance between commitments to partnerships and direct discretion over its RDE funds.

Item	RDE Partnerships
<b>Theme:</b>	<b>Confirm Alignment and Value Proposition</b>
	<p>Dairy Australia's RDE portfolio is dominated by large, long term collaborative Joint Ventures and research partnerships. They are DairyBio, Dairy Feedbase, DataGene, Tasmanian Institute of Agriculture and Queensland Department of Agriculture and Fisheries.</p> <p>These partnerships are very important to dairy industry RDE. They have achieved significant critical mass and have motivated additional investment in and the retention of key research infrastructure, assets and research talent. They are also important for securing state government commitment to invest in the dairy industry at a time where competition is increasing for government funds from expanding industries like beef. Considerable leverage of dairy levy funds is achieved through these arrangements. Such partnerships allow for ambitious outcomes to be set with the potential to significantly "move the dial" on profitability and productivity in the industry.</p> <p>Dairy Australia requires a balanced portfolio between partnerships and stand-alone RDE investment. This allows Dairy Australia to be responsive to changing industry needs but also to enable more lateral thinking about RDE arrangements including pursuing new opportunities, novel partnerships (outside of dairy and agricultural sector) and ways of investing. This includes fields such as technology, data and the digital revolution along with new initiatives like Agriculture Innovation Australia.</p>
<b>Recommendation</b>	In the context of the new Strategic Plan 2020, Dairy Australia to ensure its RDE portfolio is appropriately balanced between its long-term RDE partnerships and stand-alone funding to ensure there is sufficient investment flexibility for the goals of the plan to be delivered.
<b>Observation</b>	Diversification of Dairy Australia directorships on DairyBio and Dairy Feedbase could be considered with respect to the pros and cons of the Dairy Australia MD holding a directorship and the effect this has on his perceived or actual independence.

### 9.1.7. Additional General Observations

Item	General Observations
<b>Observation</b>	Dairy Australia's 'Independence of Directors' policy states that the independence of each director will be reported in the Annual Report. Upon inspection however, this could not be found in the draft of the Dairy Australia Annual Report 2019-20. Considering Dairy Australia's own Charter and its SFC requirements for independence of directors, it is important that this is recorded for transparency and compliance purposes.
<b>Observation</b>	The Risk Management Plan provides the framework and describes how the system is intended to work, but it does not include the specific risks being managed by Dairy Australia. This Plan is provided to DAWE as part of Dairy Australia's SFC compliance obligations. The reviewers suggest that Dairy Australia could also share with DAWE the risk updates which are prepared for the ARMC. This would give DAWE a more complete understanding, not only of Dairy Australia's risk management system but also the specific risks that are being managed.
<b>Observation</b>	The Dairy Australia Constitution requires that a Board Skills Matrix is maintained. This is defined as a statement which outlines (1) the skills and experience the Board should possess, (2) that which the Board does possess and (3) the skills and experience those directors to be recruited should possess, noting that when certain directors are to retire. The Skills Matrix version viewed on the Dairy Australia website outlines the target skills and experience of the Dairy Australia Board, but it does not include the actual skills status of the Board. This means that Dairy Australia are not compliant with this requirement at present.
<b>Observation</b>	The new values have been in place since September 2020. A search of the Dairy Australia website suggests that as yet they have not been publicly released. The external publication of an organisation's values is an important step in announcing what is important to it. It also increases transparency about its motivations. Given the powerful messages embodied in Dairy Australia's values, in particular Farmer First, not publicly sharing them seems to be a missed opportunity.
<b>Observation</b>	For the best value out of future Performance Reviews, it is suggested to provide at least four months for the consultants to undertake it. This will, in particular, allow a full opportunity for farmer consultations and opinions to be considered.

## 9.2. Response to 2017 Independent Performance Review

### 9.2.1. Recommendations Implemented

Recommendation 2017	2020 Independent Review Response
Dairy Australia should continue its focus on improving the organisational culture, consolidating and building upon recent restructuring of the organisation including the leadership team and adopting some additional measures as suggested in this independent review	There are multiple examples cited in this report where this has and is being achieved. This includes changes to the organisational structure, new initiatives from the Human Resources group and policy and procedure updates, amongst others.
Dairy Australia should continue to conduct ex-post evaluations of activities and communicate these results to levy payers using clear, simple messaging relevant to stakeholders, including the use of case studies or other approaches	Ex-ante project benefit cost analyses (BCAs) are completed internally by Dairy Australia. This gives internally evaluated measures of impact. A small number of ex-post evaluations are completed externally by independent economists each year. The Performance Reports published annually give a comprehensive view of the achievements of Dairy Australia against the plans, including listing case studies and showing the external ex-post evaluations.
Dairy Australia should report publicly the benchmarked measures of its marketing and promotion activities against the results from prior years, and continue to investigate how measures of marketing and promotion activities can be incorporated into the existing benefit/cost methodology for both ex-ante and ex-post assessment	The Performance Report previously mentioned also lists the achievements for the marketing and communication activities and shows the case study of the Primary Schools Teachers Project. The challenging ex-post evaluation of this project has also been included in the Performance Report, demonstrating a willingness to impose evaluation methodology across the totality of company activities.

### 9.2.2. Recommendations Not Implemented

Recommendation 2017	2020 Independent Review Response
Dairy Australia should continue its efforts to establish and report on a dashboard of key objective targets at strategic priority level to provide a clearer indication of overall organisational performance	Through Quarterly Reports (Board and Group B members), annual Performance Reports and Annual Reports, the thoroughness and transparency of Dairy Australia reporting cannot be argued. We believe that the intent of this recommendation however remains unmet as there is still to our knowledge, no example of a simplified report with a dashboard showing progress against shifting major

Recommendation 2017	2020 Independent Review Response
	<p>industry and company indicators. The closest example we found was the inside cover of the Dairy Australia Strategic Plan 2020-2025 with an infographic of key industry measures and achievements. With the commendable shift of Dairy Australia towards targeting outcome based KPIs, industry measures are not far away from measures of performance of the organisation and some fine tuning of this infographic could help in demonstrating company performance.</p>



# 10. Appendices

## 10.1. Stakeholder Interviews

### 10.1.1. Meeting and Consultation List

Date	Time	Purpose	Participants
2/10	9.30am	Planning Meeting for the Review	Sheridan Verwey (Company Secretary/ Risk Manager, Performance Review Project Manager), Anwen Lovett, Andrew Spencer
6/10	4.00pm	Inception Meeting	Elizabeth Parkin (Group Manager-Business and Organisational Performance), David Nation (Managing Director), Peter Johnson (Group Manager – Farm Profit and Capability), Helen Dornon (Manager Sustainability), Melissa Kuti (Manager Human Resources), Charlie McElhone (Group Manager – Trade and Industry Strategy), Jay Mody (Manager Strategy and Planning), Sheridan Verwey, Kendra Campbell (Group Manager – Marketing and Communications), Anwen Lovett, Andrew Spencer
8/10	9.00am	Strategic Plan and Evaluation Framework Meeting	Elizabeth Parkin, Jay Mody, Murray Jenkins (Corporate Planning and Business Performance Analyst), Anwen Lovett, Andrew Spencer
8/10	12.00pm	Business and Organisational Performance Team	Elizabeth Parkin, Felicity Taylor (PA to Elizabeth and the Team), Tina Lim (Financial Controller), Matt Bowd (Portfolio Manager), Mona Sood (Risk Compliance Manager), Jay Mody, Gerry Eeman (Legal Manager/Assistant Company Secretary), Sheridan Verwey, Anwen Lovett, Andrew Spencer
13/10	9.15am	Performance Review WIP Update	Elizabeth Parkin, Sheridan Verwey, Anwen Lovett, Andrew Spencer
13/10	3.30pm	MD Performance Review Discussion	David Nation, Anwen Lovett, Andrew Spencer
14/10	2.00pm	Farm Profit and Capability Team Meeting	Peter Johnson, Anwen Lovett
14/10	4.00pm	DAWE Performance Review Meeting	Joanna Stanion, Alison McMorro, Anthony Cuthbert, Anwen Lovett, Andrew Spencer
15/10	12.00pm	ADPF Meeting	Janine Waller, Anwen Lovett
15/10	2.00pm	RDP Preparation Meeting	Verity Ingham, Anwen Lovett, Andrew Spencer
15/10	3.00pm	Trade and Industry Strategy Team Meeting	Charlie McElhone, Andrew Spencer

Date	Time	Purpose	Participants
15/10	3.00pm	Marketing and Communications Team Meeting	Kendra Campbell, Anwen Lovett
16/10	9.00am	Sustainability Group Meeting	Helen Dornon, Anwen Lovett
16/10	10.00am	BOP Team Meeting	Elizabeth Parkin, Andrew Spencer
16/10	11.15am	Human Resources Team Meeting	Imogen McBain, Melissa Kuti, Anwen Lovett, Andrew Spencer
16/10	3.30pm	Australian Dairy Farmers Meeting	David Inall, Anwen Lovett, Andrew Spencer
19/10	11.00am	Dairy Australia Chair Meeting	James Mann, Anwen Lovett, Andrew Spencer
20/10	9.30am	Performance Review WIP Update	Elizabeth Parkin, Sheridan Verwey, Felicity Taylor, Anwen Lovett, Andrew Spencer
20/10	11.00am	Dairy Australia Director Meeting	Jeff Odgers, Anwen Lovett, Andrew Spencer
20/10	3.00pm	MD Performance Review Discussion	David Nation, Anwen Lovett, Andrew Spencer
21/10	3.00pm	Trade and Industry Strategy Team Meeting	Charlie McElhone, Andrew Spencer
22/10	10.30am	Financial Manager Meeting	Tina Lim, Andrew Spencer
22/10	11.00am	Dairy Australia Director Meeting	Graeme Nicholl, Anwen Lovett, Andrew Spencer
22/10	2.00pm	Dairy Australia Director Meeting	Josephine Rozman, Anwen Lovett, Andrew Spencer
23/10	2.00pm	SADA Consultations	Andrew Curtis (CEO – SADA), Andrew Spencer
23/10	3.30pm	DFAT Consultations	Andrew Martin, Andrew Spencer
26/10	11.00am	R&D Team Benefits Workshop	Peter Johnson, Murry Jenkins, John Penry – Manager, Technical Innovation, Ross Bawden – Acting Group Manager Farm Performance, Anwen Lovett, Andrew Spencer
26/10	2.00pm	ADPF Meeting	Janine Waller, Anwen Lovett, Andrew Spencer
26/10	3.00pm	BOP Compliance Meeting	Elizabeth Parkin, Sheridan Verwey, Andrew Spencer
26/10	3.30pm	Dairy Australia Director Meeting	Paul Wood, Anwen Lovett
27/10	9.30am	Performance Review WIP Update	Elizabeth Parkin, Sheridan Verwey, Anwen Lovett, Andrew Spencer
27/10	3.00pm	Dairy Australia Managing Director	David Nation, Anwen Lovett, Andrew Spencer
28/10	10.00am	BOP – Investment and Evaluation Process	Elizabeth Parkin, Jay Mody, Anwen Lovett, Andrew Spencer
28/10	11.30am	Dairy NSW Briefing	Elise Jeffcott, Anwen Lovett, Andrew Spencer

Date	Time	Purpose	Participants
28/10	1.30pm	Dairy Australia Director Meeting	Roseanne Healy, Anwen Lovett
30/10	2.30pm	United Dairyfarmers of Victoria Meeting	Paul Mumford, Ashlee Hammond, Andrew Spencer
2/11	10.00am	Subtropical Dairy RDP Meeting	Brad Granzin, Alicia Richters, Belinda Haddow, Joanne Srhoj, Anwen Lovett, Andrew Spencer
2/11	12.00pm	Queensland Dairyfarmers Organisation	Eric Danzi, Brian Tessmann, Matthew Trace, Anwen Lovett, Andrew Spencer
3/11	10.00am	DairyTas RDP Meeting	Jonathon Price, Anwen Lovett, Andrew Spencer
4/11	9.30am	Performance Review WIP Update	Elizabeth Parkin, Sheridan Verwey, Felicity Taylor, Anwen Lovett, Andrew Spencer
4/11	11.00am	Western Dairy RDP Meeting	Dan Parnell, Janelle Bowles – Regional Manager, Jess Andony, Anwen Lovett, Andrew Spencer
4/11	12.00pm	WestVic Dairy RDP Briefing	Lindsay Ferguson, Anwen Lovett, Andrew Spencer
4/11	2.00pm	DairyBio/ Dairy Feedbase Chair Meeting	Peter Reading, Anwen Lovett, Andrew Spencer
5/11	11.00am	Executive Update	David Nation, Helen Dornon, Kendra Campbell, Ross Bawden, Charlie McElhone, Elizabeth Parkin, Melissa Kuti, Imogen McBain, Anwen Lovett, Andrew Spencer
5/11	12.00pm	Murray Dairy RDP Briefing	Jenny Wilson, Anwen Lovett
5/11	4.00pm	Dairy Australia Managing Director Meeting	David Nation, Anwen Lovett, Andrew Spencer
9/11	9.00am	Trade and Industry Strategy Evaluation	Charlie McElhone, Anwen Lovett, Andrew Spencer
9/11	1.00pm	DairyBio/ Dairy Feedbase Co-Director Meeting	Kevin Argyle, Anwen Lovett, Andrew Spencer
9/11	2.00pm	DairyBio/ Dairy Feedbase Co-Director Meeting	Ben Cocks, Anwen Lovett
9/11	3.00pm	TFGA Dairy Group Meeting	Sam Wedgwood, Geoff Cox, Andrew Spencer
10/11	9.30am	Weekly WIP Update	Elizabeth Parkin, Felicity Taylor, Sheridan Verwey, Anwen Lovett, Andrew Spencer
10/11	3.00pm	Marketing and Comms Evaluation Meeting 1	Kendra Campbell, Glenys Zucco, Anwen Lovett, Andrew Spencer
10/11	4.00pm	Datagene Meeting	Matt Shaffer, Anwen Lovett
11/11	9.30am	GippsDairy RDP Meeting	Allan Cameron (Regional Manager Gipps Dairy), Karen Romano (Regional Extension Officer), Donna Gibson (Regional Extension Officer), Anwen Lovett, Andrew Spencer

Date	Time	Purpose	Participants
11/11	11.00	Murray Dairy RDP Producer Workshop	Murray Dairy local dairy farmers and stakeholders, Anwen Lovett, Andrew Spencer
11/11	1.30pm	Dairy NSW RDP Briefing Meeting	Paul van Wel, Anwen Lovett, Andrew Spencer
11/11	2.30pm	Marketing and Comms Evaluation Meeting 2	Kendra Campbell, Rene Borggreve, Anwen Lovett, Andrew Spencer
11/11	4.00pm	Gardiner Foundation Meeting	Bruce Kefford, Clive Noble, Anwen Lovett, Andrew Spencer
13/11	10.00am	DairySA RDP Briefing	Melissa Hunter, Anwen Lovett
13/11	4.00pm	NSW Farmers Dairy Committee Meeting	Colin Thompson, Jodie Dean, Malcolm Holm, Anwen Lovett, Andrew Spencer
16/11	10.30am	Dairy NSW RDP Producer Workshop	Dairy NSW local dairy farmers and stakeholders, Anwen Lovett, Andrew Spencer
16/11	1.30pm	DairySA RDP Producer Workshop	DairySA local dairy farmers and stakeholders, Anwen Lovett, Andrew Spencer
16/11	4.00pm	Dairy Australia Director Meeting	Roseanne Healy, Anwen Lovett
17/11	10.30am	Subtropical Dairy RDP Producer Workshop	Subtropical Dairy local dairy farmers and stakeholders, Anwen Lovett, Andrew Spencer
17/11	3.00pm	Western Dairy RDP Producer Workshop	Western Dairy local dairy farmers and stakeholders, Anwen Lovett, Andrew Spencer
18/11	10.30am	GippsDairy RDP Producer Workshop	GippsDairy local dairy farmers and stakeholders, Anwen Lovett, Andrew Spencer
18/11	1.00pm	Dairy Australia MD Meeting	David Nation, Anwen Lovett, Andrew Spencer
18/11	3.00pm	CRRDC Meeting	Tim Lester, Andrew Spencer
18/11	7.30pm	WestVic Dairy RDP Producer Workshop	WestVic Dairy local dairy farmers and stakeholders, Anwen Lovett, Andrew Spencer
19/11	10.30am	Performance Review WIP Update	Elizabeth Parkin, Felicity Taylor, Sheridan Verwey, Anwen Lovett, Andrew Spencer
19/11	11.30am	AgVic Meeting	German Spangenberg, Anwen Lovett, Andrew Spencer
19/11	7.00pm	DairyTas RDP Producer Workshop	DairyTas local dairy farmers and stakeholders, Anwen Lovett, Andrew Spencer
20/11	1.00pm	ADF Council Meeting	David Inall, Victoria Taylor, Terry Richardson, Anwen Lovett, Andrew Spencer
20/11	5.00pm	WA Farmers Dairy Group	Ian Noakes, Laura Stocker, Andrew Spencer
25/11	10.30am	BOP Group Manager Meeting	Elizabeth Parkin, Andrew Spencer

Date	Time	Purpose	Participants
26/11	1.00pm	Tas. Institute of Agriculture Meeting	James Hills, Anwen Lovett
26/11	4.00pm	Performance Review WIP Update	Elizabeth Parkin, Felicity Taylor, Sheridan Verwey, Anwen Lovett, Andrew Spencer
30/11	3.00pm	Strategy Group KPIs Questions	Elizabeth Parkin, Murray Jenkins, Jay Mody, Anwen Lovett, Andrew Spencer
30/11	3.30pm	Dairy Australia MD Meeting	David Nation, Anwen Lovett, Andrew Spencer
1/12	1.00pm	QDAF Meeting	Craig Findsen, Anwen Lovett
8/12	9.30am	Performance Review WIP Update	Elizabeth Parkin, Felicity Taylor, Sheridan Verwey, Anwen Lovett, Andrew Spencer

## 10.2. Document Review List

Documents studied for the purposes of this independent review include:

- Dairy Australia Constitution
- Dairy Australia Statutory Funding Contract 2017-2021
- RDC Statutory Funding Agreement Companion Document
- Dairy Produce Act 1986 (Cth)
- Dairy Produce (Dairy Service Levy Poll) Instrument 2016
- Dairy Australia Board Charter
- Dairy Australia Audit and Risk Management Committee Charter
- Dairy Australia Board Human Resources Committee Charter
- Dairy Australia Board Selection Committee Charter
- Dairy Australia Board Governance Policy
- Dairy Australia Board Diversity Policy
- Dairy Australia Declarations of Interest
- Dairy Australia Cost Allocation Policy
- Dairy Australia Code of Conduct Policy
- Dairy Australia Board Independence Policy
- Dairy Australia Board Skills Matrix
- Dairy Australia Evaluation Framework 2020
- Australian Dairy Plan and Appendices
- Dairy Australia Strategic Plan 2017-2020
- Dairy Australia Strategic Plan 2020-2025
- WestVic Dairy Strategic Plan 2020-23
- Australian Dairy Industry Sustainability Report 2019
- Dairy Australia Internal Audit plan
- Dairy Australia Annual Operating Plan 2020-21
- Dairy Australia Performance Report 2018-19
- Dairy Australia Performance Report 2019-20
- Dairy Australia Annual Report 2018-19
- Dairy Australia Annual Report 2017-18
- Dairy Australia Situation and Outlook Report October 2020

- Dairy Australia Risk Management Plan Version 11 – June 2020
- Dairy Australia Audit and Risk Management Committee, June 2020 – Risk Management Update papers
- Dairy Australia Antibribery and Fraud Control Policy
- Dairy Australia Intellectual Property Management Plan
- Dairy Australia Quarterly Dashboard Report – Q4 2019
- Dairy Australia Quarterly Dashboard Report – Q2 2020
- Dairy Australia Exit Survey information anonymised
- Dairy Australia Staff Engagement Survey Results
- Dairy Australia Board Papers - September 2020 Board Meeting
- Dairy Australia Board Human Resources Committee Papers - July Committee Meeting
- Dairy Australia Performance Review 2016 Report
- Dairy Australia's Journey Table
- Dairy Australia Board Performance Review Report - August 2018
- Dairy Australia Board Performance Internal review - 2020

## 10.3. Compliance and Governance Tables

### 10.3.1. Constitution

Relevant Clause	Requirement or Measure	Assessment
5.2	The company must apply its resources to the objects of the company (defined prior). No dividends, bonuses or payments to members	Compliant as observed
6	The company must not engage in political campaigning or funding	No evidence of agri-political activity has come to light during the independent Review
9.4	The Board must consider applications for Group B membership and admit where such an application is approved at a General Meeting	There have only been two group B members over the time period covered by the independent Review
10.2/ 10.3	Members (Group A or Group B) who are ineligible to be members must be removed from the membership register by the Board	Since membership is perpetual, ineligible members must be identified through a process of checking the member register against levy payment information provided through DAWE. This process has now commenced and approval to remove ineligible members will need to be approved through the Dairy Australia Board
10.5	The Board must not expel a member unless a number of criteria (specified) have been met	No members have been expelled over the time period covered by the independent Review
10.6	The company must expel members where such expulsion has been passed by resolution (poll vote) at a General Meeting	No such resolution has been passed at a General Meeting
11.3/ 11.4	The Board must determine the eligible number of votes of members (in accord with Constitution). The formula is each dollar of levy paid in the previous financial year is the equivalent of one vote	Correspondence is sent to all members before General Meetings advising of voting entitlements.

Relevant Clause	Requirement or Measure	Assessment
11.5	Board must annually confirm voting entitlements with Group A members and members have right to have the entitlement reviewed	Normal process built into annual Board calendar
12.1/ 12.2	Board must keep a register of members voting entitlements which must be kept confidential	Levy Member Register exists with restricted access to those assisting with AGM processes
13	The Company, where procedures for consultation are agreed with Group B members, give effect to the procedures (including meeting reasonable costs of doing so)	Consultations occur with Group B members regularly in association with strategic and annual operating planning and through various other channels
14.2	Group B members must be advised in writing of a general meeting	Letter is sent to ADF and ADPF advising of AGMs
14.4/ 14.5	Where a General Meeting is cancelled or postponed, the Board must give written notice to all entitled to a notice of meeting. If postponement is for one month or more, new notices of meeting must be sent	No General Meetings have been cancelled or postponed over the time period covered by the independent Review
15.5	The Chair, or in their absence or unwillingness, the Deputy Chair must chair a general meeting. If neither present nor willing, Group A members can elect a chair	The Dairy Australia Chair has chaired all of the AGMs over the time period covered by the independent Review excepting where Chair was re-standing for election - 2019
16.3	Before a vote at a general meeting, the Chair must advise the meeting on proxies received and voting instructions	This has been standard process over the time period covered by the independent Review
18	The Board must ensure there exists at all times both a strategic and an operational plan, which has certain defined content and time relevance. Group B members must be consulted in developing significant parts of the plans which can be varied. The Board must strive to give effect to the plans	Both plans have been in continual existence and Group B members have been involved in their development
19.3	The Board must specify how negotiable instruments are to be executed or endorsed	The Board achieves this through the policies regarding delegations of authority
22	The Board must establish committees (and their charters, which will be made public) as specified (Audit and Risk Management, Human Resources and Selection). Committee powers outlined in the charters must be delegated to the committees by the Board. A report on the operations of the committees will be included in the annual report	These committees are all in existence and reported on in each Annual Report
24	The Board must implement a code of conduct for directors and senior executives with minimum contents specified and reviewed at appropriate time periods. A report as to the execution of the code of conduct (including dealing with violations) must be contained in the annual report	Updated code of conduct is presently in progress with training planned. No violations of the code have occurred over the time period covered by the independent Review
25	The company must have from 7 to 9 directors. If director number falls below 7, the Board must act to correct the director number.	The Dairy Australia Board has consistently had nine directors over the time period covered by the independent Review

Relevant Clause	Requirement or Measure	Assessment
26	The Board must contain the appropriate skills and experience (not specified) and in any case, at least four directors with milk production experience	Board Skills Matrix reviewed – compliant
28.1/ 28.2	The Board must appoint a Selection Committee (responsibilities specified) for a period of around 12 months consisting of at least one director (or other nominated person) and 4 other persons nominated by Group B directors (nomination process specified). Appointments must support a balance of renewal and continuity of the committee	Board Selection Committee exists with the composition according to requirements
28.3/ 28.4	The Board must provide to the Selection Committee a Skills Matrix (to be made publicly available) outlining the desired skills for the Board (considering those skills already on the Board). The Selection Committee must recommend candidates to the Board in the same number as vacancies	Skills Matrix viewed including with those directors whose term is ending removed, as provided to the Selection Committee
29.1-29.4	The Board must nominate recommended candidates from the Selection Committee for election at the next AGM. Where there are Group A nominations, the Board must decide on (with Selection Committee recommendation) the most appropriate Board nominated director to stand against each member nominated director (which is to be advised to the member nominated director)	Documentation reviewed showing the Group A nominations standing against Board nominations
29.5-29.7	The Board can only appoint casual directors on the recommendation of the Selection Committee. The Board must send to members details of the director candidates (both types) and relevant statements of skills and experience.	Last casual vacancy was filled in 2016 and thus not over the time period covered by the independent Review
30	The Board must appoint a Managing Director, but Selection Committee recommendation not required	Board appointed David Nation as Managing Director in 2018 with Selection Committee involvement
31	A third of directors (not counting Managing Director) must retire from office at each AGM, as long as the retiring directors have held office for three years. Directors can be reappointed to a maximum of three terms in total. Election for a one-year term is possible by special resolution	A third of directors have been rotating each year. Some challenges resulting from director resignation mid-term have required re-aligning the director terms for smooth election processes
32	Directors (not Managing Director) can be remunerated according to approved fees fixed by ordinary resolution and remunerated for Board related expenses	Resolution to increase director remuneration pool at \$490,000 went to AGM for resolution in 2020. Last previous increase was in 2013 setting the pool at \$430,000
36	Directors must keep the company affairs confidential unless certain conditions exist	No reason to doubt compliance – included in letter of appointment
42	Auditors (individuals) must be changed after five years	Both internal and external auditors were changed in 2018



### 10.3.2. Funding Contract

Relevant Clause	Requirement or Measure	Assessment
3.4	Parties will begin negotiations for a follow up SFA at least six months before the expiry of the agreement.	SFA negotiation has commenced with notification received from DAWE in December 2020
4.2/ 4.3	Dairy Australia must cooperate with the Commonwealth where requests for information are made or access to offices. Applies equally to the Auditor-General or Aust Information Commissioner.	No reason to question compliance
4.4	Parties must keep confidential information confidential.	Well understood and training in new policies and procedures being arranged
4.7/4.8/4.9	Dairy Australia must license the Commonwealth any requested reports or plan; special instructions where 3 <sup>rd</sup> party IP is included.	No reason to question compliance
8	Dairy Australia must not assign its rights or obligations within the agreement to any other parties.	No rights have been assigned
12	Parties must solve disputes according to the processes laid out.	No disputes have occurred over the time period covered by the independent Review
14.1	Dairy Australia must maintain, implement and review a framework for good governance.	Effective framework would seem to exist
14.2	The framework (14.1) must include a governance policy which includes: <ul style="list-style-type: none"> <li>• Board charter</li> <li>• Matters reserved for the Board</li> <li>• Board delegations of authority</li> <li>• Charter of the Audit and Selection Committees</li> <li>• Board appointments, composition renewal and succession planning</li> <li>• Code of Conduct</li> </ul>	Governance policy sighted which includes all of the mentioned components
14.3	Dairy Australia must establish a skills-based board with skills as outlined.	Process and tools exist and seem to be carried out professionally
14.4	The Audit Committee must be comprised of at least half independent directors.	All Dairy Australia directors are considered to be independent
14.5	Dairy Australia committee or panel members must declare any relevant interests that could affect their decisions.	Register of director interests sighted and processes followed
15.1	Dairy Australia must act in a way that best represents the interests of its members and levy payers.	Overall aim of the independent Review to assess according to ToRs
15.2	Dairy Australia must ensure that those eligible to be members are aware of this right.	Promoted through activities and website
15.3	Dairy Australia must not use the Funds for Agri-Political Activity, act as an IRB or support an election campaign.	No evidence of non-compliance
15.4	Dairy Australia must ensure that its Constitution remains relevant and process specified around informing DAWE.	Constitution has been updated a number of times (and again in 2020) with correct notifications for DAWE
16	Dairy Australia must give notice to the Commonwealth if significant issues limit its ability to meet obligations of the agreement.	No such issues have arisen over the time period covered by the independent Review

Relevant Clause	Requirement or Measure	Assessment
17.2	Dairy Australia must advise the Commonwealth in the case of a conflict of interest arising which limits its ability to meet obligations of the agreement.	
18.1	Dairy Australia must perform an Independent Performance Review and present the results to the Commonwealth at least six months before the expiry of the agreement.	Planned to be compliant with this independent review
18.2	Dairy Australia must agree the ToRs of the Independent Performance Review at least three months before it commences.	Terms of Reference were agreed in December 2019
18.3/18.4	Dairy Australia must use an independent organisation to conduct the Independent Performance Review which has not worked for Dairy Australia in the previous four years.	Reviewers compliant with this clause
18.5	The Independent Performance Review ToRs must take into account a list of requirements specified in the clause.	Terms of Reference compliant with clause 18.5
18.6/18.7	Dairy Australia must provide a copy of the Independent Performance Review report draft on the same day it receives a copy and a copy of the accepted final report within 14 days.	
18.8	Dairy Australia must develop an implementation plan in response to the final report within three months and provide a copy to the Commonwealth within 30 days of Board acceptance.	In planning
18.9	Parties must take the Independent Performance Review report into account when negotiating the next SFA.	
18.10	Independent Performance Review report must be placed on the Dairy Australia website at least 28 days before any sending out of ballot papers for a Poll.	
19.3/19.4	Dairy Australia must cooperate with any Commonwealth requests for information or audit reports and opinions (process specified) pertaining to measuring its performance.	No evidence of non-compliance
19.5/19.6	Dairy Australia must provide a response to a Commonwealth report outlining actions necessary for Dairy Australia to take within 30 days of receiving the report. Within 60 days of receiving the report, Dairy Australia must negotiate a reasonable outcome with the Commonwealth regarding any actions not agreed for implementation. Within 90 days, Dairy Australia must provide a progress report to the Commonwealth. Such progress reports must also be included when relevant in Dairy Australia Annual Reports.	No such issues have arisen over the time period covered by the independent review
20.4	When a termination notice has been issued, Dairy Australia must develop a plan for cessation with contents as defined within the clause.	
21	The Commonwealth may require Dairy Australia in the case of agreement termination to repay funds after meeting liabilities.	No such termination notice issued over the time period covered by the independent review
22	Where the agreement is terminated or Dairy Australia is no longer the ISB, the Commonwealth may direct Dairy Australia as to how assets and liabilities should be managed.	

Relevant Clause	Requirement or Measure	Assessment
23.1	Dairy Australia must meet with the Commonwealth on six monthly intervals to brief on performance (as specified in more detail in the clause).	Meetings have occurred as required, the last on 24 <sup>th</sup> August
23.4	Dairy Australia directors must notify the Commonwealth if proposed amendments to the Guidelines affects their ability to perform their duties.	No such notifications have been necessary over the time period covered by the independent review
24.5	Dairy Australia must provide an estimate to the Commonwealth of present and future matching payments payable upon request.	Estimates have been provided, last one on 14 <sup>th</sup> August
24.8	The final matching funding claim for the year must be supported by an independent audit report which confirms specified information listed in the clause.	Report provided to DAWE on 24 <sup>th</sup> September
25.1/25.2/ 25.3	Dairy Australia must maintain systems, processes and controls to ensure the Funds are used in accord with the agreement. The details of these must be provided to the Commonwealth on request. Dairy Australia must not outsource its responsibilities for the investment of Funds.	Systems, processes and controls appear robust and Dairy Australia takes responsibility for its investment of funds
25.4/25.5	Dairy Australia must maintain, implement and review the following plans – Risk Management, Fraud Control, Intellectual Property Management – providing updates to the Commonwealth within 30 days of variations being adopted.	Plans have been sighted and appear professional
25.6	The systems, processes and controls should take into account the Risk Management Plan, the Fraud Control Plan and the Cost Allocation Policy.	No reason to believe that this has not been achieved
25.7	Dairy Australia must keep accounts and records of expenditure of the Funds, keeping separate the Industry Services, Research and Development and Commonwealth Matching Payments.	No evidence of non-compliance
26.1	Dairy Australia must spend the Funds consistent with the Agreement, the Guidelines and the Strategic Plan.	Broader objective for the independent review being assessed
26.4	Dairy Australia must not make payments to iRBs with some preclusions.	None made with the exception of sitting fees for representatives on Policy Advisory Groups - compliant
26.5/26.6	The Commonwealth may by written notice require Dairy Australia to return Funds if they are spent in contradiction to the Agreement or the Act. Where such a notice is issued, it must be included in the next Annual Report.	No such notice has been issued over the time period covered by the independent review
27	Dairy Australia must acknowledge the contribution of the Commonwealth in any publications or publicity.	No evidence of non-compliance
28	Dairy Australia must consult with Levy Payers and IRBs (at least six monthly) regarding issues around reviewing priorities (including regional) and to report on performance.	Processes built into the annual activity calendar. Higher level more recently with the development of the Australian Dairy Plan
29	Dairy Australia must publish a specified list (in the clause) of information on its website.	No evidence of non-compliance
30.1	Dairy Australia must maintain and review annually a Strategic Plan, covering a period of three to five years, and obtaining the Commonwealth's endorsement. Copies of such Plan should be provided to the Commonwealth within 30 days of Board approval and published on the website. The Plan should have regard to the Guidelines and Dairy Australia should consult with the Commonwealth on this.	Strategic Plan recently launched with DAWE consultation included

Relevant Clause	Requirement or Measure	Assessment
30.2	Dairy Australia must include within the Strategic Plan information specified in a list within this clause.	No evidence of non-compliance
30.3/30.4/ 30.5/30.6	Dairy Australia must develop a consultation plan in developing or varying the Strategic Plan which must include the provision for electronic submissions and must be discussed with IRBs and agreed by the Commonwealth before implementation, unless for minor variations.	
31	Dairy Australia must develop an Evaluation Framework (criteria specified) within six months of the signature of the Agreement. The Commonwealth must be consulted in its preparation and it must be placed on the website. Dairy Australia must provide for and participate in any Commonwealth or collective RDC evaluation project.	First version released December 2017. Latest version sighted September 2020. Dairy Australia have been participants in CRRDC collective evaluation processes
32	Dairy Australia must provide to the Commonwealth before the 1 <sup>st</sup> July each year an Annual Operational Plan (criteria specified). Any variations or updates must be provided to the Commonwealth within 30 days.	Document sighted. Was approved late with the approval of DAWE
33	Dairy Australia must prepare an Annual Report (criteria specified) in compliance with the Agreement and the relevant Acts. It must be provided to the Minister soonest after the Annual General Meeting and copies made available to the Department.	Document prepared and provided
34	Within five months of the end of the financial year, Dairy Australia must provide a Compliance Audit Report to the Commonwealth (criteria specified).	Provided to DAWE on the 24 <sup>th</sup> September 2020
35	Within five months of the end of the financial year, Dairy Australia must provide a Certification Report to the Minister (criteria specified).	Provided to the Minister on the 5 <sup>th</sup> October 2020

### 10.3.3. ASX Corporate Governance Principles and Recommendations

#### 10.3.3.1. Lay solid foundations for management and oversight

Rec	Requirement or Measure	Appropriate response from Dairy Australia plus Assessment
1.1	A listed entity should have and disclose a board charter setting out: <ul style="list-style-type: none"> <li>a) the respective roles and responsibilities of its board and management and</li> <li>b) those matters expressly reserved to the board and those delegated to management.</li> </ul>	Charter sighted and compliant
1.2	A listed entity should: <ul style="list-style-type: none"> <li>a) undertake appropriate checks before appointing a director or senior executive or putting someone forward for election as a director and</li> </ul>	Constitution outlines comprehensive process for recruitment, selection and nomination of directors as well as providing appropriate information to voting members

Rec	Requirement or Measure	Appropriate response from Dairy Australia plus Assessment
	<ul style="list-style-type: none"> <li>b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.</li> </ul>	
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	Letter of Appointment in place – copy sighted
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	Outlined in Board Charter
1.5	<p>A listed entity should:</p> <ul style="list-style-type: none"> <li>a) have and disclose a diversity policy;</li> <li>b) through its board or a committee of the board set measurable objectives for achieving gender diversity in the composition of its board, senior executives and workforce generally; and</li> <li>c) disclose in relation to each reporting period: <ul style="list-style-type: none"> <li>1. the measurable objectives set for that period to achieve gender diversity;</li> <li>2. the entity's progress towards achieving those objectives; and</li> <li>3. either: <ul style="list-style-type: none"> <li>A. the respective proportions of men and women on the board, in senior executive positions and across the whole workforce (including how the entity has defined "senior executive" for these purposes); or</li> <li>B. if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.</li> </ul> </li> </ul> </li> </ul>	<p>Board Diversity Policy has been sighted. The Policy includes a mechanism for setting goals with respect to various diversity aspects. With respect to gender diversity, the Dairy Australia Board consists of nine directors (including the Managing Director), three of whom are women. The Dairy Australia Leadership Team (also including the Managing Director) has seven members, four of whom are women</p>
1.6	<p>A listed entity should:</p> <ul style="list-style-type: none"> <li>a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors and</li> </ul>	Last Board external evaluation report viewed – August 2018. Board charter states that external Board review will take place every three years and internal every other year

Rec	Requirement or Measure	Appropriate response from Dairy Australia plus Assessment
	<p>b) disclose for each reporting period whether a performance evaluation has been undertaken in accordance with that process during or in respect of that period.</p>	
1.7	<p>A listed entity should:</p> <p>a) have and disclose a process for evaluating the performance of its senior executives at least once every reporting period and</p> <p>b) disclose for each reporting period whether a performance evaluation has been undertaken in accordance with that process during or in respect of that period.</p>	<p>Leadership team evaluated by the Managing Director who is himself appraised by the Board through the Chair</p>

#### 10.3.3.2. Structure the board to be effective and add value

Rec	Requirement or Measure	Appropriate response from Dairy Australia plus Assessment
2.1	<p>The board of a listed entity should:</p> <p>a) have a nomination committee which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director,</p> <p>and disclose:</p> <p>(3) the charter of the committee</p> <p>(4) the members of the committee and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings or</p> <p>b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity</p>	<p>Board selection committee takes the responsibilities of the nominations committee. Five members and all directors are deemed independent. Charter of the committee sighted. Membership of committees specified in the annual report as well as the number of meetings attended</p>

Rec	Requirement or Measure	Appropriate response from Dairy Australia plus Assessment
	to enable it to discharge its duties and responsibilities effectively.	
2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills that the board currently has or is looking to achieve in its membership.	Board skills matrix document on the website is a list of “like to have’s” but bears no relationship to the actual status
2.3	A listed entity should disclose: <ul style="list-style-type: none"> <li>a) the names of the directors considered by the board to be independent directors</li> <li>b) if a director has an interest, position or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position or relationship in question and an explanation of why the board is of that opinion and</li> <li>c) the length of service of each director.</li> </ul>	All directors are considered independent but cannot find reference to this in the Directors’ Report (Annual Report). Length of service is disclosed
2.4	A majority of the board of a listed entity should be independent directors.	Board Charter specifies that a majority of directors should be independent. All directors are considered independent
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	All directors are considered independent. Managing Director and Chair are different people
2.6	A listed entity should have a program for inducting new directors and for periodically reviewing whether there is a need for existing directors to undertake professional development to maintain the skills and knowledge needed to perform their role as directors effectively.	Referred to both in the Board Charter and the Letter of Appointment for Directors

#### 10.3.3.3. Instil a culture of acting lawfully, ethically and responsibly

Rec	Requirement or Measure	Appropriate response from Dairy Australia plus Assessment
3.1	A listed entity should articulate and disclose its values.	Values development process recently completed – not on website as yet
3.2	A listed entity should:	Code of Conduct policy sighted. Employees mandated to report breaches to “appropriate person” within

Rec	Requirement or Measure	Appropriate response from Dairy Australia plus Assessment
	<ul style="list-style-type: none"> <li>a) have and disclose a code of conduct for its directors, senior executives and employees and</li> <li>b) ensure that the board or a committee of the board is informed of any material breaches of that code.</li> </ul>	Dairy Australia. Breaches are to be reported as an incident but do not require advice to the Board
3.3	<p>A listed entity should:</p> <ul style="list-style-type: none"> <li>a) have and disclose a whistle-blower policy and</li> <li>b) ensure that the board or a committee of the board is informed of any material incidents reported under that policy.</li> </ul>	Whistle-blower policy in existence and available to personnel. Material incidents must be reported to the Board.
3.4	<p>A listed entity should:</p> <ul style="list-style-type: none"> <li>a) have and disclose an anti-bribery and corruption policy and</li> <li>b) ensure that the board or a committee of the board is informed of any material breaches of that policy.</li> </ul>	Anti-bribery, corruption and fraud control policy and procedure sighted. Irregularities report goes to the ARMC

#### 10.3.3.4. [Safeguard the integrity of corporate reports](#)

Rec	Requirement or Measure	Appropriate response from Dairy Australia plus Assessment
4.1	<p>The board of a listed entity should:</p> <ul style="list-style-type: none"> <li>a) have an audit committee which: <ul style="list-style-type: none"> <li>(1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and</li> <li>(2) is chaired by an independent director, who is not the chair of the board,</li> </ul> </li> </ul> <p>and disclose:</p> <ul style="list-style-type: none"> <li>(3) the charter of the committee;</li> <li>(4) the relevant qualifications and experience of the members of the committee; and</li> </ul>	<p>Audit and Risk Management Committee exists with charter and consists of three independent directors including the chair. Membership and qualifications are disclosed in the Annual Report along with number of meetings and attendance</p>



	<p>(5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</p>	
4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	Management representation letter dated 23 September 2020 sighted
4.3	A listed entity should disclose its process to verify the integrity of any periodic corporate report it releases to the market that is not audited or reviewed by an external auditor.	In the reviewers' opinion does not apply in the case of Dairy Australia as an unlisted not-for-profit

#### 10.3.3.5. Make timely and balanced disclosure

Rec	Requirement or Measure	Appropriate response from Dairy Australia plus Assessment
5.1	A listed entity should have and disclose a written policy for complying with its continuous disclosure obligations under listing rule 3.1.	A recommendation for listed entities and doesn't apply in the reviewers' opinion in the case of Dairy Australia
5.2	A listed entity should ensure that its board receives copies of all material market announcements promptly after they have been made.	
5.3	A listed entity that gives a new and substantive investor or analyst presentation should release a copy of the presentation materials on the ASX Market Announcements Platform ahead of the presentation.	

### 10.3.3.6. Respect the rights of security holders

Rec	Requirement or Measure	Appropriate response from Dairy Australia plus Assessment
6.1	A listed entity should provide information about itself and its governance to investors via its website.	Where investors could be seen to reflect members in the case of Dairy Australia, this is done
6.2	A listed entity should have an investor relations program that facilitates effective two-way communication with investors.	Covered through the stakeholder engagement activities of Dairy Australia
6.3	A listed entity should disclose how it facilitates and encourages participation at meetings of security holders.	There are clear procedures around general meetings. Ad hoc processes existing which enable less formal member/farmer meetings and through RDPs
6.4	A listed entity should ensure that all substantive resolutions at a meeting of security holders are decided by a poll rather than by a show of hands.	Covered by very clear procedures outlined in the Constitution of Dairy Australia
6.5	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	Where security holders are analogous to Dairy Australia members, email correspondence is possible

### 10.3.3.7. Recognise and manage risk

Rec	Requirement or Measure	Appropriate response from Dairy Australia plus Assessment
7.1	<p>The board of a listed entity should:</p> <ul style="list-style-type: none"> <li>a) have a committee or committees to oversee risk, each of which: <ul style="list-style-type: none"> <li>(1) has at least three members, a majority of whom are independent directors and</li> <li>(2) is chaired by an independent director,</li> </ul> </li> <li>and disclose <ul style="list-style-type: none"> <li>(3) the charter of the committee</li> <li>(4) the members of the committee and</li> <li>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the</li> </ul> </li> </ul>	In place – see comments about Audit and Risk Management Committee above

Rec	Requirement or Measure	Appropriate response from Dairy Australia plus Assessment
	<p>individual attendances of the members at those meetings or</p> <p>b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.</p>	
7.2	<p>The board or a committee of the board should:</p> <p>a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound and that the entity is operating with due regard to the risk appetite set by the board and</p> <p>b) disclose, in relation to each reporting period, whether such a review has taken place.</p>	This is a Board and committee agenda calendar item. The ARMC is mandated in the Constitution
7.3	<p>A listed entity should disclose:</p> <p>a) if it has an internal audit function, how the function is structured and what role it performs or</p> <p>b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its governance, risk management and internal control processes.</p>	Internal audit function exists through a relationship with RSM. Internal audit process is described in the Annual Report
7.4	A listed entity should disclose whether it has any material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks.	Dairy Australia marketing and communications group has a strong consumer/ social engagement focus. Australian Dairy Industry Sustainability Framework assists in managing environmental and social risk

#### 10.3.3.8. Remunerate fairly and responsibly

Rec	Requirement or Measure	Appropriate response from Dairy Australia plus Assessment
8.1	<p>The board of a listed entity should:</p> <p>a) have a remuneration committee which:</p>	Human Resources Committee exists with charter and consists of three independent directors including the chair. Committee responsible for

Rec	Requirement or Measure	Appropriate response from Dairy Australia plus Assessment
	<p>(1) has at least three members, a majority of whom are independent directors and</p> <p>(2) is chaired by an independent director</p> <p>and disclose:</p> <p>(3) the charter of the committee</p> <p>(4) the members of the committee and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings or</p> <p>b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p>	<p>Board advice on broad remuneration policies.</p> <p>Membership and qualifications are disclosed in the Annual Report along with number of meetings and attendance</p>
8.2	<p>A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.</p>	<p>Non-executive director remuneration is dictated through the process outlined in the Dairy Australia Constitution. Policy for Managing Director remuneration also outlined there.</p>
8.3	<p>A listed entity which has an equity-based remuneration scheme should:</p> <p>a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme and</p> <p>b) disclose that policy or a summary of it.</p>	<p>Not applicable</p>

### 10.3.4. AICD Not for Profit Governance Principles

#### 10.3.4.1. Purpose and strategy

*“The organisation has a clear purpose and a strategy which aligns its activities to its purpose”*

Number	Guideline	Assessment
1.1	The organisation's purpose is clear, recorded in its governing documents and understood by the board	"Leaders in shaping a profitable and sustainable dairy industry" would seem to be the company purpose – included in new Strategic Plan
1.2	The board approves a strategy to carry out the organisation's purpose	Recently released Dairy Australia Strategic Plan 2020-2025 is clear, publicly available and well understood by the Board
1.3	Decisions by the board further the organisation's purpose and strategy	Review of Board minutes and director and management interviews would indicate that this is the case
1.4	The board regularly devotes time to consider strategy	This was an area of focus in the 2018 board review – awareness of this issue now increased and covered at each board meeting
1.5	The board periodically reviews the purpose and strategy	Board agenda calendar reflects annual discussions around strategy where these subjects would be addressed

#### 10.3.4.2. Roles and responsibilities

*"There is clarity about the roles, responsibilities and relationships of the board"*

Number	Guideline	Assessment
2.1	Directors' roles are clear and understood by the board	Covered in the Board Charter which appears to be well understood when directors are interviewed
2.2	Directors understand and meet their duties under the law	Review of Board minutes and director interviews would indicate that this is the case
2.3	Directors meet any eligibility requirements relevant to their position	The Constitutional processes outlined around director appointment and election manage this requirement
2.4	Delegations of the board's authority are recorded and periodically reviewed	Board delegates only to the Managing Director. Delegation limits and rules are in existence

Number	Guideline	Assessment
		and documented in the Delegated Authorities policy
2.5	The role of the board is clearly delineated from the role of management	This is outlined in the Board Charter

#### 10.3.4.3. Board composition

*“The board’s structure and composition enable it to fulfil its role effectively”*

Number	Guideline	Assessment
3.1	Directors are appointed based on merit, through a transparent process, and in alignment with the purpose and strategy	Specialist and milk producer director nominations are appointed through a comprehensive recruitment and election process overseen by the Board Selection Committee. Theoretically, any individual with 100 Group A signatures can stand for election to the Board against the Board nominations
3.2	Tenure of directors is limited to encourage renewal and staggered to retain corporate knowledge	Directors have a maximum three terms of three years according to the Constitution with some unusual mechanisms for extension
3.3	The board reflects a mix of personal attributes which enable it to fulfil its role effectively	Comprehensive Board skills matrix has been sighted and all areas relevant seem to be well covered
3.4	The board assesses and records its members’ skills and experience, and this is disclosed to stakeholders	Skills matrix exists but this is not disclosed to stakeholders except as an aspirational mix of skills, not actual
3.5	The board undertakes succession planning to address current and future skills needs in alignment with the purpose and the strategy	Selection Committee briefing includes the consideration of the Board Skills Matrix. Certainly, succession worked well when personal circumstances forced the resignation of the Chair earlier in 2020.

#### 10.3.4.4. Board effectiveness

*“The board is run effectively and its performance is periodically evaluated”*

Number	Guideline	Assessment
4.1	Board meetings are chaired effectively and provide opportunity for all directors to contribute	Director and management feedback are that this is the case and the Board performance assessment would also indicate this
4.2	Directors seek and are provided with the information they need to fulfil their responsibilities	Board papers are extensive and comprehensive. Director feedback would indicate that sufficient information is supplied
4.3	Directors are appropriately inducted and undertake ongoing education to fulfil their responsibilities	Board induction planning is outlined in the Charter as is ongoing education and training intentions. Board performance evaluation has targeted this area for some fine tuning
4.4	The board’s performance, as well as the performance of its chair and other directors, is periodically evaluated	Outlined in the Board Charter – includes external board review every three years
4.5	The relationship between the board and management is effective	Feedback from directors and management would indicate that this is the case. Board is willing to challenge management

#### 10.3.4.5. Risk management

*“Board decision making is informed by an understanding of risk and how it is managed”*

Number	Guideline	Assessment
5.1	The board oversees a risk management framework that aligns to the purpose and strategy	Risk management framework is highly documented and comprehensive
5.2	Directors seek and are provided with information about risk and how it is managed	Directors receive information about risk first viewed through the ARMC. Information is very comprehensive

Number	Guideline	Assessment
5.3	The board periodically reviews the risk management framework	This is done through the Audit and Risk Management Committee recommendation to the board

#### 10.3.4.6. Performance

*“The organisation uses its resources appropriately and evaluates its performance”*

Number	Guideline	Assessment
6.1	The board oversees appropriate use of the organisation’s resources	This would seem to be professionally done through a number of processes, reports, delegations and controls
6.2	The board approves an annual budget for the organisation	This is done through the approval process for the Annual Operating Plan
6.3	The board receives and considers measures which evaluate performance against the strategy	There exists an Evaluation Framework and extensive KPIs by strategy and project which are regularly reported to the board
6.4	The board oversees the performance of the CEO	This is done through a delegation to the Chair
6.5	The board monitors the solvency of the organisation	Our observations would indicate that this is the case through financial reports tabled at each Board meeting and annually audited financials

#### 10.3.4.7. Accountability and transparency

*“The board demonstrates accountability by providing information to stakeholders about the organisation and its performance”*

Number	Guideline	Assessment
7.1	The organisation’s governing documents and policies relevant to its governance are available to stakeholders	Governing documents and policies such as the Statutory Funding Agreement, Constitution, enabling legislation and Board



Number	Guideline	Assessment
		and Committee Charters are all available
7.2	The board oversees appropriate reporting to stakeholders about the organisation's performance and financial position	Comprehensive reporting framework for members and levy payers through Performance Reports and Annual Reports
7.3	Transactions between related parties, if any, are disclosed to stakeholders	Related party transactions are disclosed in the Annual Report
7.4	Directors' remuneration and other benefits, if any, are disclosed to stakeholders	Director remuneration and benefits are disclosed in the Annual Report
7.5	Members have the opportunity to ask questions about how the organisation is run and to hold the board to account for their decisions	Members are able to question the Board at the Annual General Meeting

#### 10.3.4.8. [Stakeholder engagement](#)

*"There is meaningful engagement of stakeholders and their interests are understood and considered by the board"*

Number	Guideline	Assessment
8.1	The board understands who the organisation's stakeholders are, their needs and their expectations	All observations would indicate this is the case
8.2	The board oversees a framework for the meaningful engagement of stakeholders	
8.3	Stakeholders are considered in relevant board decision making	
8.4	There is a process for gathering and responding to complaints and feedback from stakeholders	Strong feedback mechanisms through RDPs, direct to Dairy Australia or through the independent review
8.5	The board oversees a framework for how the organisation works with and protects vulnerable people	Covered comprehensively in the policies and procedures

#### 10.3.4.9. [Conduct and compliance](#)

*"The expectations of behaviour for the people involved in the organisation are clear and understood"*

Number	Guideline	Assessment
9.1	The board articulates its expectations of conduct, and the consequences for misconduct, for the people involved with the organisation	Covered through the Code of Conduct Policy
9.2	The board oversees compliance with relevant laws, regulations and internal policies	
9.3	Conflicts of interest are identified, disclosed and managed	Covered through the Conflict of Interest Procedure
9.4	There is a process for investigating misconduct and relevant instances are brought to the attention of the board	Process for investigation is clear in the Code of Conduct – not clear that the Board will always be advised of material incidents

#### 10.3.4.10. Culture

*“The board models and works to instil a culture that supports the organisation’s purpose and strategy”*

Number	Guideline	Assessment
10.1	The board defines and models a desired culture that aligns to the purpose and strategy	Our observations would indicate that this is the case
10.2	The board oversees a strategy to develop and maintain the desired culture	
10.3	The board oversees mechanisms to monitor and evaluate organisational culture	In particular, staff engagement and exit surveys are conducted - sighted
10.4	The organisation’s values are clear, periodically reviewed and communicated to stakeholders	Values have been recently reviewed and are in the process of being promoted
10.5	The board oversees a framework for the reward and recognition of workers	Framework managed through the Human Resources Committee as advisory body to the Board

### 10.3.5. Dairy Poll (Dairy Produce (Dairy Service Levy Poll) Instrument 2016)

Clause	Guideline	Assessment	
7 (1) & (2)	Dairy Australia must establish a Levy Poll Advisory Committee (LPAC) for each levy review cycle – functions specified	Levy review cycle has not been completed within the term covered by this independent review. Most activities will need to occur before the Dairy Australia AGM for 2021. These items are thus in planning	
8	Specifies initial membership for the LPAC and conditions the Chair must meet. Specifies appointment process for Deputy chair and additional members – from 5 to 10.		
9	No other decisions at meetings convened to appoint additional members. Specifies quorum and decision rules		
11	LPAC request for a levy poll must set out options and reasoning		
13	ISB and IRB must make a recommendation to the LPAC jointly or separately whether or not to change the levy		
14	LPAC must decide whether to request a levy poll after receiving recommendations (13) and the ISB must inform the Minister of the decision		
15	The ISB must notify registered entities of the decision whether to request a levy poll within 14 days of being informed		
16	Sets out requirements for a petition (15% of levy payers by volume supportive) which must be by resolution at a general meeting of the ISB. ISB must advise the LPAC of the result of the resolution within 14 days. Minister must be advised of above or that no petition lodged		
18-20	Sets out requirements for pre-poll consultations		
21-39	Deals with the conduct of a levy poll. Irrelevant for the independent performance review as no levy poll conducted within the relevant time period.		
40-41	Deals with reconsideration of voting entitlements and thus irrelevant for this independent performance review		
42-44	Deals with disputes around reconsidered decisions on voting entitlement and thus irrelevant for this independent performance review		

Clause	Guideline	Assessment
45-46	Deals with the notifications to the Minister following a levy poll and thus irrelevant for this independent performance review	

## 10.4. Acronyms

ACF – Australian Conservation Foundation

ADF – Australian Dairy Farmers

ADIC – Australian Dairy Industry Council

ADP – Australian Dairy Plan

ADPF – Australian Dairy Products Federation

AGM – Annual General Meeting

AIA – Agricultural Innovation Australia Ltd

AICD – Australian Institute of Company Directors

AOP – Annual Operating Plan

APL – Australian Pork Limited

ARMC – Audit and Risk Management Committee

ASX – Australian Securities Exchange

BCA – Benefit Cost Analysis

BCR – Benefit Cost Ratio

BOP – Business and Operational Performance

BPI – Balanced Performance Index

CDR – Central Data Repository

COVID-19 – Coronavirus disease 2019

CRM – Client relationship management

CRRDC – Council of Rural Research and Development Corporations

DAWE – Department of Agriculture, Water and the Environment

DFAT – Department of Foreign Affairs and Trade

ENRI – Emerging National Rural Issues

EO – Executive Officer

EU – European Union

FTA – Free Trade Agreement

FVI – Forage Value index

FY – Financial year

GHG – Greenhouse gas

GMO – Genetically modified organism

GRI – Global Reporting Initiative

GVP – Gross value of production

HIGH – High Integrity Grass Fed Herds

HR – Human resources

IRB – Industry representative body

IRP – Investment Review Panel

ISB – Industry services body

IP – Intellectual property

IPMP – Intellectual Property Management Plan

IT – Information technology

JTT – Joint Transition Team

KPI – Key performance indicator

LPAC – Levy Poll Advisory Committee

MD – Managing Director

MDB – Murray Darling Basin

NASIS – National Artificial Insemination Sire Identification System

NHIA – National Herd Improvement Association

NPIRDEF – National Primary Industries Research, Development and Extension Framework

NSWF – New South Wales Farmers Association

PAG – Policy Advisory Group

PMO – Project Management Office

PMR – Partial Mixed Ration

PPSA – Primary Producers South Australia

QDAF – Queensland Department of Agriculture and Fisheries

QDAS – Queensland Dairy Accounting Scheme

QDO – Queensland Dairyfarmers' Organisation

R&D – Research and development

RDC – Research and Development Corporation

RDE – Research, Development and Extension

RDP – Regional Development Program

RSPCA – Royal Society for the Prevention of Cruelty to Animals

SADA – South Australian Dairy Farmers Association

SAI – Sustainable Agriculture Initiative

SDFO – State Dairy Farming Organisation

SDG – Sustainable Development Goal

SFC – Statutory Funding Contract

T&S – Trade and Industry Strategy

TFGA – Tasmanian Farmers and Graziers Association

TIA – Tasmanian Institute of Agriculture

TMR – Total Mixed Ration

UDV – United Dairyfarmers of Victoria

UQ – University of Queensland

WAF – Western Australian Farmers Federation

WWF – Worldwide Fund for Nature

## 10.6. Project Brief/ Terms of Reference



### **Request for Expressions of Interest**

### **Consultancy Services to undertake an Independent Performance Review of Dairy Australia Limited**

Closing date – 22 September 2020 at 5.00pm

Contact point: Sheridan Verwey



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## 1. BACKGROUND

### 1.1. Overview – Dairy Australia Limited

Dairy Australia (one of fifteen Rural Research and Development Corporations (RDCs)) is the industry-owned national services body for the dairy industry, funded through the dairy service levy with matching funding from the Australian Commonwealth government on research and development activities. It invests in essential activities across the dairy supply chain to deliver the best outcomes for dairy farmers, the dairy industry and the broader community.

It focusses investment on pre- and post- farmgate research, development, extension and industry services. This includes education, trade policy, information, issues management, technological innovation, promoting the health and nutrition benefits of dairy products and marketing of the industry.

### 1.2. Requirement for an Independent Performance Review

Under the Statutory Funding Agreement 2017 – 2021 between Dairy Australia and the Commonwealth, (Statutory Funding Agreement), Dairy Australia must periodically commission an independent organisation to conduct a performance review of Dairy Australia. The performance review must be conducted in accordance with terms of reference agreed with the Commonwealth. A copy of the Statutory Funding Agreement can be found on Dairy Australia's website.

Dairy Australia wishes to request Expressions of Interest from suitably qualified independent organisations to conduct a performance review in accordance with the Statutory Funding Agreement. A copy of the proposed Project Timetable is attached as Annexure A to this Request for Expressions of Interest and the terms of reference agreed with the Commonwealth for the next performance review are set out in Annexure B to this Request for Expressions of Interest.

## 2. INVITATION TO SUBMIT EXPRESSIONS OF INTEREST

### 2.1. Eligibility to carry out the Independent Performance Review

As required under clause 18.4 of the Statutory Funding Agreement, the independent organisation engaged to carry out the Performance Review must be an organisation that has not within the previous four years have carried out any corporate governance activity or reviews, performance audit or similar reviews of Dairy Australia.

### 2.2. Project Timetable

A copy of the proposed Project Timetable is attached as Annexure A.

### 2.3. Outputs from Performance Review

The successful party will be expected to deliver the following outputs within the agreed timeframes (as identified in item 2.2 above):

- Draft Report (in electronic copy in Microsoft Word format);
- Final Report (in electronic copy in Microsoft Word format);
- Executive Summary of the key findings in and recommendations (in electronic copy in both Microsoft Word, Microsoft PowerPoint and Adobe Acrobat formats) for an industry/levy payer audience); and
- Presentation pack – including communiques (in Microsoft Word and Microsoft PowerPoint formats) and slide presentation (in Microsoft PowerPoint format) outlining the key process, findings and recommendations.

### 2.4. Contents of Expression of Interest

Dairy Australia invites you to submit an Expression of Interest to conduct the performance review. We

ask that your proposal include information on the following:

Experience and qualifications	<ul style="list-style-type: none"> <li>• Your organisation's recent experience relevant to the conduct of the performance review, including demonstrated experience: <ul style="list-style-type: none"> <li>○ in the agricultural sector</li> <li>○ undertaking similar performance reviews</li> <li>○ economic evaluation credentials</li> <li>○ report writing skills</li> </ul> </li> <li>• Proposed team members for the conduct of the performance review, including CVs for key personnel</li> </ul>
Methodology	<ul style="list-style-type: none"> <li>• A detailed description of the proposed approach and methodology for undertaking the Performance Review and addressing each of the requirements in the Terms of Reference</li> <li>• Details of how relevant quantitative and qualitative data is to be identified, collected and analysed</li> </ul>
Conflicts of Interest	<ul style="list-style-type: none"> <li>• Details of your approach to the management, assessment and disclosure of any conflict of interest that may arise during the period of engagement.</li> </ul>
Capacity	<ul style="list-style-type: none"> <li>• Project management details to demonstrate capacity to commence and manage the project within the required timeframe.</li> </ul>
Reporting	<ul style="list-style-type: none"> <li>• An outline of the proposed table of contents and/or layout of the final report to demonstrate how the review findings will be compiled and articulated.</li> <li>• Provide an example of similar completed reports as an attachment to your proposal.</li> </ul>
Pricing	<ul style="list-style-type: none"> <li>• Costing and payment scheduled for the proposal, including basis for pricing, on a fixed price basis, noting that the Consultancy Agreement will be on a fixed price basis with payments made on achievement of certain milestones.</li> </ul>
Insurance	<p>Provide details of the current insurance policies held by your organisation:</p> <ul style="list-style-type: none"> <li>• Professional Indemnity</li> <li>• Public Liability</li> <li>• Workers' Compensation</li> </ul> <p>Provide the following information for each above policy:</p> <ul style="list-style-type: none"> <li>• Name of insurer</li> <li>• Policy number</li> <li>• Extent of cover per incident</li> <li>• Extent of cover in aggregate</li> <li>• Expiry date</li> </ul> <p>Please note that the successful party will be required to produce certificates of currency for insurance policies prior to commencement of the services.</p>
Conflict of Interest	<ul style="list-style-type: none"> <li>• You will need to include a statement that you have no actual or potential conflicts in carrying out the performance review as at the date of submission of your proposal.</li> </ul>

Agreement	<ul style="list-style-type: none"><li>• You will also need to include confirmation that the pro forma consultancy agreement set out in Annexure C to this Request for Expressions of Interest is acceptable.</li><li>• If you have any objections to the pro forma consultancy agreement please specify the relevant contractual term, the reason why you object to that term and your proposed amendments to that term in track changes. Amendments requested to the pro forma consultancy agreement will be taken into account in selecting the successful tenderer.</li></ul>
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## 2.5. Resource Allocation

The successful party will be required to provide their own administrative support, including word processing and printing requirements.

Dairy Australia will provide assistance in providing access to relevant documents and stakeholders, as and when required and as agreed with the successful party at the scoping meeting (as outlined in the project timetable).

## 3. TERMS AND CONDITIONS GOVERNING AN EXPRESSION OF INTEREST

The respondent agrees, by lodging an Expression of Interest, that it is bound by these conditions:

- (a) No party will be financially compensated for costs incurred as a result of or in connection with its proposal in response to this Expression of Interest, or for any other costs. Every party is responsible for meeting all of its own costs in respect of this Expression of Interest.
- (b) Dairy Australia may:
  - (i) vary or terminate the Request for Expression of Interest and/or call for a new Expression of Interest;
  - (ii) terminate discussions in respect of this Request for Expression of Interest with you at any time;
  - (iii) invite other parties to enter into discussions in respect of this Request for Expressions of Interest;
  - (iv) change the date that proposals are due for any party;
  - (v) conduct this Request for Expression of Interest as it sees fit and according to its discretion and interests at all times;
  - (vi) accept or reject any proposal from any party before or after the due date for proposals;
  - (vii) deal with interested parties on different terms at any time;
  - (viii) provide information to any party at any time without providing that information to other parties;
  - (ix) commence negotiations or deal with any party on an exclusive basis with or without notice to other parties;
  - (x) separately appoint an independent consultant to conduct the performance review outside this Request for Expressions of Interest process; and
  - (xi) determine in their sole discretion matters to be taken into account when assessing proposals.
- (c) Dairy Australia is under no obligation to accept the lowest price or any proposal.
- (d) A proposal will not be deemed to be accepted and no contract will arise between any party and Dairy Australia until the successful party and Dairy Australia execute a formal written contract.
- (e) Dairy Australia may require further information from a party for purposes of clarification or explanation of the proposal. If Dairy Australia specifies a time limit within which the information must be provided, the parties must comply with the time limit.

- (f) This Request for Expressions of Interest and your participation in this Request for Expression of Interest is confidential. No public statement can be made about:
- this Request for Expression of Interest;
  - your role in this Request for Expression of Interest; or
  - any other matter related to this Request for Expression of Interest, without the prior written consent of Dairy Australia.
- (g) Dairy Australia does not make any representation or warranty as to the accuracy, completeness, currency or reliability of any information provided to you as part of this Request for Expression of Interest.
- (h) In submitting a proposal, parties will be considered to have:
- (i) examined the Request for Expression of Interest and any documents referenced by the Request for Expression of Interest and any other information made available by Dairy Australia to the party;
  - (ii) considered all the risks, contingencies, and other circumstances having an effect on their proposals; and
  - (iii) satisfied themselves as to the correctness and sufficiency of their proposal including proposed prices offered.
- (i) Dairy Australia may rely upon all statements made by parties in response to this Request for Expression of Interest or in subsequent correspondence or negotiations with Dairy Australia or its representatives.

#### 4. REQUIREMENTS FOR LODGEMENT OF EXPRESSION OF INTEREST

Expressions of interest are to be submitted to Dairy Australia by email by 5.00pm AEST on 22 September 2020 (closing date) to:

- Sheridan Verwey: [Sheridan.Verwey@dairyaustralia.com.au](mailto:Sheridan.Verwey@dairyaustralia.com.au)
  - Elizabeth Parkin: [Elizabeth.Parkin@dairyaustralia.com.au](mailto:Elizabeth.Parkin@dairyaustralia.com.au)
  - Felicity Taylor: [Felicity.Taylor@dairyaustralia.com.au](mailto:Felicity.Taylor@dairyaustralia.com.au)
- with the subject heading "EOI – Dairy Australia Independent Performance Review".

Please note that proposals lodged after 5.00pm on 22 September 2020 may be disqualified. Dairy Australia reserves the right in its absolute discretion to determine whether or not to consider a proposal that is submitted late.

## Annexure A – Project Timetable

Date	Action
31 August 2020	Expressions of interest sought by Dairy Australia
22 September 2020	Closing date for submission of Expressions of Interest
Week commencing 28 September 2020	Interviews with shortlisted parties. Notify successful party and Consultancy Agreement between Dairy Australia and successful party finalised and signed
Week commencing 5 October 2020	Scoping meeting to agree: <ul style="list-style-type: none"> <li>• Assessment criteria</li> <li>• Scheduling of progress update meetings</li> <li>• DA input requirements               <ul style="list-style-type: none"> <li>○ Documents</li> <li>○ Personnel for interviews</li> <li>○ Stakeholders.</li> </ul> </li> </ul>
October / November	Review of data, interviews and report preparation
30 November 2020	Workshop to present findings to DA management team
4 December 2020	Working draft of report submitted to DA
tbc December 2020	Attend DA Board Meeting to discuss draft report
18 December 2020	Final report submitted to DA

## Annexure B – Terms of Reference

Consultation should occur with key stakeholders in consultation with Dairy Australia, including the Australian Government, levy payers and industry.

1. Assess Dairy Australia's performance:
  - a) meeting its obligations under the Statutory Funding Agreement 2017 – 2021 with the Commonwealth and the *Dairy Product Act 1986* (Cth)
  - b) implementing governance arrangements and practices for ensuring proper use and management of the Funds\* (Note independent audit certification)
  - c) meeting the planned outcomes and targets of its Strategic Plan 2016/17 to 2019/20

How:

- Assess the effectiveness of Dairy Australia's governance activities including:
  - o an effective governance culture
  - o development of strategic plan
  - o development and implementation of annual operating plans
  - o the production of key documentation e.g. annual report, risk management policy
  - o stakeholder transparency
  - o establishment of effective performance measures at management and Board level to manage investment
  - o evaluation of performance against the 2016/17 to 2019/20 strategic plan.
  - o proper use and management of funds including independent audit certification on compliance with these requirements.

2. Assess the effectiveness of consultation with Dairy Australia's levy payers and Group B members (Australian Dairy Farmers and Australian Dairy Products Federation) including the:
  - a) understanding of the needs of levy payers and other representative bodies
  - b) approach to identify the priorities of levy payers to inform investment decisions and any suggested improvements
  - c) communication to levy payers and other representative bodies of current priorities, the basis for investment to further support levy payer engagement and the outcomes of previous investments.

How:

- Review of Performance Tracker and outcomes from marketing and communications efforts
- Review the effectiveness of RDP's in identifying levy payer needs in the respective regions
- Review of other consultation processes including Australian Dairy Plan workshops & consultation processes
- Review effectiveness of communication processes with levy payers and representative bodies (ADF, ADPF)
- Review the effectiveness of consultation with government groups, markets, industry sectors etc.
- Review of the performance report

3. Assess the delivery of benefits to the Australian dairy industry and the broader community as outlined in Dairy Australia's strategic and operating plans including but not limited to:
  - a) investments at a portfolio level in research, development and extension (RD&E)
  - b) consideration to the expected benefits from a balanced R, D&E portfolio of short term, long term, high risk and low risk investments
  - c) effectiveness of R&D uptake including suggestions for improvement
  - d) suggestions to improve the efficiency and effectiveness of DA's operations
  - e) strategic policy development



How:

- Review the approach for identifying the benefits from a balanced portfolio of RD&E activity
- Review the effectiveness of communication of RD&E benefits and suggestions for improvements
- Provide suggestions to improve the uptake of R&D
- Provide suggestion to enhance efficiency and effectiveness to deliver greater benefit to levy payers and other representative bodies
- Review the effectiveness of DA's role in strategic policy development to benefit the industry

4. Assess other relevant matters consistent with DA's Strategic Plan and the Act the Commonwealth requires the performance review to cover.

Collaborative investment

5. Assess the cross-sector collaborative action by Dairy Australia with:
  - a) other Rural Development Corporations on priority cross-sectoral issues
  - b) local and international partners including private companies and other industry service bodies

How:

- Assess the effectiveness of Dairy Australia's co-investment with private and international companies
- Assess the effectiveness of efforts of Dairy Australia to identify key cross-sectoral priorities and efforts collaborate with other Rural Development Corporations
- Assess key partnerships DA has and help inform opportunities for collaboration and/or co-investment nationally and globally

Review of Action Taken in Response to Prior Review

6. Review the implementation of action in response to the recommendations from the prior performance review against the 2011-2016 SFA.

How:

- Assess the effectiveness of action taken on the recommendations from the prior review.



**Anwen Lovett Consulting**