

Horticulture Innovation Australia Limited

Independent Performance Review Final Report

June 2018



Scope and limitations

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Acknowledgements

GHD acknowledges the contributions of many individuals and stakeholders and also the Board and staff of Hort Innovation to this review. The open and frank comments on the performance of Hort Innovation are greatly appreciated and will no doubt guide the direction of Hort Innovation in the future as it seeks to continuously improve its performance for the benefit of the horticulture industry.

Note that the names of individuals consulted as part of the review have not been included in this report for privacy reasons.

Executive summary

GHD was commissioned by Hort Innovation to undertake an independent performance review of the company, which is a requirement under the company's Statutory Funding Agreement (SFA) with the Commonwealth Government. The scope of the review is for the period 2014 – 2018 and this report details the findings of the review against the terms of reference that are summarised as follows:

1. Assess how the transition from the previous governance arrangements of Horticulture Australia Limited (HAL) affected Hort Innovation's performance
2. Assess Hort Innovation's performance against its Strategic and Operational Plans
3. Assess the delivery of benefits to Australian horticulture industries and community in general, including the achievement of value for money, and quantitative measures where appropriate such as return on investment and cost benefit analyses
4. Identify recommendations for improvement to Hort Innovation's performance in delivering its Strategic and Annual Operational Plans.

Importantly, the review is undertaken within a unique context of:

- The fact that Hort Innovation was established at the start of the review period, by Ministerial Declaration, as a company distinct from its predecessor HAL and with different governance arrangements and transitional responsibilities
- The number of individual industries serviced by Hort Innovation – more than 50 levies managed for 33 different commodities
- The two-pool funding model introduced by Hort Innovation: Strategic Levy investments (formerly referred to as Pool 1) and Hort Frontiers investments (formerly referred to as Pool 2).

GHD commenced the review in January 2018 and completed the following activities to assess performance:

1. Document review and analysis – including publically available documents sourced from the Hort Innovation website and additional documents provided by Hort Innovation via a password-protected portal
2. Stakeholder consultation, which comprised:
 - An online survey of members and other stakeholders which was advertised in industry publications and circulated to members and other stakeholders
 - Face-to-face and telephone interviews with a range of stakeholders, including Hort Innovation Board and staff members, the Commonwealth, horticulture growers, Industry Representative Bodies (IRBs) and service providers for research and development (R&D) and marketing investments.

Hort Innovation

Hort Innovation was established following the outcomes of the previous independent review of its predecessor company, Horticulture Australia Limited (HAL) which was completed in May 2014 (the ACIL Allen review). The report recommended far reaching changes to the model for horticulture industry research, development and marketing in Australia and proposed changes to the governance and operations of HAL and how expenditure of funds was to be managed. While there was a strong consensus at the time that change was required, stakeholders'

opinions differed widely on how best to do this, and GHD considers these differences of opinion have carried forward in some degree to the new company, Hort Innovation.

The ACIL Allen review found that there was a conflict of interest problem of monies flowing to peak industry bodies (PIBs) that were also owners of HAL and that this issue was insoluble under the then governance arrangements. The solution was for a grower-owned company with a structure that was designed to achieve:

- Reduced conflict of interest
- Reduced administrative effort and expense
- Improved accountability and transparency
- Improved measurement of industry wide impacts
- Improved grower and other stakeholder engagement.

Importantly, when the company was established, the then Minister for Agriculture listed seven 'expectations' with regard to its operations, including that the then industry advisory committee (IAC) arrangement had institutionalised conflict of interest for many of the member industries and that existing consultation funding arrangements should cease on the signing of the new Statutory Funding Agreement (SFA).

Another important Ministerial expectation was that marketing levy funds (which do not attract matching Commonwealth funding) should not be made available directly to Industry Representative Bodies (IRBs) and that there should be an arms-length process to seek the best value-for money option to allocate industry marketing funds.

Statutory Funding Agreement

Based on the Minister's expectations and recommendations from the review, a new SFA (or Deed of Agreement 2014-18) between the Commonwealth of Australia and Hort Innovation was signed on 14 November 2014. SFAs are common across Rural Research and Development Corporations (RDCs) as a result of the Commonwealth accepting that there is a need to encourage marketing and research and development services in the primary industry sector and that the provision of these services through public funding can contribute to enhancing the viability, sustainability and competitiveness of the primary industry sector and the Australian community in general. The SFA defines the operating principles for the partnership.

GHD considers that the wording in the SFA allows Hort Innovation some discretion for implementation compared to the more narrow expectations included in the Ministerial letter, especially in regard to consultation with IRBs. During the transition phase (i.e. the first 18-24 months of the company), Hort Innovation adopted a more narrow interpretation of the SFA with the result that a number of IRBs felt they were not being consulted appropriately.

Constitution

In addition to the SFA, Hort Innovation's Constitution was also drafted and came into effect on 4 November 2014. The Objects of Hort Innovation as stated in the Constitution include (summarised):

- To provide leadership to, and to promote the development of, the Australian Horticulture Industry
- To increase the productivity, farm gate profitability and global competitiveness of the Horticultural Industries
- To support capacity building by maintaining a diverse range of research, development, extension and marketing services providers

- To promote and further the interests of the Horticultural Industries overseas
- To be accountable to Levy Payers, Producer Contribution Payers¹, Investors and the Australian Government for the Company's use of, as applicable, Levies, Producer Contributions and payments from Investors
- To engage in any other activities for the benefit of Members, Levy Payers, Producer Contribution Payers, the Horticultural Industries, co-investors and the Australian community generally which are not inconsistent with the requirements of the Act² and the Deed of Agreement.

A revised Constitution is dated 24 November 2017 which incorporates changes made in 2016 as well as changes to the composition of the Director Nomination Committee (DNC) made in 2017.

Implementation

Hort Innovation's activities need to be viewed from the perspective of the complexity of the horticulture industries and their respective differential R&D and marketing levies.

Since its inception in 2014, Hort Innovation has implemented the following within the transition phase (i.e. the first 18 – 24 months of the company):

- Establishment of a skills-based board with well documented procedures and risk management tools to ensure their responsibilities under the Constitution and SFA are implemented
- An Executive Management team and staffing structure with position descriptions that clearly detail roles and responsibilities
- An overall company strategic plan and industry Strategic Investment Plans (SIPs) that set clear directions for prioritising investments, including for Strategic Levy Funds and Frontiers Funds that maximise co-investments with partners for both short, medium and longer term investments
- Introduction of a procurement model driving capacity building (a Constitutional mandate) and value for money (a requirement of the SFA)
- The introduction of the concept pipeline that seeks to capture novel ideas for investments in response to corporate and industry strategies
- Use of skills-based advisory panels to provide advice on investment priorities
- Formation of a Trade Unit focussed on international competitiveness (as specified in the Constitution)
- Formation of a Data and Insights unit, to drive more informed investment decision making
- Procurement management tools that are robust and less bureaucratic (although some stakeholders consider response times are too lengthy and the process is more bureaucratic)
- Communication tools that form the basis for more effective stakeholder communication (although engagement with the tools by growers in particular may not be occurring).

Through our document review and discussion with the Hort Innovation Board and Executive Management team, GHD can confirm that the above transition activities have been completed and that they are contributing to the improved performance of the company compared to HAL.

¹ Contributors to a Collective Industry Fund

² *Horticulture Marketing and Research and Development Services Act 2000*

For the 2015-16 and 2016-17 years, Hort Innovation invested \$93.9 million and \$102.3 million in R&D and marketing initiatives respectively (see table below).

This review considers Hort Innovation's performance beyond the transition phase, i.e. the implementation phase over the last two years, and assesses how the various components have enabled the company to achieve benefits from its investments.

	2015/16			2016/17		
	(\$ m) Budget	(\$ m) Actual	Variance	(\$ m) Budget	(\$ m) Actual	Variance
Income						
Total Levy Income	\$45.9	\$51.8	(\$5.9)	\$48.1	\$54.2	(\$6.1)
Co-Investment Income (incl. Legacy VC and R&D for Profit)	\$21.1	\$23.2	(\$2.1)	\$19.8	\$22.1	(\$2.3)
Matching Funds – R&D	\$43.8	\$43.2	\$0.6	\$46.0	\$45.5	\$0.5
Other Income	\$1.0	\$1.9	(\$0.9)	\$1.7	\$1.5	\$0.2
Income before reserves transfers	\$111.8	\$120.1	*\$8.3)	\$115.6	\$123.3	(\$7.7)
Transfers from/(to) industry reserves*	\$0.5	(\$10.9)	\$11.4	\$1.0	(\$4.7)	\$5.7
Total Income after Industry Reserve Transfers	\$112.3	\$109.2	\$3.1	\$116.6	\$118.6	(\$2.0)
Expenditure						
Strategic Levy Investments		\$63.5			\$76.2	
Co-investment (incl. Legacy VC and R&D for Profit)		\$30.4			\$26.1	
Total Program Expenditure	\$96.1	\$93.9	(\$2.2)	\$100.0	\$102.3	\$2.3
Levy Collection Costs	\$1.5	\$1.2	(\$0.3)	\$1.5	\$1.6	\$0.1
Corporate Expenditure	\$14.6	\$14.3	(\$0.3)	\$15.1	\$14.6	(\$0.5)
Total expenditure	\$112.2	\$109.4	(\$2.8)	\$116.6	\$118.5	\$1.9
Accumulated Surplus / (Deficit) for the period	(\$0.9)	(\$0.2)	(\$0.7)		\$0.1	(\$0.1)

* = Difference between Program Income received and Program Expenditure allocated to Projects

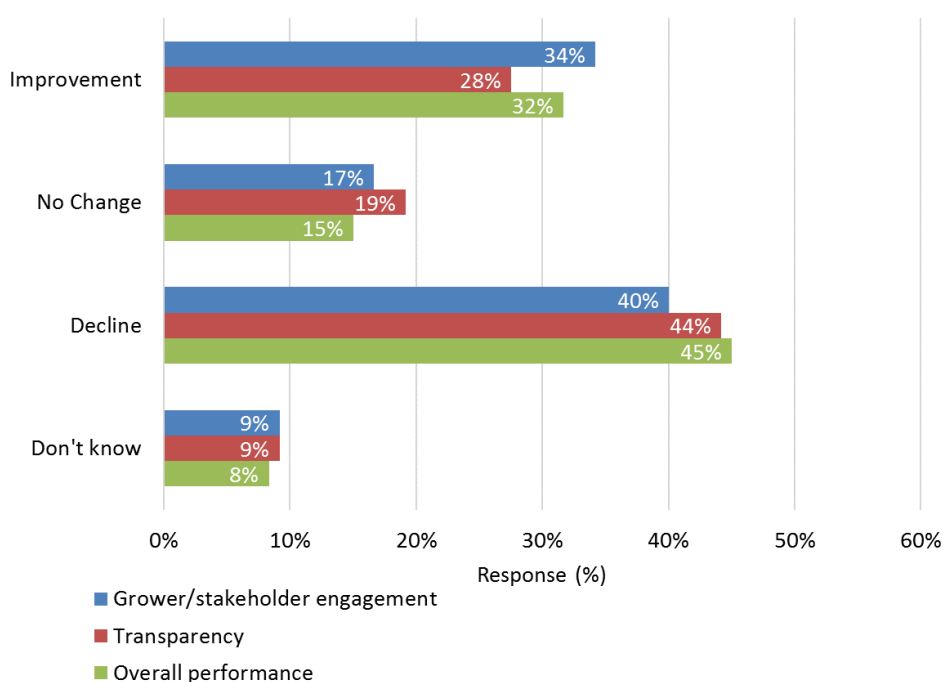
This investment has been guided by the SIPs and the various skills-based advisory panels following an established project pipeline process with priorities based on potential benefits to the industry. Impact assessments of investment priorities were developed for each industry by independent consultants using a standard program framework that calculated the benefit:cost ratio (BCR) of the priority outcomes for each industry.

Projects are then scrutinised by the Investment Committee (a sub-committee of the Board) before decisions are ratified by the full Board.

Stakeholder feedback

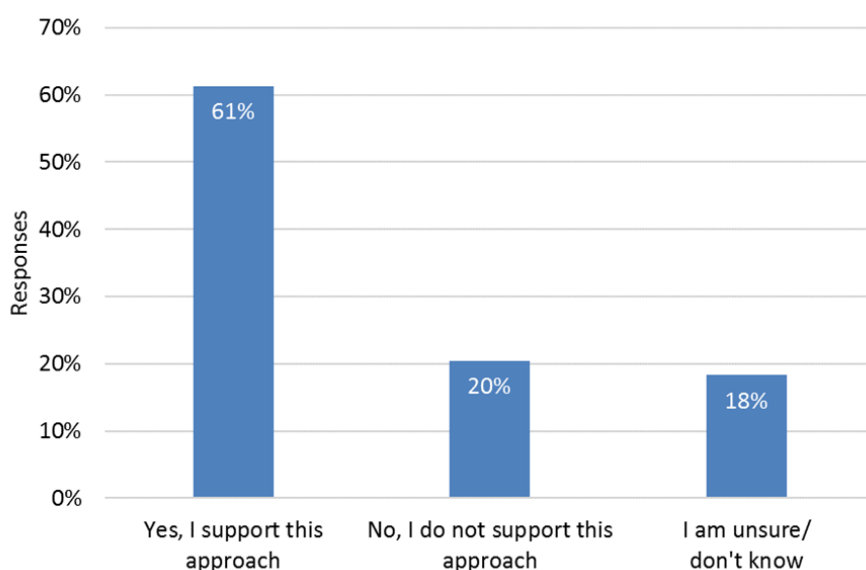
While GHD considers that the above investment process has been completed according to the company's SFA and Constitution, there has been mixed feedback from stakeholders on their perception of Hort Innovation's performance as shown from the results of GHD's online survey (selected results from the online survey are provided in the figures below).

It should be noted that the online survey was not designed to obtain information from a stratified random sample of stakeholders and therefore care is required when interpreting the data. GHD considers the online survey results (n=228) present a more pessimistic view of Hort Innovation's performance than reality, and we have weighed this feedback with comments from stakeholder interviews completed to develop our assessment of performance. In addition, we have also considered results of an independent survey completed by Down to Earth Research in 2017 to cross check stakeholder sentiment.

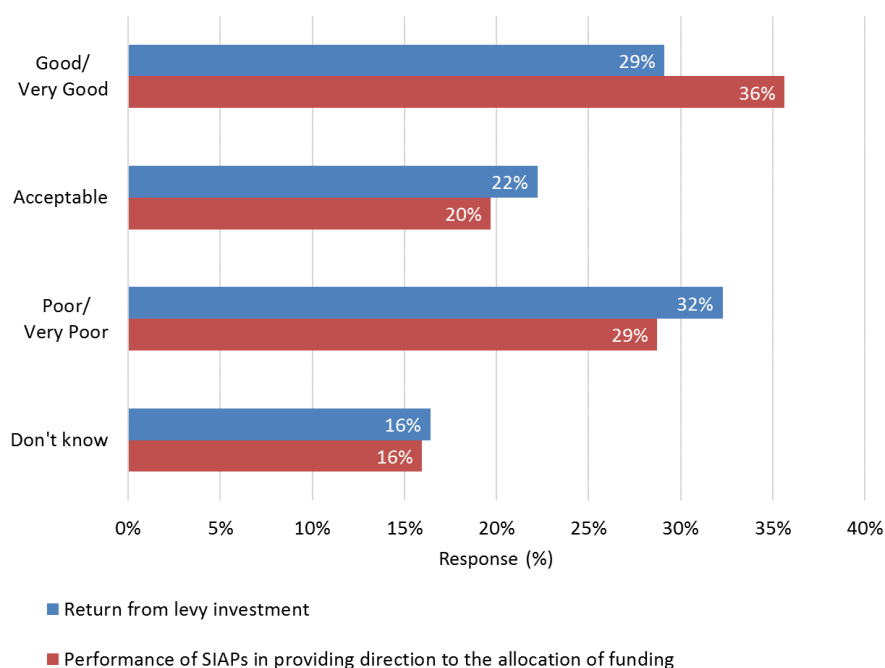


On the question of how the transition from HAL has affected Hort Innovation's performance, for overall performance 55% of respondents considered there was improvement, no change or did not know the impact of the transition. However, a significant percentage of respondents considered that the transition resulted in a decline in grower/stakeholder engagement, transparency and overall performance.

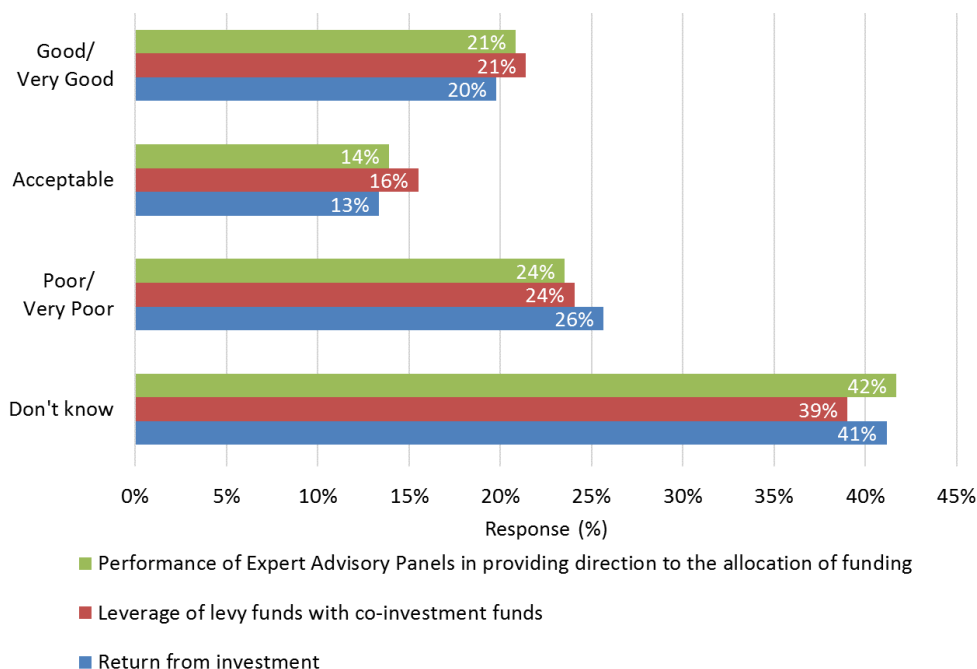
Interestingly, respondents supported the two pool investment approach (Strategic Levy Investments and Frontiers Funds) which was a major initiative for Hort Innovation compared to HAL.



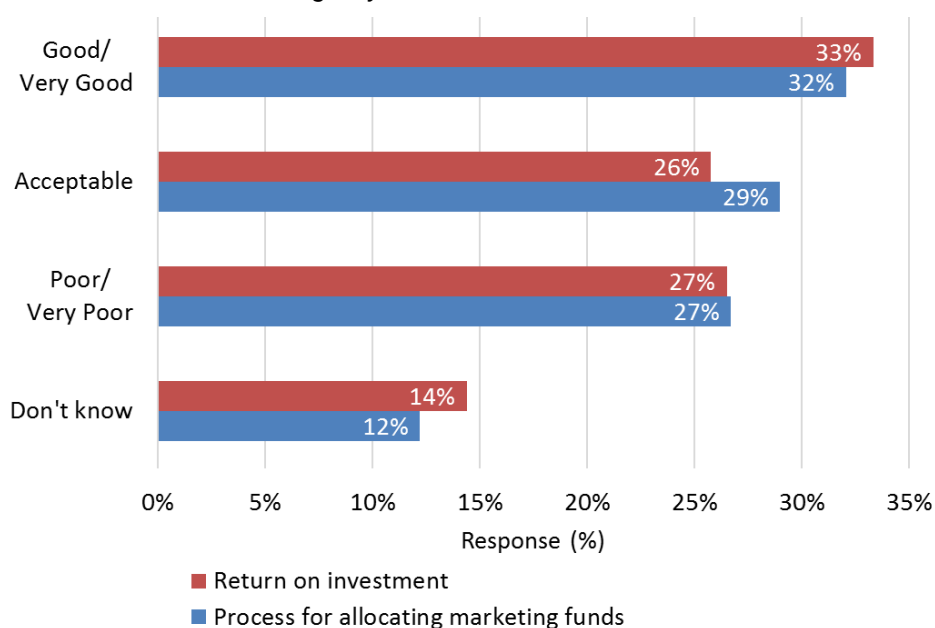
Respondents' views on the performance of the Strategic Levy investments were mostly positive (51% very good/good/acceptable performance for return on investment and 56% very good/good/acceptable performance of SIAPs in providing direction).



Respondents' views on the performance of the Frontiers Fund was characterised by a high percentage of "Don't know" responses. GHD considers this is due to the lack of information available to most stakeholders which Hort Innovation has recognised and is currently correcting, and the fact that these long term investment projects are in the relatively early stages.



Respondents considered return on investment from marketing and the process for allocating marketing funds was good (59% stated return on investment was very good/good/acceptable, 61% stated the process for allocating marketing funds was very good/good/acceptable). GHD notes that this is contrary to views expressed by six industries (15% of industries interviewed) who considered that delays caused by Hort Innovation had resulted in their industry missing a complete season of marketing activities. In addition, several industries questioned whether marketing levies should be managed by Hort Innovation with their preference being Recommendation 6 of the ACIL Allen report – *Hort Innovation is to engage in marketing on a fee for service basis, and only on the request of the body representing the industry that contributes marketing levy funds.*



Findings and Recommendations

In assessing the performance of Hort Innovation since its inception, GHD has developed the following findings and recommendations against each of the terms of reference. Our assessment has been informed by our document review and stakeholder consultation (including submissions received). It should be noted that stakeholder views vary widely on Hort Innovation's performance, with some of the opinion that performance has radically improved since HAL while others raised a number of issues and provided examples of what they considered was unsatisfactory performance.

Overall, GHD has found that Hort Innovation has structured the new company to meet its requirements under the SFA, its Constitution and also reflecting the expectations of the then Minister for Agriculture at transition. We find that some of the negative stakeholder comments are due to a misunderstanding of the responsibilities of the new company compared to HAL.

In addition, we also find that Hort Innovation is conscious of the many issues raised by stakeholders and is genuinely addressing any shortcomings within the constraints of its SFA and Constitution. However, GHD considers that there has been a lack of communication by Hort Innovation to stakeholders in describing the improvements that are underway. This lack of communication has caused frustration by stakeholders whereby they are questioning if Hort Innovation is effectively and efficiently investing for the benefit of the industry.

GHD finds that Hort Innovation has recognised the need to better communicate its efforts to continuously improve performance and is actively incorporating changes to its operations. Examples include the SIAP improvement process and more extensive information on the Frontiers Funds.

Our findings and recommendations for each of the terms of reference ("A" to "G") are summarised below. Further details can be found in the body of the report.

Note that these 14 recommendations are not in priority order. A table indicating priority level and timeframes for implementation is provided in Appendix H.

A. Assess how the transition from the previous governance arrangements of HAL affected Hort Innovation's performance.

The transition from HAL to Hort Innovation has been a difficult process requiring wholesale changes to the company's structure and its procurement methods as required under the new SFA and as recommended by the previous ACIL Allen performance review. In addition, the former Minister for Agriculture and Water Resources set clear expectations in 2014 in regard to a number of issues that required Hort Innovation's compliance, notwithstanding that fact that the company had reservations about some of these expectations. Of main concern was the expectation that existing consultation funding arrangements with IRBs was to cease on the signing of the new SFA, and that marketing levy funds should not be made available directly to IRBs.

In hindsight, Hort Innovation and stakeholders are of the opinion that the transition resulted in the pendulum swinging too far toward exclusion of appropriate levels of IRB involvement, and that this has had a detrimental impact on stakeholder relationships especially with some IRBs. GHD considers that this was due to Hort Innovation adopting a more narrow interpretation of its SFA requirements based on the Minister's expectations.

The impact of this on Hort Innovation's performance during the transition phase is difficult to measure, however the constant need to respond to criticism has certainly consumed staff time and resources that may have otherwise been utilised in furthering the identification and implementation of investments.

At the same time, the transition has enabled Hort Innovation to introduce new (or enhance existing) procedures and governance systems that will potentially result in more innovative investments that are delivered via a more efficient, effective and responsive organisation.

On balance, GHD considers that the transition to Hort Innovation has established a framework for improved performance on all criteria that were the basis for transitioning from HAL (i.e. reduced conflict of interest, reduced administrative effort and expense, improved accountability and transparency, improved measurement of industry wide impacts, improved grower and other stakeholder engagement).

We are mindful that some stakeholders consider these expected outcomes have not been achieved and GHD has addressed some specific areas for improvement against the relevant Terms of Reference (ToR) below. As such, we find that there is a need for ongoing improvements in implementation and communication of Hort Innovation's processes to ensure the structural changes are fully appreciated by stakeholders.

Recommendation 1

Hort Innovation to consolidate on the improvements achieved during the transition phase (first 18-24 months of the company) with further refinement and continuous improvement based on the lessons learned from stakeholder feedback and internal company assessments, with emphasis on the implementation of a refined communication and engagement plan and the role of IRBs to maximise the effectiveness of its communications activities.

B. Performance of Hort Innovation in meetings its obligations under its Deed of Agreement 2014-2018 with the Commonwealth

GHD considers the company is meeting all of its obligations within its SFA. GHD has observed that Hort Innovation also holds regular informal discussions with DAWR in which progress on performance and issues arising are raised in a proactive manner. While this relationship has been characterised by some stakeholders as demonstrating that Hort Innovation is serving government at the expense of levy payers, GHD does not agree with this perception. GHD considers that the relationship is professional and exists for the sole purpose of ensuring the best outcomes for the horticulture industry as a whole.

Recommendation 2

Hort Innovation to continue to foster both formal and informal communication channels with the Commonwealth in the interests of ensuring the company's SFA obligations are discharged in a timely and effective manner, and better communicate its SFA obligations to stakeholders.

C. Development, implementation and efficiency in delivery of its Strategic, Annual Operational, Risk Management, Fraud Control, Intellectual Property plans and the company's effectiveness in delivering upon the priorities, targets and budgets set out in those plans

Hort Innovation has clearly developed the relevant plans with associated priorities, targets and budgets and is implementing the plans as per the guidelines developed. It strives for continuous improvement to the efficient and effective delivery of investments as evidenced by its internal audit processes and implementation of any corrective actions if identified. In addition, the consistent framework adopted for the SIPs has enabled a disciplined approach to the consideration of investment priorities.

The AOPs set out specific KPIs against the three corporate strategy pillars and these are reported against in the corresponding Annual Reports. GHD has noted some difficulty in following the financial reporting tables between the AOPs and Annual Reports, and this could

be improved. Also, more description of the source of funds for Frontiers Funds, including co-investors, is recommended.

While GHD considers that Hort Innovation is meeting its requirements under the SFA with respect to the delivery of its Strategic Plan, AOP and Annual Reports, there is a need to improve the relevant reports to ensure consistency in the financial reporting between the documents and more detail on Frontiers Funds. (Note that our findings on corporate governance are detailed against ToR “D” below).

Recommendation 3

Hort Innovation to improve its reports to:

- *ensure consistency in the presentation of information on financial forecasting in AOPs and subsequent financial reports in Annual Reports; and*
- *provide more description on the source of funds for Frontier Funds and the rationale for the selection of Frontiers Fund projects.*

In addition, there is a disconnect between the financial accounting system that reports on the allocation of funds and the funds management system that considers future income streams from levies and other sources for budgeting purposes. Currently these two systems are not linked and require a manual transfer of data which is both time consuming and prone to human error. The delays and errors in reporting have caused concerns at the Board level and with IRBs and SIAPs and Hort Innovation is in the process of developing an improved system that will address the concerns.

It should be noted that the issue does not have an impact on the integrity of Hort Innovation’s financial reporting systems. The annual accounts are an accurate reflection of the funds expended and are allocated appropriately via its cost allocation policy as stated in the annual Financial Report which is confirmed by an external auditor.

The management accounting system for budgeting purposes relies on forecasts of income from levies and other sources which are subject to variation as a result of levy receipts being determined by seasonal production and market pricing. This means that forecasting requires continual updating as conditions change.

Despite this, Hort Innovation’s plan to continue to develop an integrated financial and management accounting reporting system will result in a more efficient process that will be more acceptable at both a management level and for communicating funds management to industry representatives.

Recommendation 4

Hort Innovation complete the development of an integrated financial and management accounting system that will provide more timely and accurate reports to guide investments.

D. Structure and operations of the company, to ensure good practice and systems of corporate governance

GHD considers that in this first stage of Hort Innovation’s transition, the Board’s oversight has focussed on improvements to the Hort Innovation operating model, transition issues, communication and prioritising projects for investment. As these areas are embedded, there should be additional time to spend on elevating the strategic focus of the organisation and thinking forward about big issues in R&D and marketing in Australian horticulture.

During the transition, the company adopted a “fund-centric” model centred around fund managers to deliver its investments. This has resulted in uncertainties with regard to

responsibilities and accountabilities especially in regard to Strategic Levy investments. Hort Innovation is open to considering an alternative structure with a more direct line reporting model to remove this uncertainty.

Hort Innovation has had difficulty in attracting levy payers to join as voting members of the company and then to exercise their voting rights at AGMs. This is not an unusual outcome for other RDCs in Australia and is likely to only become problematic if there is a serious difference of opinion between levy payers and management.

GHD reviewed the corporate governance structure and operations of the Board against the current ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. We consider that Hort Innovation has met these requirements (noting that the Diversity and Inclusion Policy is currently being drafted) and that this has ensured good practice and systems of corporate governance at Hort Innovation.

However, in the interests of continuous improvement, we recommend the following:

Recommendation 5

Hort Innovation to complete a review of the current organisational and internal reporting and approvals model to determine if it is the most effective and efficient structure for delivering its corporate activities, including responsiveness to levy payer requests, while being cognisant of any cost implications.

Recommendation 6

Hort Innovation to:

- *complete its Diversity & Inclusion Policy including measurable objectives for achieving gender diversity;*
- *include non-financial Delegations of Authority matters reserved for the Board in a policy document; and*
- *add a Governance section to its website thereby disclosing its non-confidential good governance frameworks, documents and practices.*

E. The effectiveness of the arrangements for engagement, consultation and communication with, and feedback to, stakeholders (including levy payers, members, advisory panel participants, industry representative bodies, and the Commonwealth Government) including the opportunities for levy payers and other contributors to influence the investment of levies

GHD considers that the company's engagement, consultation and communication arrangements have been less than effective until recently (in part due to some stakeholders' preference not to access information electronically), but there is evidence of improvement in the last 6-9 months. Not surprisingly, certain IRBs (not all) have been highly critical of Hort Innovation's performance which likely stems, at least initially, from their change in ownership status of the company and the loss of consultation funding at inception.

Hort Innovation's ability to reach and communicate to its new and significantly wider membership is constrained by a history of indirect access to growers (via IRBs) under HAL and by a lack of any mandated levy payer register.

GHD recognises that Hort Innovation has implemented a website to assist with the communication of operations and investment outcomes to growers and other stakeholders, but it appears that many growers prefer to obtain information from their relevant IRB or Hort Innovation Relationship Manager. When considering the role of IRBs, it is important to recognise that these bodies, although not owners of the company in their own right, are

comprised of levy payers and members of Hort Innovation who have a genuine interest in ensuring their levies are invested diligently so as to maximise their return on investments.

Membership of Hort Innovation is open to any eligible industry participant, being an entity that is carrying on an enterprise within a horticultural industry under a registered ABN. However, IRBs are excluded from membership, whilst other industry participants are able to join. Only levy payers or contributors to Collective Industry Funds can be voting members of Hort Innovation.

Confidential IRB submissions and on-line survey comments raised a number of allegations of Hort Innovation being non-responsive on certain issues raised by the IRBs, including that the company has reneged on commitments made, including producing inaccurate minutes of formal meetings. GHD raised these issues anonymously with the Board and Executive Management team and GHD is satisfied that commitments have been made in good faith but actions have not been communicated as speedily as could be expected. GHD is aware Hort Innovation has been in discussion with at least one of the affected industries, to resolve any misunderstanding.

GHD has been informed by Hort Innovation of instances bordering on staff harassment by IRB representatives when making complaints. GHD has sighted exit interview summaries of staff who have resigned from Hort Innovation over the last 18 months and a number cited dissatisfaction with treatment by external stakeholders as a reason for departure.

GHD is unable to gauge the full extent of dissatisfaction between IRBs and Hort Innovation because at least some is suspected to come from those who are more vociferous while others who are satisfied remain silent.

Regardless of where the fault lies, the outcomes are not helpful to all concerned – Hort Innovation expends time and energy on responding to what they consider are often unfounded concerns, and IRBs are frustrated that their concerns are not addressed. While GHD is uncertain if the friction between some IRBs and Hort Innovation is having a material impact on performance, it may be an opportune time to codify the relationship so that responsibilities and methods of engagement are clear.

GHD notes that Hort Innovation has developed a comprehensive corporate communications framework with its goal “to ensure growers get the information that they need to grow their business how, where and when they want.”

While Hort Innovation has a duty to apply its independent judgement (in particular in reconciling conflicting priorities, balancing long and short-term needs and in ensuring activities are consistent with its functions and powers), there is a need to consider advice from stakeholders, in particular IRBs, to improve performance. In this regard, Hort Innovation has been considering the idea of developing a generic agreement with IRBs to better articulate the engagement processes between the parties and has been discussing this with some industries.

Any agreement would outline the expectations and processes through which Hort Innovation would regularly consult with levy payers through their IRBs to ensure there is a mechanism for an exchange of views on the company’s performance. Such an agreement, or Statement of Intent, would not provide an IRB with any particular authority to direct Hort Innovation.

Recommendation 7

Hort Innovation to develop a generic agreement, or Statement of Intent, between Hort Innovation and IRBs that codifies the relationship and includes a complaints handling process, with the scope of the agreement to be jointly agreed between Hort Innovation and IRBs.

Note that the implementation of this Statement of Intent is not expected to require levy funds for its operations. IRBs may separately continue to manage Hort Innovation projects, including communications projects, based on current competitive tendering arrangements.

GHD considers that the exclusion of IRBs from being non-voting members of Hort Innovation in the Constitution is a source of antagonism that is inhibiting the healthy relationship between the parties. The resolution of the issue would require a change to the Constitution, a matter over which Hort Innovation does not have control as it requires a special resolution of Voting members to be successfully passed. However, Hort Innovation could put a resolution for member vote to achieve this outcome.

Recommendation 8

Hort Innovation, in consultation with IRBs and the Commonwealth, to put a resolution for member vote removing the exclusion of IRBs from being members of the company.

GHD has found that many of the performance issues raised during consultation for this review have in fact been recognised by Hort Innovation and are being addressed. However, stakeholders are generally not aware of the actions being taken to improve performance.

Recommendation 9

Hort Innovation to better communicate to stakeholders the improvements that are being progressed to address issues identified as potentially negatively impacting on its performance, including:

- *Progression of the SIAP improvement process*
- *Frontiers Funds, especially the benefits of attracting co-investors for cross-industry outcomes with minimal use of levy funds*
- *Consideration of a hybrid model for project initiation (concept plus call)*
- *Consideration of how better to achieve collaboration between smaller industries that results in more efficient delivery of services and reduces the risk of a “siloe” approach.*
- *Activities in support of food safety initiatives and crisis management.*

F. Hort Innovation’s efforts in cross-RDC collaboration

Hort Innovation has been active in collaborating with other RDCs and service providers to seek funding and initiate projects that have multi-sector and community benefits beyond the horticulture sector itself. This cross-collaboration is a requirement within the SFA in order to address the government’s Rural RD&E Priorities and the overarching National Science and Research Priorities. These investments are in part a recognition of the co-investment R&D funding provided to the horticulture industry by the Commonwealth.

Recommendation 10

Hort Innovation to continue to seek cross-RDC collaboration opportunities that will benefit horticulture as well as the broader agricultural industries and community.

G. Assess the delivery of benefits to Australian horticulture industries and community in general, including the achievement of value for money, and quantitative measures where appropriate such as return on investment and cost benefit analyses

Hort Innovation has had a large focus on ex-ante assessment of potential investments which shows it is taking a proactive approach to evaluation as a tool to guide strategic investment decisions and continuous improvement, rather than simply undertaking assessments at the end of a program’s life to meet its SFA obligations. However, while this is particularly useful for internal decision making, outcomes (i.e. net benefits) are of primary concern to those stakeholders providing the investment dollars, in particular, levy payers and the Australian Government.

The focus on ex-ante impact assessments has been a relatively new approach for Hort Innovation and laid a robust foundation for establishing monitoring and evaluation plans, so that data is available to undertake ex-post impact assessments. Hort Innovation is now in the process of transitioning to a greater focus on ex-post assessments, which will need to include a process for communicating both project and fund level outcomes to key stakeholders. A key challenge will be determining the appropriate funding allocation to meet the Council of Rural Research and Development Corporation's (CRRDC) requirements as well as add value to the various Strategic Levy and Frontiers Fund investment activities.

Recommendation 11

Hort Innovation to finalise its approach to transition the monitoring and evaluation focus from ex-ante impact assessment to ex-post impact assessments to test if expected benefits have been delivered and inform future investment decisions.

Recommendation 12

Hort Innovation to ensure that risk is a consideration in allocating resources and establishing triggers for monitoring and evaluation, noting that at the moment the framework currently links the determination of monitoring and evaluation methods to size of project, availability of data and M&E capability. This is likely to be of particular importance to Frontiers Fund investments.

Recommendation 13

Hort Innovation to amend Section 6 of the Organisational Evaluation Framework to increase the frequency of reporting to growers and levy payers, and investors and co-investors from just end-of-investment cycle reporting. This update to the framework will also better reflect Hort Innovation's current practice, which is to provide more regular updates to these stakeholders.

With respect to the return on investment from marketing activities, there were mixed views from stakeholders on the value of Hort Innovation's management. The views varied between industries who praised the performance and supported the continuation of Hort Innovation's procurement management through to those who were highly critical and considered that marketing should be the responsibility of the IRBs.

The *Horticulture Marketing and Research and Development Services Act 2000* requires that the marketing levy amounts must be paid to Hort Innovation. Both the Act and the SFA include conditions of expenditure of the levy, including that Hort Innovation must not delegate or outsource the responsibility for the management, allocation or investment of funds to third parties, including to IRBs. However, this does not preclude payments to IRBs to procure goods and services where the procurement process is open, transparent and competitive (where appropriate) with appropriate measures to demonstrate performance.

A number of smaller industries considered it could be possible to obtain a more efficient outcome from marketing investments through collaboration between industries and the resulting economies of scale in procurement.

In recognition of the potential improvement in the efficiency of the investment of marketing levies, GHD recommends the following:

Recommendation 14

Hort Innovation, if requested by an IRB whose industry has a marketing levy, to review the marketing arrangements for that industry (including potential for collaboration with other industries) to determine if marketing projects can be delivered in a more efficient and effective manner with the aim of improving the return on investment from levy funds.

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Appendix F – Performance against ASX Principles and Guidelines

Appendix G – Hort Frontiers Funds timeline

Appendix H – Prioritisation and timing of Recommendations

Acronyms used in this report

AGM	Annual General Meeting
ASX	Australian Stock Exchange
AOP	Annual Operating Plan
AR	Annual Report
ASX	Australian Stock Exchange
BCA	Benefit Cost Analysis
BCR	Benefit Cost Ratio
CATI	Computer-Assisted Telephone Interviews
CCR	Corporate Cost Recovery
CCRSPI	Climate Change Research Strategy for Primary Industries
CEO	Chief Executive Officer
CIF	Collective Industry Fund
CRRDC	Council of Rural Research and Development Corporations
CRM	Customer Relationship Manager
DAWR	Department of Agriculture and Water Resources
DNC	Director Nomination Committee
EAP	Expert Advisory Panel
ENPS	Employee Net Promoter Score
EOI	Expression of Interest
HAL	Horticulture Australia Limited
IAC	Industry Advisory Committee
IP	Intellectual Property
IT	Information Technology
IRB	Industry Representative Body
iTAP	Industry Trade Advisory Panel
KPI	Key Performance Indicator
LOP	Life of Project
M&E	Monitoring and Evaluation
NFP	Not-For-Profit
niTAP	Nut Industry Trade Advisory Panel
PIBs	Prescribed Industry Bodies
PRC	Portfolio Review Committee
R&D	Research and Development
RDE	Research Development and Extension
RDC	Research and Development Corporation

RFP Request for Proposal
ROI Return on Investment
SFA Statutory Funding Agreement
SIAP Strategic Investment Advisory Panel
SIP Strategic Investment Plan
SWOT Strengths, Weaknesses, Opportunities and Threats
TAP Trade Assessments Panel
VC Voluntary Contribution

1. Introduction

1.1 Horticulture Innovation Australia Limited

Horticulture Innovation Australia Limited (Hort Innovation) is the not-for-profit grower-owned industry services body for Australian horticulture. The company was established in November 2014, by Ministerial Declaration, as a company distinct from its predecessor Horticulture Australia Limited (HAL).

Hort Innovation's vision is: *growing the future of Australia's horticultural industries*. The company invests in research and development (R&D) and marketing activities to strive towards its mission of: *increasing the productivity, farm gate profitability and global competitiveness of horticulture*.

Hort Innovation's responsibilities need to be viewed from the perspective of the complexity of the horticulture industries and their respective differential R&D and marketing levies. In 2016-17, Hort Innovation received \$31 million in R&D levies from 33 industries and \$23 million in marketing levies from 23 industries. There is a large variation in levy receipts between industries based on the size of the industries. For example, the vegetable industry R&D levy was \$9.25 million in 2016-17 compared to the R&D levy for the dried tree-fruit industry of \$7,407.

Hort Innovation is not responsible for setting the levy rates of the different industries. This is the responsibility of each industry representative body (IRB) which identifies a problem or opportunity facing that industry and the need to respond with collective industry funding via a levy or charge. The Department of Agriculture and Water Resources (DAWR) collects the different levies and charges (statutory arrangements make payment of levies by growers mandatory under Australian law) and these monies are then paid to Hort Innovation to fund activities that benefit levy paying industries (all funds paid to Hort innovation by the Commonwealth are public funds). DAWR also distributes Australian Government co-investment funds for research and development, as determined by legislation³.

Hort Innovation's responsibility as the industry services body is to receive the R&D and marketing levy funds from each of the horticulture industries and invest these funds according to the company's vision and mission. Hort Innovation may also receive funds from other non-levy sources including Collective Industry Funds, co-investments in selected projects (Frontiers Funds and, to a much lesser extent, some Strategic Levy Investments) and from collaboration in government funded grants programs (for example, the Rural R&D for Profit program). The activities of Hort Innovation are prescribed in its Constitution and also a Deed of Agreement with the Commonwealth which is further described in section 2.

1.2 Purpose of this report

GHD was commissioned to undertake an independent performance review of Hort Innovation, which is a requirement under the company's Statutory Funding Agreement (SFA) with the Commonwealth. This report details the findings of the review across each of the review areas. The scope of the review is for the period 2014 – 2018 and includes to:

1. a. Assess how the transition from the previous governance arrangements of Horticulture Australia Limited (HAL) affected Hort Innovation's performance.

³ For a more detailed description of the horticulture levy system and the differential rates for each industry see Chapter 4 of the ACIL Allen report 2014.

b. Assess Hort Innovation's performance against its Strategic and Operational Plans, taking into account:

- i. Performance of Hort Innovation in meeting its obligations under its Deed of Agreement 2014-2018 with the Commonwealth;
- ii. Development, implementation and efficiency in delivery of its Strategic, Annual Operational, Risk Management, Fraud Control, Intellectual Property plans and the company's effectiveness in delivering upon the priorities, targets and budgets set out in those plans;
- iii. Structure and operations of the company, to ensure good practice and systems of corporate governance;
- iv. The effectiveness of the arrangements for engagement, consultation and communication with, and feedback to, stakeholders (including levy payers, members, advisory panel participants, industry representative bodies, and the Commonwealth Government) including the opportunities for levy payers and other contributors to influence the investment of levies; and
- v. Hort Innovation's efforts in cross-RDC collaboration.

2. Assess the delivery of benefits to Australian horticulture industries and community in general, including the achievement of value for money, and quantitative measures where appropriate such as return on investment and cost benefit analyses.
3. Identify recommendations for improvement to Hort Innovation's performance in delivering its Strategic and Annual Operational Plans.

Importantly, and as per the Terms of Reference of the review, the review is undertaken within a unique context of:

- The fact that Hort Innovation was established at the start of the review period, by Ministerial Declaration, as a company distinct from its predecessor HAL and with different governance arrangements and transitional responsibilities;
- The number of individual industries serviced by Hort Innovation – more than 50 levies collected through 33 different commodities; and
- The two-pool funding model introduced by Hort Innovation:
 - a. Strategic levy investments – investment in industry-specific priorities, mostly with a timeframe of one to five years; and
 - b. Hort Frontiers investments – investment in areas of strategic importance to the future of Australian horticulture, utilising co-investment monies and mostly with a longer timeframe.

1.3 Methodology

The independent review was completed in two key phases:

1. Document review and analysis – including publically available documents sourced from the Hort Innovation website and additional documents provided by Hort Innovation via a password-protected portal. A complete list of the documents reviewed or made available for review is provided at Appendix A (for some categories of documents GHD reviewed a sample only having noted the similarity of documents prepared on a regular time series basis).
2. Stakeholder consultation, which comprised:

- An online survey of members and other stakeholders (see Appendix B for a copy of the survey and a summary of the survey results), which was advertised on the Hort Innovation website, in Hort Innovation newsletters, in industry publications and circulated to members and other stakeholders.
- Face-to-face and telephone interviews including:

Stakeholder	Face-to-face	Telephone
Hort Innovation Board members ^	7	3
Hort Innovation CEO and Executive Managers	8	1
Strategic Investment Advisory Panel (SIAP) Chairs	5	
Industry Representative Bodies (IRBs) **	26	24
Levy payers (including members and non-members) **	11	12
Department of Agriculture and Water Resources (DAWR)	5	1
Research, Development & Extension (RD&E) partners and other service providers including State Government	4	5
Total	66	46

^ GHD interviewed all Board Members of Hort Innovation with further follow up interviews conducted with selected Board Members

** As some growers also hold Executive Positions on IRBs, for the purpose of the above table they have only been counted as an IRB stakeholder and not a grower.

- Written submissions via a dedicated email address (7 submissions received in total)
- Telephone queries via a dedicated phone number

1.3.1 Survey response bias

The online survey of members and other stakeholders attracted 228 respondents (including 126 growers, 21 agents / wholesalers / processors, 71 research / service providers and 41 identified as 'other' – e.g. SIAP members, industry bodies), noting respondents could associate with more than one stakeholder category and therefore 259 responses were recorded.

GHD acknowledges the likely response bias associated with the online survey, particularly given the survey methodology and resultant sample size was not designed to be statistically significant or stratified by stakeholder type (rather, the purpose of the survey was to provide a means for stakeholder feedback). The online survey is one source of evidence only, and the findings of the survey reported in subsequent sections of this report need to be considered with this limitation.

1.4 Report overview

This report presents the independent review findings across the following areas:

Chapter 2 – The establishment of Hort Innovation

Chapter 3 – Performance following the transition from HAL to Hort Innovation

Chapter 4 – Company operations and funding

Chapter 5 – Program planning and implementation

Chapter 6 – Delivery of benefits

Chapter 7 – Engagement, consultation and communication

Chapter 8 – Corporate governance

Chapter 9 – Conclusions and recommendations

Appendix A lists the documents reviewed.

Appendix B provides a copy of the survey questions and a summary of the results.

A list of the agencies and organisations included in the stakeholder interviews is provided in Appendix C. Names of individuals are not provided for privacy reasons. For this reason, a list of individuals consulted outside of these agencies and organisations is also not provided.

Appendix D provides a summary of key themes arising from the submissions received, which also reflect the common themes raised during stakeholder interviews.

Appendix E summarises Hort Innovation's performance against the SFA obligations.

Appendix F provides an overview of Hort Innovation's performance relative to the ASX governance principles and guidelines.

A timeline of the development of the Hort Innovation Frontiers Funds is provided in Appendix G.

A table indicating priority level and timeframes for implementation of the review recommendations is provided in Appendix H.

The review team's findings are presented as follows in each chapter of this report:

- Evidence provided by Hort Innovation in the form of written documentation and data;
- Evidence obtained during stakeholder consultation (i.e. survey and interviews); and
- GHD's conclusions, taking into account all of the evidence provided and reviewed.

Importantly, it should be noted that the stakeholder consultation summary provided in each chapter is not GHD's assessment and that this is instead presented in the conclusion section of each chapter and Section 9.

2. The establishment of Hort Innovation

2.1 The ACIL Allen Review

Hort Innovation was established following the outcomes of the previous independent review of its predecessor company, Horticulture Australia Limited (HAL). The review titled “Better Value for Growers – a Future for HAL” was completed by ACIL Allen Consulting in May 2014. The report recommended far reaching changes to the model for horticulture industry research, development and marketing in Australia, and proposed changes to the governance and operations of HAL and how expenditure of funds was to be managed. While there was a strong consensus at the time that change was required, stakeholder opinions differed widely on how best to do this, and these differences of opinion have carried forward in some degree to the new company, Hort Innovation.

The ACIL Allen review contained nine recommendations, and all except one recommendation were accepted by the Minister for Agriculture. The Minister rejected Recommendation 6: that Hort Innovation is to engage in marketing on a fee for service basis, and only on the request of the body representing the industry that contributes marketing levy funds.

The Minister, in a letter to the Chairman of HAL dated 5 August 2014, included seven “expectations” for the incoming board of the new company with respect to the remaining recommendations, with arguably the most controversial expectation being the rejection of the new company’s intention that Prescribed Industry Bodies (PIBs) should be the primary advisers on the allocation and expenditure of the statutory horticulture levies. Additionally, the Minister’s expectation was that existing consultation funding arrangements were to cease on the signing of the new Statutory Funding Agreement (SFA) that took effect on 3 November 2014 (a list of the expectations are provided in section 2.1.1 below).

It is likely that the Minister’s expectation was largely driven by the ACIL Allen review finding that there was a conflict of interest problem of monies flowing to PIBs that were also owners of HAL and that this issue was insoluble under the then governance arrangements. While PIBs were not excluded from receiving consultation funds, the SFA made it clear that Hort Innovation must not make payments to PIBs unless such payments were made on an arms-length value for money basis to acquire goods or services.

Thus, in response to the recommendations of the ACIL Allen review, the expectations of the Minister for Agriculture and the SFA with the Commonwealth, Hort Innovation commenced the task of establishing the new grower-owned company commencing with an Extraordinary General Meeting of HAL in June 2014. Throughout the transition process, Hort Innovation reported on progress in implementing the recommendations to DAWR, with Table 1 summarising the company’s response as at December 2015.

Since then, Hort Innovation has held regular six-monthly meetings with DAWR on progress, as well as regular teleconferences between these meetings, and in particular addressing requirements under the SFA.

2.1.1 Expectations of the Minister for Agriculture

The Minister for Agriculture included seven expectations in the letter dated 5 August 2014 regarding the transition from HAL, including a requirement that the HAL Board were to take account of these expectations. A summary of the expectations are:

Expectation 1: the intention to declare the new industry owned company as the industry services body, and that the company would have an objective of establishing a grower register

and move to direct grower ownership as soon as possible, and for the grower ownership to occur within 12 months of the signing of the new SFA. Other items in the expectation were:

- In response to the ACIL Allen review finding that HAL's constitution effectively embedded real or perceived conflict of interest into its operations, the new company must be capable of taking a fresh and more strategic direction, with the new constitution and nature of the new board being critical to this outcome
- A wish to be consulted on the new constitution, including the expectation that it would include the necessity for a skills based board
- Rejection of a proposal for the first board to be the current HAL board, but rather that the current HAL board appoint four directors and the Chair, and the Minister would nominate the remaining four directors
- The Director Nomination Committee (DNC) consisting of four persons, two director positions nominated by the current HAL board and two positions nominated by the Minister, would be open to election at the first AGM in November 2015.

Expectation 2: the new SFA, board and constitution will be important elements of the governance framework. The SFA to contain obligations that increase the transparency of the management and application of industry and government funds and actions to address the recommendations of the ACIL Allen review, including reducing red-tape.

Expectation 3: the company's investment portfolio to be strategic in nature, incorporating issues of critical national importance based on government and grower priorities and balancing long-term, short-term, high and low risk research needs. There was an appreciation that the development of a new strategic investment plan would be challenging and complex, with an expectation that grower levy payers would be involved in all aspects of the planning.

Expectation 4: The performance of the new company should be evaluated against its delivery of outcomes and key performance indicators based on, as a minimum, the efficiency and effectiveness of its investments. Grower levy-payers must be satisfied with the outcomes that the company is delivering with their levy funds via the implementation of a suitable evaluation framework.

Expectation 5: the company must have the independence to decide upon the need for advice to inform its investments and the appropriate mechanisms through which to receive that advice. It was noted that the previous review's assessment was that the current industry advisory committee (IAC) arrangement had institutionalised conflict of interest for many of the member industries and is not the most efficient and effective mechanism for obtaining advice.

The Minister rejected HAL's intention for PIBs to be the primary advisors on the allocation and expenditure of the statutory levies, and for the new company to instead take advice from a variety of stakeholders with PIBs being one of a variety of stakeholders.

HAL's suggestion to maintain existing consultation and funding arrangements until June 2015 was rejected with the expectation that existing consultation funding arrangements would cease on the signing of the new SFA.

Expectation 6: Marketing levy funds (which do not attract matching Commonwealth funding) should not be made available directly to IRBs. There should be an arms-length process to seek the best value-for money option to allocate industry marketing funds, with an expectation that the new company would consider how the costs of administering marketing levy funds can be reduced while essential governance mechanisms are maintained.

Expectation 7: The new company and IRBs to engage with the department to consider more efficient and effective assessment, collection and disbursement arrangements for industry levies.

2.2 The Statutory Funding Agreement

The SFA (or Deed of Agreement 2014-18) between the Commonwealth of Australia and Hort Innovation was signed on 14 November 2014. SFAs are common across Rural Research and Development Corporations (RDCs) as a result of the Commonwealth accepting that there is a need to encourage marketing and research and development services in the primary industry sector and that the provision of these services through public funding can contribute to enhancing the viability, sustainability and competitiveness of the primary industry sector and the Australian community in general. The SFA defines the operating principles for the partnership.

The SFA is published on Hort Innovation's public website and it sets out a number of requirements with regard to the company's structure and Constitution so that through its operations it delivers accountability to members, levy payers and the Commonwealth. It is a requirement that Hort Innovation must do all things necessary to ensure that it effectively represents and reflects the interests of its members and the marketing and R&D interests of levy payers and the broader horticulture industry in carrying out its objects as specified in the Constitution.

The SFA requires that R&D levies, which may also be eligible for co-investment funding by the Commonwealth, are applied only to R&D activities, and that marketing levies are only applied to marketing activities. Hort Innovation must not use funds to engage in agri-political activity.

This review has considered Hort Innovation's performance with regard to the requirements of the SFA throughout the following sections.

GHD considers that the wording in the SFA allows Hort Innovation some discretion for implementation compared to the more narrow expectations included in the Ministerial letter, especially in regard to consultation with IRBs. During the transition phase, Hort Innovation adopted a more narrow interpretation of the SFA with the result that a number of IRBs felt they were not being consulted appropriately.

2.3 The Constitution

The current Constitution, dated 24 November 2017, states the Objects of Hort Innovation which include the following:

- To provide leadership to, and to promote the development of, the Australian Horticulture Industry;
- To increase the productivity, farm gate profitability and global competitiveness of the Horticultural Industries by:
 - (i) the strategic allocation and investment of Levies, Commonwealth Contributions, Producer Contributions and monies received from Investors in research, development, extension and marketing funds, programmes and services;
 - (ii) providing information, services and products related to research, development, extension and marketing activities or outcomes; and
- To support capacity building by maintaining a diverse range of research, development, extension and marketing services providers;
- To promote and further the interests of the Horticultural Industries overseas, including in relation to:

- (i) the export of Australian horticultural products to;
- (ii) the sale and distribution of Australian horticultural products in; and
- (iii) the consumption of Australian horticultural products in, countries other than Australia;
- To be accountable to Levy Payers, Producer Contribution Payers, Investors and the Australian Government for the Company's use of, as applicable, Levies, Producer Contributions and payments from Investors.
- To engage in any other activities for the benefit of Members, Levy Payers, Producer Contribution Payers, the Horticultural Industries, co-investors and the Australian community generally which are not inconsistent with the requirements of the Act and the Deed of Agreement.

The Constitution is quite prescriptive in its dealings with IRBs, namely that it must not make grants or otherwise provide financial assistance to an IRB except that it may procure goods and services from an IRB in the ordinary course of business on an open, transparent, and, when appropriate, competitive basis in accordance with the Company's policies from time to time.

The Constitution includes details on the eligibility of membership of the Company, stating that is open to all Industry Participants, but excluding IRBs and entities that are suppliers of goods or services to the Company, when the Company is the dominant source of revenue for such suppliers. However, Voting Members are distinguished from other members such that Voting Members are Levy Payers and/or Producer Contribution Payers. Voting rights for each Voting Member are allocated on the basis of the amount of levies paid.

The Constitution also prescribes the composition of the Board and the eligibility and process for the nomination and appointment of Directors, with the candidates for appointment, re-appointment, election or re-election as Directors subject to nomination by a Director Nomination Committee (DNC). The DNC consists of four individuals comprising:

- a. the chair of the Company;
- b. the Secretary of the Department (or his or her nominee);
- c. a Levy Payer (that is not a Director) selected by the Secretary of the Department (or his or her nominee), who shall not be eligible for re-appointment; and
- d. an independent eminent person selected by the Board and appointed for up to three years, who shall not be eligible for re-appointment.

The inclusion of a Levy Payer to the DNC occurred following a change to the initial Constitution as a result of a special resolution at the 2017 Annual General Meeting.

This review includes consideration of the performance of the operations of the Board and Directors, especially in Section 8, Corporate Governance.

Table 1 Hort Innovation response (dated November 2015) to ACIL Allen recommendations

ACIL Allen recommendation	Hort Innovation response
1. HAL should over a transition period move to become a grower-owned rural Research and Development Corporation.	A new Constitution for Hort Innovation was put in place in November 2014. The inaugural AGM of grower-owned Hort Innovation was held on 27 November 2015, with growers exercising their rights to elect two Directors.
2. Remove Industry Advisory Committees (IACs) but retain ability to seek independent advice.	All IACs ceased in early 2015, with feedback and advice obtained by way of “Between the Rows” meetings and other consultations, incl. an expanded regime of contact with IRBs. Implementation of Strategic Advisory Panels was due to be finalised in early 2016.
3. Rationalise and strengthen strategic planning for horticulture RD&E.	Implementation of the Interim Strategic Plan with a new corporate structure, development of Pool 2 investments and strategies and a new Evaluation Framework to better measure return on investment.
4. The number of industry liaison and RD&E service units or functional areas within HAL should be streamlined.	Complexity of servicing 43 different industries has led to a fund-based structure with one Research, Marketing & Investments (RMI) Executive, four Fund Managers and six to seven clusters with industry-facing Relationship Managers. Development of functions for Trade and Data & Insights.
5. Improve project procurement, management and reporting.	Implementation of a procurement function with a framework and policies separate to business operation. Enhanced risk management across the business, with additional oversight by Fund Managers.
6. The industry services body (New HAL) is to engage in marketing on a fee for service basis, and only on the request of the body representing the industry that contributes marketing levy funds.	This recommendation not accepted by the Minister (see Expectation 6 above). Marketing levies managed similar to R&D levies.
7. Improve direct communications with growers.	“Communication and Listening” as the number one strategic imperative, annual “Between the Rows” commitment, creation of a CRM system and membership database focused on growers.
8. Apply greater transparency and efficiency in the Department of Agriculture’s levy collection activities and mechanisms in the immediate term. In the long run, work collaboratively to develop a strategy and plan to reform horticultural levy arrangements.	Active involvement of staff following the Senate Levy Inquiry involving the Levies Revenue Service (LRS) and other RDCs.
9. Improve internal accountabilities and processes.	Implementation of a range of corporate governance measures, incl. a new Risk management Policy and Framework and new Fraud Control Plan.

Source: Hort Innovation letter to DAWR 3 December 2015

3. Performance following the transition from HAL to Hort Innovation

3.1 Activities during the transition period

The transition from HAL to Hort Innovation included extensive changes to the company's structure and systems to ensure that its activities reflected the requirements under the new Constitution and SFA described earlier in section 2. The changes are listed below with a reference to subsequent sections that further describe these.

It should be noted that Hort Innovation's actions during the transition were very much guided by the expectations of the Minister for Agriculture as described in section 2.1.1. These expectations increased the complexity of the implementation process, especially regarding changes that impacted on relationships with IRBs, namely the withdrawal of consultation funding and changes to the management of marketing funds.

The changes that occurred following the transition included:

- A new organisational structure (see Section 4.6.1)
- A review of the entire project portfolio inherited from HAL to ensure alignment with the new company requirements. The Board had a committee dedicated to oversight of this process, the Portfolio Review Committee (PRC), which subsequently reverted to the Investment Committee. The review was a necessarily labour-intensive process for management, which resulted in:
 - 472 projects continuing unchanged;
 - 42 projects being re-scoped;
 - 21 projects being significantly modified; and
 - 5 projects being terminated.
- A new investment planning approach incorporating completion of Strategic Investment Plans (SIPs) for each industry (see Section 5.2), a new procurement management system including a request to the market to provide "concepts" of investment proposals to address the SIPs (see Section 5.3) as opposed to grants-based funding or "calls" for proposals to address specific R&D and marketing projects, and a new advisory system comprising skills-based Strategic Investment Advisory Panels (SIAPs) to advise on the relative merits of the investment concepts (see Section 5.4)
- A two-pool funding model that differentiates between short-medium term Strategic Levy Investments (formerly known as Pool 1) and the longer-term Frontiers Fund (formerly Pool 2) that leverages co-investment from agencies other than levy payers (see Section 4.3). Investment concepts within the various Frontiers Funds are discussed by the relevant Expert Advisory Panels (EAPs) (see Section 5.5). Note that under Hort Innovation's SFA the Voluntary Contributions (VC) funding source ceased on the basis that this did not align with the new procurement-based investment model.
- For all investments, a robust monitoring and evaluation (M&E) process to guide the selection of investments (including ex-ante benefit cost analysis) and then mid-term and final evaluations of projects to demonstrate benefits to growers (see Section 6)
- Developing, staffing and embedding new functions within the business including procurement (see section 5.3), a Trade Unit (section 4.6.1) and Data and Insights unit

- A review of its stakeholder engagement approach and communication strategy (a significant change given the shift in the company's ownership model, from PIBs to growers), including development of a Customer Relationship Management (CRM) process (see Section 7)
- A review of the company's internal processes to ensure there are systems in place that adequately address the accountability requirements for financial management, including responsibilities at Board and Executive management levels (see Section 4.4 and 4.6.2).

Hort Innovation had to replace all of its core systems and implemented four new core systems (eight in total) creating a completely new systems environment for the new business (28 components in total) in the first 18 months of the company, to enable the above changes. Each of these new systems required technical support and staff training to ensure successful roll-out.

Implementation of the above changes has taken considerable time and resources, with the initial review of the entire project portfolio requiring staff to concentrate on this administrative process in the short term (particularly throughout 2015) with the expectation of long term gains. The changes were not completely understood by growers and this has resulted in some difficulties, especially between some IRBs and Hort Innovation, which has required diversion of resources away from the transition process and towards increased stakeholder management.

Each of the following chapters in this report will describe the above changes and their implementation in more detail, however below summarises the feedback from stakeholders from an overall perspective. As described earlier, there is likely to be response bias (in part due to the level of stakeholder awareness of the challenges inherent in the transition) in the following summary that paints a more negative view of performance, which GHD addresses in subsequent sections from the perspective of Hort Innovation's actual performance against its responsibilities under the SFA and also its vision and mission.

3.2 Overall stakeholder satisfaction with performance following transition

GHD presents below the findings from three independent consultation processes that sought views on the performance of Hort Innovation during the transition from HAL.

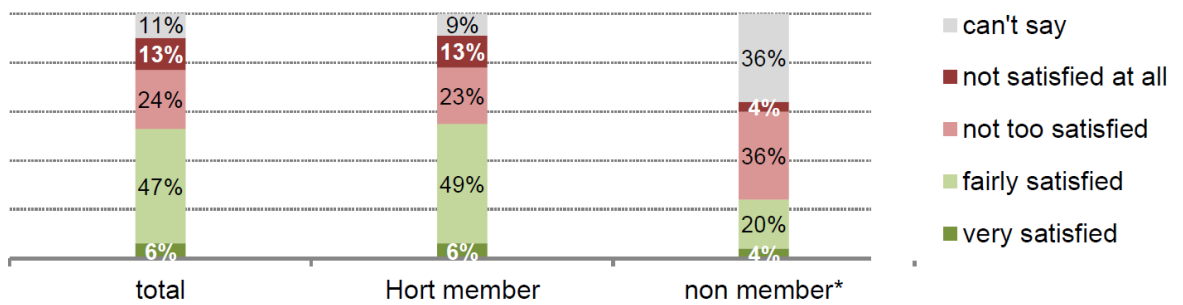
3.2.1 Stakeholder Sentiment Survey (Down to Earth Research)

Hort Innovation commissioned an independent Stakeholder Sentiment Survey in 2017 (discussed further in Section 6.2.3 below). Respondents were asked to rate their overall satisfaction with Hort Innovation (Figure 1), with 53% of respondents indicating they were satisfied with the company's performance. Key factors cited by satisfied respondents include:

- Agreement with R&D priorities;
- Coordination of research and marketing activities; and
- Benefits from Hort Innovation programs.

Dissatisfied respondents commonly reported lack of collaboration with growers, lack of benefits from R&D and marketing, and a preference for more industry-specific activities (Down to Earth Research, 2017).

Figure 1 Overall satisfaction with Hort Innovation performance

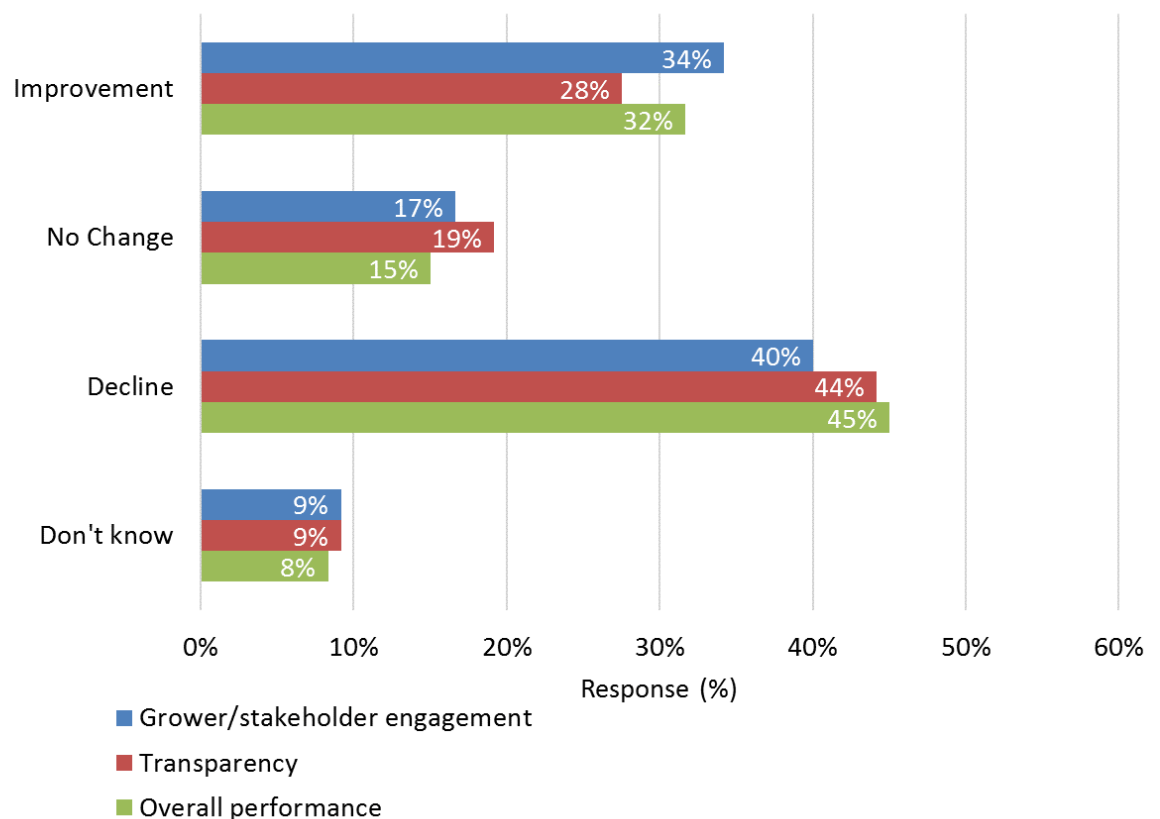


*indicates small sample size

3.2.2 On-line survey (GHD)

Survey respondents have mixed views regarding the transition from HAL to Hort Innovation (Figure 2). Around 40% of respondents feel there has been a decline in stakeholder engagement, the transparency of the organisation and overall performance. Interestingly, around half of respondents consider there has either been no change or an improvement in performance since the transition from HAL. This could be viewed as the company maintaining relatively consistent delivery, in the context of the significant changes that it underwent during the transition. The relatively high proportion of 'no change' and 'don't know' responses suggests an opportunity for further communication of Hort Innovation's activities to date, which is discussed further in subsequent sections of this report.

Figure 2 How has the transition from HAL affected Hort Innovation's performance? (n=228)



3.2.3 Stakeholder interviews and submissions (GHD)

Interviews with stakeholders demonstrated there is strong support for Hort Innovation as the industry services body for Australian horticulture. Most stakeholders recognise that the first two years of the new company (i.e. the transition phase) were challenging, particularly given the complexity of the industry, and that this (understandably) caused delays in the company's core business activities. However, there was a relatively consistent sentiment that the transition phase is over and it is now time to deliver. .

Particular concerns cited by stakeholders include:

- Delays in project procurement and management: Hort Innovation reviewed all of its 'current' projects during the transition from HAL, to ensure alignment with the new organisation's priorities and remit (see Section 3.1). This resulted in significant delays in new project management and procurement processes (e.g. interviewees from six industries reported a full marketing season being missed due to delays in marketing project completion).
- Stakeholder engagement and communication, with a perceived shift in focus towards Government and away from levy payers and IRBs (discussed in more detail in Section 7);
- Reduced transparency, particularly in regards to financial data at both the project and program level; and
- A shift away from industry-specific R&D investments, towards Frontiers Funds investments, which are not perceived to be relevant for all industries.

There is broad recognition, however, that the day-to-day operations of the company are improving – and that this has been particularly evident over the last 6 – 9 months. This reflects a number of new initiatives developed by Hort Innovation in response to stakeholder feedback and as part of their process of continuous improvement. These include, but are not limited to, the SIAP improvement process and are detailed in the relevant sections that follow.

3.3 Conclusion

The transition from HAL to Hort Innovation has undoubtedly caused a level of internal and external disruption and additional expense, which has impacted the organisation's performance over the review period. This was to be expected given the significant changes that the company implemented in order to ensure compliance with the new SFA, Constitution and the Minister's expectations. However after three years, it is now possible to evaluate the extent to which the reforms have achieved their intended aims as presented in the 2014 ACIL Allen review:

3.3.1 Reduced conflict of interest

A number of significant changes have occurred in the transition from HAL to Hort Innovation, to ensure the conflict of interest concerns under HAL are now addressed under the new company. These include, but are not limited to, the change in company ownership structure from PIBs to levy payers, the replacement of IACs with independent SIAPs, the cessation of the former grants-based funding model, and the introduction of a new concept management and procurement process. In addition, conflict of interest policies for board and advisory panels have been developed and appear to be strictly implemented (see Section 8).

3.3.2 Reduced administrative effort and expense

GHD is unable to categorically confirm that such reduction has occurred based on the financial information available, although an independent report has found that corporate support costs incurred by Hort Innovation appear to be within the range of overhead costs incurred by other RDCs and not-for-profit (NFP) organisations in Australia.

As noted above, the transition from HAL to Hort Innovation has resulted in significant resources being invested to develop and implement the foundations of the new company. These foundational elements are now embedded, however, and the company is focussing on specific improvement areas (e.g. the SIAP improvement process) which will further drive efficiencies.

3.3.3 Improved accountability and transparency

Hort Innovation has implemented a number of new processes to improve accountability and transparency. Examples of this include the SIAP improvement process and the engagement of an independent specialist to inform a review of the company's Corporate Cost Recovery (CCR) policy including a comparison of this with other RDCs and not-for-profit organisations.

There has been some stakeholder concerns with the difficulty of getting up-to-date financial information, but GHD considers that this is largely a function of the management accounting system that is based on forward budget estimates that are subject to variable income streams associated with levy receipts and co-investment funding.

3.3.4 Improved measurement of industry wide impacts

Hort Innovation has introduced a comprehensive M&E framework to assist strategic decision making and continuous improvement. Quite understandably, in developing SIPs and Frontiers Fund priorities, the focus to date has been on ex-ante impact assessment to guide investment decisions and to identify the expected outcomes (i.e. net benefits) from fund level investment.

The focus on ex-ante impact assessments has been a relatively new approach for Hort Innovation and laid a robust foundation for establishing M&E plans, so that data is available to undertake ex-post impact assessments. The company is now in the process of transitioning to a greater focus on ex-post assessments.

3.3.5 Improved grower and other stakeholder engagement

As noted above, many of the necessary changes that occurred in the transition from HAL to Hort Innovation have negatively impacted the company's relationships with some IRBs and other stakeholders. Hort Innovation recognises this and has sought to address stakeholder concerns by modifying its original approach, e.g. by allowing up to three IRB representatives on each SIAP, and introducing a process of 'board to board' meetings with IRB boards. The company has also invested in a new CRM tool to assist in managing its stakeholder database and targeting its communication activities.

Stakeholders are generally supportive of Hort Innovation, recognise the complexity of the company's transition and have noticed an improvement in communication and engagement over the last 6-9 months. Stakeholders' ongoing support is contingent on required improvements that are at various stages of implementation by the company.

On balance, GHD considers that the transition to Hort Innovation has established a framework for improved performance on all criteria, but that there is a need for ongoing improvements in implementation and communication of its processes to ensure the changes are fully appreciated by stakeholders.

4. Company operations and funding

4.1 Company operations

Hort Innovation is governed by two primary documents: the Hort Innovation Constitution and the Statutory Funding Agreement with the Australian Government (see Section 2 above). These documents require the organisation to meet a level of performance in terms of delivery against strategy, stakeholder engagement, corporate governance, systems and processes, and contribution to cross-sectoral strategies under the National Primary Industries Research, Development and Extension Framework.

The performance of the company in meeting its obligations under the SFA is summarised in Appendix E.

4.2 Membership

Eligibility for membership of Hort Innovation is outlined in article 6.3 of its Constitution. Membership is open to all industry participants excluding IRBs and suppliers of goods or services or their related bodies (when Hort Innovation is the dominant source of revenue for such suppliers). See Section 2.3 for further information.

The company has made significant effort to grow its membership. Membership remains stable, with 2,281 members (as at April 2018) comprised of growers and other supply chain stakeholders.

Levy paying growers can choose to become voting members of the company. The voting member register is determined annually through the annual returns process conducted by the company in accordance with articles 6.8 and 6.9 of the Constitution. Members must participate in the annual return process annually otherwise their voting rights will lapse. As such, there is annual fluctuation in the number of voting members.

The company has sought to increase its voting member base by removing the requirement for growers to provide a statutory declaration when submitting their annual return, which was seen as a barrier to voting membership, particularly for those growers living on properties out of town who might not have ready access to a Justice of the Peace. Hort Innovation counters the relaxation of these requirements with its annual audit process of member voting entitlements.

There are currently 288 voting members of the company, which comprise more than 40% of the total annual levies paid by industry. GHD understands that the number of Hort Innovation members and voting members as a proportion of total horticultural industry levy payers is comparable to other RDCs, based on anecdotal evidence provided by DAWR.

4.3 Funding

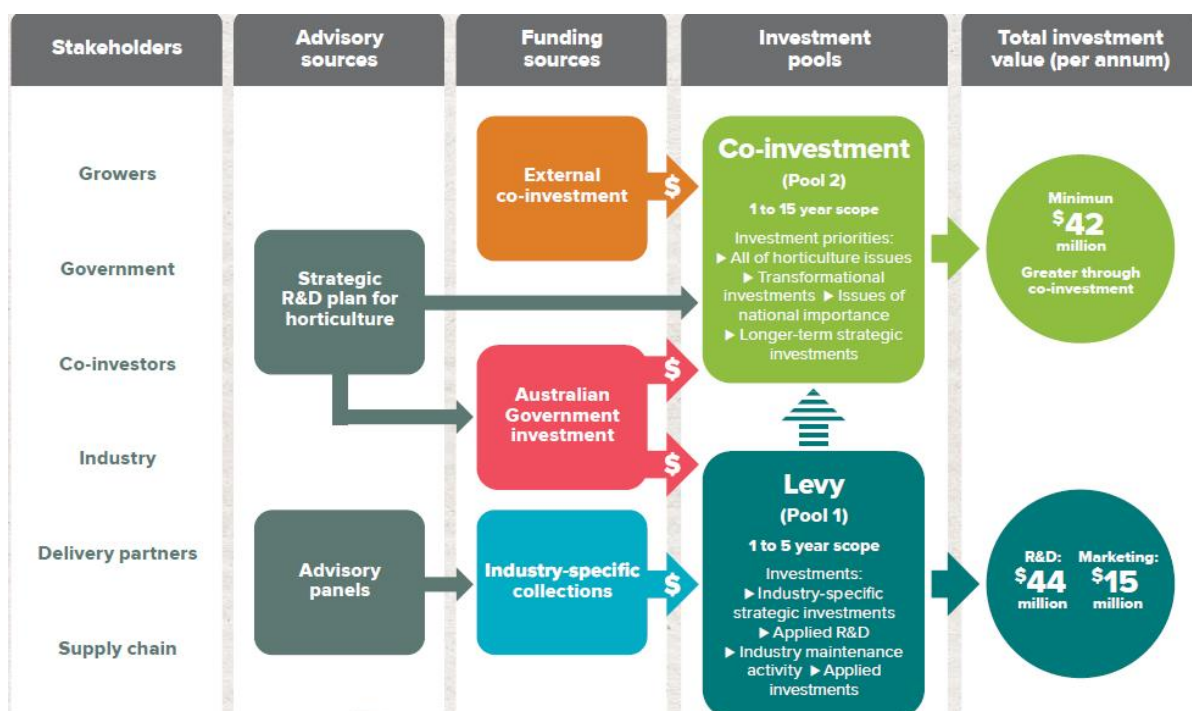
Hort Innovation's funding model is summarised in Figure 3. The company manages funding through two investment pools:

- Strategic Levy Investment (formerly known as Pool 1): Funding is sourced from industry-specific collections (with more than 50 levies collected through 33 different commodities) and the Australian Government. Investments tend to be shorter-term (1 to 5 years) and focussed on industry-specific strategic priorities.
- Frontiers Fund (formerly known as Pool 2): comprised of 7 longer-term strategic investment funds⁴ focussed on longer-term, often complex themes identified as critical for Australian

⁴ Leadership Fund; Asian Markets Fund; Fruit Fly Fund; Green Cities Fund; Health, Nutrition and Food Safety Fund; Pollination Fund; and Advanced Production Systems Fund.

horticulture into the future. Funding is sourced from the Australian Government and external co-investors. As at May 2018 co-investors were comprised of: Government departments (24% of total co-investment funds), non-government entities (18%) and universities (58%).

Figure 3 Hort Innovation's funding model



Source: Hort Innovation Strategic Plan 2016

GHD has identified a misunderstanding by levy payers on funding sources for Frontiers Funds investments, with a misconception that these investments compete with the Strategic Levy Investments and reduce what they consider to be more valuable research at the farm level. Hort Innovation supplied to GHD a summary of Frontiers Fund investments as at November 2017, which includes:

- A list of all projects contracted under each fund;
- The anticipated project duration; and
- The dollar value of co-investor contributions, Strategic Levy contributions (unmatched) and Commonwealth Government contributions for each project.

In summary the funding sources for Frontiers Funds (as at November 2017) is comprised of: Co-investors 52%, Commonwealth contribution 45%, and unmatched levy funds 3%.

The cessation of new Voluntary Contribution (VC) funding occurred following the transition from HAL (apart from legacy funds already received) with committed VC funding to be honoured for pre-existing contracts. Hort Innovation ceased to accept VC funding for investments as a result of the ACIL Allen report that identified that the use of VC capital as a funding source is a risk to sound investment due to the non-strategic nature of these investments because they are not included in SIPs. In addition, there was a perception that industry "owned" the VC program, raising risks that these were less subject to the review of the previous HAL board and management.

Apart from levy funds, industries upon which a levy or charge is not imposed can have a Collective Industry Fund established by Hort Innovation for participation by all producers of specified horticultural products, but subject to the Board determining whether any fund qualifies

as a Collective Industry Fund (CIF). The criteria set by the Hort Innovation Board to be satisfied in respect of each CIF is as follows:

1. The voluntary levy is for a single horticultural product supported on a national basis. As with statutory levies, a Collective Industry Fund will not be considered by production system, supply chain activity or geographic region.
2. The majority of industry by value, and a significant proportion of industry by volume (as assessed and determined individually by the Hort Innovation Board), voluntarily and regularly contribute to the fund.
3. A transparent and standard formula is used for the purpose of calculating the contribution and the contribution is collected with regular frequency.
4. A central body receives the contributions for coordination and consolidation. That body should have appropriate risk and governance systems in place. The monies are then forwarded to the appropriate Hort Innovation Fund for investment.
5. Investments are made in accordance with a strategic R&D investment plan agreed by industry and Hort Innovation. This plan should span three to five years and incorporate a diversity of programs that demonstrate benefit across the breadth of that industry.

Table 2 provides a summary of Hort Innovation's planned and actual income and expenditure for 2015-16 and 2016-17, showing total expenditure in 2016-17 of \$115 million. This represents an 8% increase from the previous year, despite the company's transition process during this period. There is similarity between planned income and expenditure projected in the company's Annual Operating Plans and actual income and expenditure provided in Annual Reports. The small differences are understandable as they largely reflect the uncertainty of levy income because of seasonal and market impacts on production and prices.

Table 2 Financial information

	2015/16			2016/17		
	(\$ m) Budget	(\$ m) Actual	Variance	(\$ m) Budget	(\$ m) Actual	Variance
Income						
Total Levy Income	\$45.9	\$51.8	(\$5.9)	\$48.1	\$54.2	(\$6.1)
Co-Investment Income (incl. Legacy VC and R&D for Profit)	\$21.1	\$23.2	(\$2.1)	\$19.8	\$22.1	(\$2.3)
Matching Funds – R&D	\$43.8	\$43.2	\$0.6	\$46.0	\$45.5	\$0.5
Other Income	\$1.0	\$1.9	(\$0.9)	\$1.7	\$1.5	\$0.2
Income before reserves transfers	\$111.8	\$120.1	*\$8.3)	\$115.6	\$123.3	(\$7.7)
Transfers from/(to) industry reserves*	\$0.5	(\$10.9)	\$11.4	\$1.0	(\$4.7)	\$5.7
Total Income after Industry Reserve Transfers	\$112.3	\$109.2	\$3.1	\$116.6	\$118.6	(\$2.0)
Expenditure						
Strategic Levy Investments		\$63.5			\$76.2	
Co-investment (incl. Legacy VC		\$30.4			\$26.1	

	2015/16			2016/17		
	(\$ m) Budget	(\$ m) Actual	Variance	(\$ m) Budget	(\$ m) Actual	Variance
and R&D for Profit)						
Total Program Expenditure	\$96.1	\$93.9	(\$2.2)	\$100.0	\$102.3	\$2.3
Levy Collection Costs	\$1.5	\$1.2	(\$0.3)	\$1.5	\$1.6	\$0.1
Corporate Expenditure	\$14.6	\$14.3	(\$0.3)	\$15.1	\$14.6	(\$0.5)
Total expenditure	\$112.2	\$109.4	(\$2.8)	\$116.6	\$118.5	\$1.9
Accumulated Surplus / (Deficit) for the period	(\$0.9)	(\$0.2)	(\$0.7)		\$0.1	(\$0.1)

* = Difference between Program Income received and Program Expenditure allocated to Projects

4.3.1 Corporate Cost Recovery (CCR)

Corporate expenditure accounts for 11% of total program expenditure (\$11.2 million of \$102.2 million, Table 2). This percentage calculated from the financial accounts differs from other values sighted by GHD, including 11.5% for Strategic Levy Investments and 15% for Frontiers Funds.

The calculation of Corporate Cost Recovery (CCR) is an important issue for all of the horticulture industries because they can potentially erode remaining funds available for R&D and marketing investments. The smaller levy paying industries are most vulnerable to the implementation of CCR policy due to low quantum of levies collected from those industries and the required critical mass to cover administrative, investment and implementation costs.

Hort Innovation is currently reviewing its CCR policy for Strategic Levy Investments funds and contracted an independent consulting accounting firm to provide a report on a policy that is under consideration, and also complete a comparison with 12 other RDCs as well as not-for profit (NFP) organisations.

The percentage of administration expenditure to total expenditure on R&D and marketing ranged from 4% to 23% for other RDCs and between 8.4% and 12.3% for NFPs. Hort Innovation is moving from a fixed percentage to an accounting based approach. When comparing to other RDCs and NFPs, the independent consultant found that Hort Innovation was at 8.8% for direct and shared costs (excluding program specific costs).

The CCR model being proposed is based on the following three components:

- **Base cost:** costs incurred regardless of any program activity, including Board, CEO, governance, systems, and office facilities.
- **Shared cost:** covers general corporate, communication and membership costs as well as costs in providing data insights.
- **Program specific costs:** expenditure directly linked to a project or industry, including relationship management and procurement and contracting costs.

The consultant concluded that the proposed new CCR model adopts a methodology that appears reasonable and is reflective of the underlying activities of the industries and members of Hort Innovation, and that the corporate support costs incurred by Hort Innovation appear to be within the range of overhead costs incurred by other RDCs and NFP organisations in Australia.

The ACIL Allen report stated that while overheads are essential, the incentives for HAL, PIBs and the department should support increasing efficiency rather than increasing overheads to maximise investments.

GHD understands the difficulty of establishing an equitable CCR methodology given the complexity of the funding streams from the horticulture industries and wide-ranging size of industry levies which has previously meant significant cross-subsidisation. It will be important in the future to communicate the process of calculating CCR to the industries once the policy is finalised. Hort Innovation has advised that the CCR methodology was discussed at its May 2018 board meeting and a proposed CCR communication plan presented.

4.3.2 Additional funding sources and investments

Hort Innovation has also been successful in obtaining funding from the Commonwealth government's Rural R&D for Profit grants program. In the three rounds of funding completed to date, Hort Innovation has collaborated on projects with other R&D providers worth more than \$40 million. Hort Innovation has been the lead proponent in a number of these projects (see Section 5.11 for more details).

The benefit from these investments is discussed further in Section 6 below.

4.4 Funds used consistent with the SFA and the Act

Both the SFA and the Constitution require that funds are expended appropriately as outlined in these documents. The annual externally audited financial report included in Annual Reports states that the financial reports are in accordance with the *Corporations Act 2001*. The financial reports provide a breakdown of revenue received from levies, Commonwealth co-contributions funds and other co-investment, as well as a breakdown of payments to suppliers and employees, research and development providers, and marketing programs.

Hort Innovation has also adopted a Cost Allocation Policy consistent with the SFA. The policy is required to outline how costs are to be allocated across R&D and marketing programs, including the determination of eligible R&D expenditure for the calculation of the Commonwealth co-contribution, and to ensure that cost benefit assessments of projects are based on an appropriate, fully absorbed and consistent costing method.

As part of the external audit process in 2017, Ernst & Young, conducted the following reviews (with other external reviews completed in prior years):

- Investment Approvals
- Procurement
- Stakeholder Communications
- Human Resources
- Minor Use Permits
- Audit of Voting Member 2016
- Member Voting Entitlements (random sample and mandatory checks)

and sought updated copies of:

- Fraud Risk Control
- Risk Management Framework
- Risk Register
- Internal Audit Report Memo

Section 8 has more details on the Corporate Governance review completed by GHD.

4.4.1 Cost allocation policy

Hort Innovation is responsible for ensuring that funds received are appropriately allocated, with the major responsibility to ensure correct allocation by industry and also by purpose (i.e. R&D or marketing). The cost allocation policy states that the process needs to satisfy two objectives:

- To provide a clear direction of how costs are to be allocated across Research and Development and Marketing programs including the determination of eligible R&D expenditure for the calculation of the Commonwealth Contribution; and
- To enable cost/benefit evaluations of projects to be based on an appropriate, fully absorbed and consistent costing method.

In some instances there may be uncertainty over the classification of activities between R&D and marketing at the program/project planning stage that can be problematic. An example is an industry without a marketing levy wanting to invest in activities that are properly classified as 'marketing', or an industry without sufficient R&D funds available wanting to allocate marketing levy funds to activities that are properly classified as R&D. An example over the uncertainty of the allocations between R&D and marketing was raised during consultation for this review in regard to food safety. The SFA defines R&D and marketing activities, and the need to ensure the appropriate allocations.

Food safety of horticultural produce and products is an issue that is likely to be an increasing area of importance in the future, with crisis management being one aspect requiring attention. One of the concerns of industry is to ensure the ability for Hort Innovation to use R&D levy funds for post crisis management (expenditure of funds are subject to external audits).

In response to these concerns by industry, Hort Innovation provided GHD with the following initiatives that have been implemented:

- A range of R&D industry specific projects on food safety risks and crisis management have been completed or are still under contract. Evidence of these investments has been sighted by GHD, with the company investing in eleven food safety projects totalling \$9.08 million since 2012.
- A "Food Safety in Horticulture" Roundtable was held in February 2018 with researchers, growers, government and industry representatives to map the current horticultural food safety landscape and identify future priorities and needs to ensure ongoing food safety. The Roundtable explored the following three themes: Theme 1 - Consistency in food safety standards; Theme 2 - Access to knowledge; and Theme 3 - Research capacity and capability.

Following from these themes, Hort Innovation will pursue the opportunities identified in Themes 2 and 3 through its Health, Nutrition and Food Safety Fund involving consultation with the Expert Advisory Panel.

- Hort Innovation is exploring the legitimate use of R&D funds for consumer facing R&D as a pre-cursor to marketing in response to food crises and recovery.

GHD notes that Hort Innovation seeks to apply learnings from other sectors in this regard, including for example, SafeFish, a government and industry partnership that is underpinned by a strategy to identify current and emerging food safety and market access issues, prioritise these issues, and undertake technical work to provide potential solutions to overcome those of highest priority.

GHD is satisfied that Hort Innovation has used its funds in accordance with the requirements of the SFA and the Act. Consultation with DAWR supports the finding that the company's use of

funds is compliant with the SFA and the Act. Where there is uncertainty in classification of expenditure for R&D or marketing purposes, Hort Innovation discusses these aspects with DAWR to ensure compliance with the allocation policy. Hort Innovation has an up-to-date Compliance Schedule that sets out each of the reporting and communications requirements of the SFA and the dates and responsibilities for completion.

4.5 Funds not used for agri-political activity

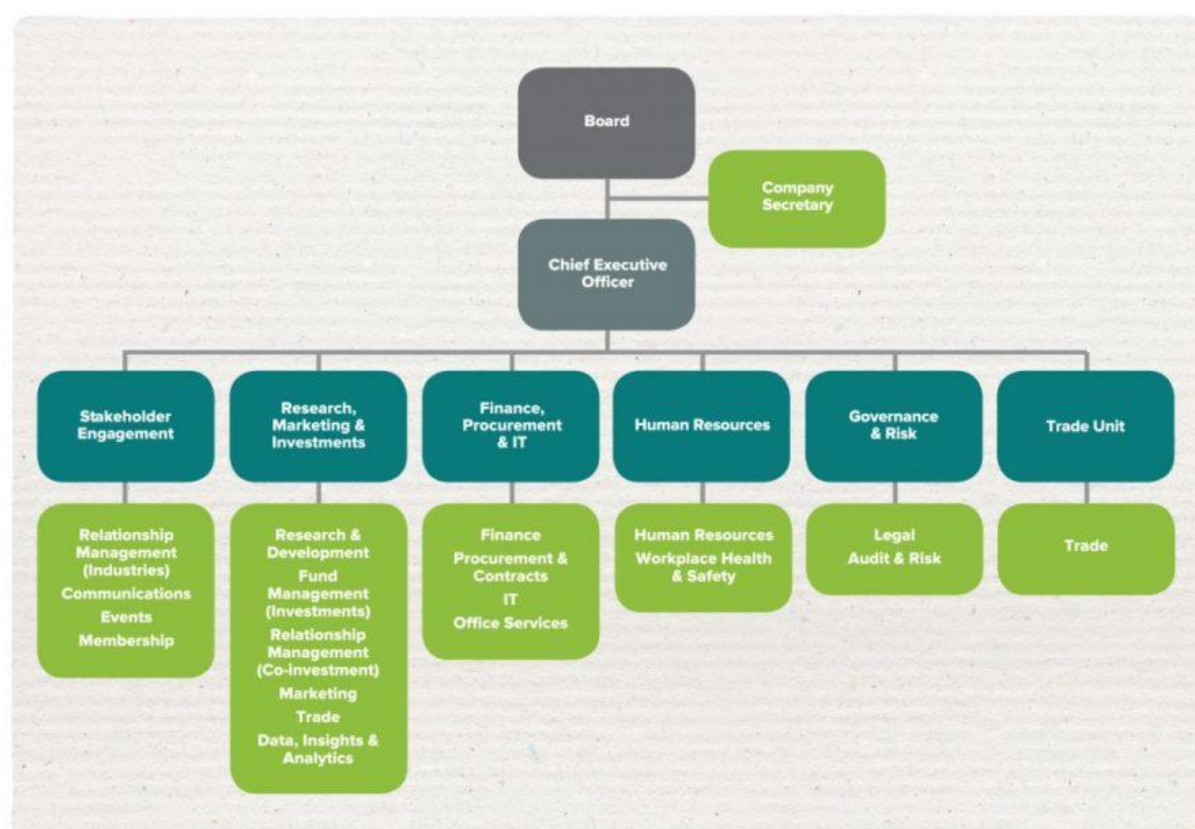
The SFA and the Constitution specifically exclude Hort Innovation from knowingly engaging in or financing agri-political activity. This includes not making grants or funding available to IRBs for agri-political purposes. Hort Innovation may however engage IRBs for the provision of R&D or marketing related goods and services in line with its business procurement standards. On the basis of the documents reviewed and information obtained from stakeholder consultation, GHD is satisfied that Hort Innovation has not used any funds for agri-political activity.

4.6 Company structure and staffing

4.6.1 Company structure

Hort Innovation employs 81 staff (compared to less than 50 staff in 2014), with the company's head office in Sydney and satellite offices in Melbourne and Brisbane. A summary of the organisation's structure is provided in Figure 4.

Figure 4 Hort Innovation organisation chart



Source: Hort Innovation website

The operations of the company are based on a “fund-centric” model with the Executive Management team at the apex of a model structured around four Fund Manager positions. The fund managers are intended to provide leadership within Hort Innovation and the market by understanding cross-industry and strategic issues to drive investment areas and to develop and execute fund strategy. A summary of the fund managers' function and their interaction with

Strategic Levy Investment and Frontiers Fund staff is provided in Figure 5. The four fund managers work closely with:

- **Strategic levy investment Relationship Managers** – responsible for consulting with industry to determine priorities and ensure that investments align with these priorities. These positions manage a cluster of industries as well as drive company membership.
- **Strategic levy investment Marketing Managers** – responsible for developing, planning, executing and evaluating marketing programs.
- **Hort Frontiers Fund strategic partnership initiative Business Development Managers** – responsible for identifying and pursuing opportunities for co-funding based on an understanding of the sector and its stakeholders, and the strategic imperatives of each of the Frontiers Funds.
- **R&D Managers** – these are staff with relevant education (e.g. many R&D Managers have PhDs in their area of specialty) and experience to act as subject matter experts for R&D investments. They are charged with developing and maintaining strong working relationships with delivery partners and industry to ensure the delivery of investment outcomes.

Since the transition from HAL, the company now has the additional Trade Unit that supports the horticulture sector on trade matters and delivers market access and export outcomes for growers.

Hort Innovation's constitution outlines the priorities and responsibilities for trade. These are to promote and further the interests of Australian horticultural industries overseas, focusing on the export, sale, distribution and consumption of horticultural produce in countries other than Australia. The Trade Unit is responsible for establishing an objective market access and market maintenance prioritisation mechanism, and implementing a new cross-horticulture Trade Strategy, incorporating all aspects of these priorities.

The Trade Unit works with all internal functions of Hort Innovation to deliver increasingly integrated trade programs and activities across Hort Innovation.

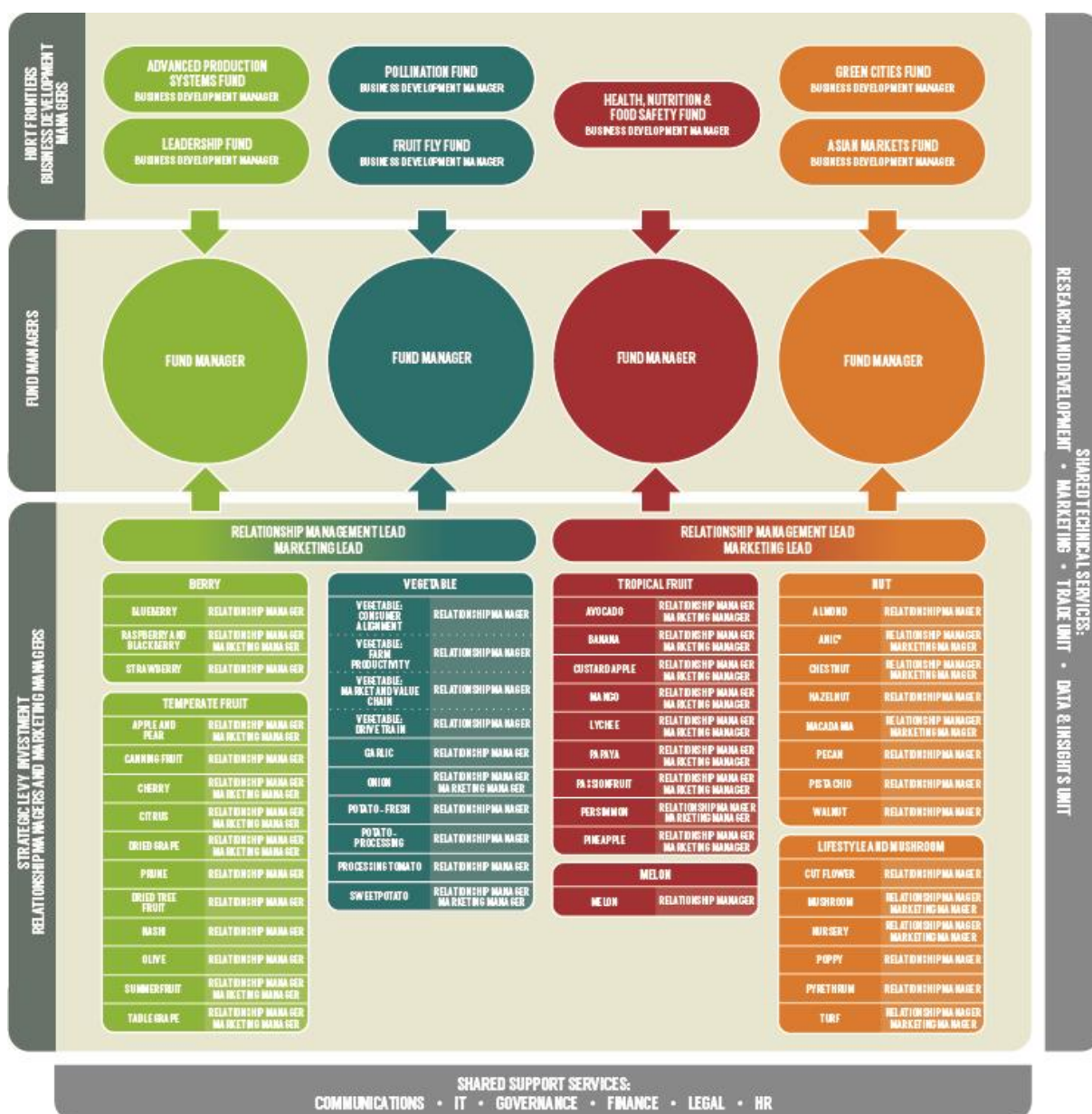
There are three dedicated trade panels: the Trade Assessments Panel (TAP, see Section 5.6), the industry Trade Advisory Panel (iTAP, see Section 5.7), and the nut industry Trade Advisory Panel (niTAP, see Section 5.8). Membership of these panels was based on a selection process by Hort Innovation through a public call for expressions of interest.

The Trade Unit seeks advice from all of the SIAPs representing industries with trade related programs and activities (see section 5.4), and export aspirations.

Industry engages with Hort Innovation through the trade panels, SIAPs, EAPS, export projects, other trade meetings and day to day grower engagement in the delivery of the suite of trade projects.

The model is supported by shared technical support and administrative services including IT, legal, risk, HR, procurement, finance, data and insights, and communications teams.

Figure 5 Fund model



Source: Hort Innovation

4.6.2 Policies and procedures

Hort Innovation has a range of policies and procedures for both its internal operations and also when engaging with external providers and members of advisory panels. The following is a summary list of policies and procedures sighted by GHD, with all documents appearing to be up-to-date and reflecting requirements of the SFA where applicable:

- Procurement manual and supporting guidelines, including governance and risk as well as investment guidelines and delegation of authority
- HR policies, including performance reviews, succession planning, code of conduct and ethics
- Intellectual Property
- Fraud, Risk, and Business Continuity Plans
- Communications Plan

- Formal advisory mechanisms (SIAP, EAP, TAP, iTAP and niTAP), including declarations on agri-political undertaking, conflict of interest and confidentiality.

The company instigates a number of internal audits completed by independent consultants and staff to ensure the correct implementation of the policies and procedures. For example in 2017, the following independent audits were completed (these are in addition to the reviews conducted by Ernst & Young as part of the external audit process as described in section 4.4):

- A Privacy Review of the entire company and its operations, and an action plan put in place to address all recommendations.
- A review of Premises Security for review by the HR Team for implementation of appropriate measures.
- An independent audit of member Voting Entitlements in time for voting to occur at each Annual General Meeting (note that a similar audit has been completed each year since the company's inception).
- An insurance gap analysis has been conducted by the Finance Manager and Senior Manager Risk and Compliance.
- An IP management review and process improvement plan has been undertaken by the R&D Lead and Senior Legal Counsel.

In 2018, internal audits were scheduled for Trade, SIAP, Procurement Funnel, Complaints Handling, Contract Management, Fraud (Payroll / Invoices / Payments), Security / Cyber and the Marketing Program, with provision for ad hoc requests.

Following the completion of each audit, Hort Innovation prepares a management action plan to ensure audit recommendations are addressed appropriately. GHD has sighted examples of these action plans, with content typically including management's response to the recommendation (i.e. key actions, activities to be implemented), agreed timeframes for completion, relevant Hort Innovation staff member responsible for ensuring completion, and a log to track progress to date.

4.6.3 Organisational culture

"Develop our culture and leadership" is one of Hort Innovation's three pillars of strategic intent, and as such a Human Resources (HR) strategy is in place to ensure its implementation. The HR strategy has resulted in the development of 26 separate HR policies that were last reviewed in August 2017 with the next review date scheduled in August 2018. The HR strategy includes the following drivers for staff:

1. Serving our stakeholders now and in the future with diverse talent with the right mix of technical, commercial, industry and relationship skills.
2. Managing our new business by transforming our whole operating model.
3. Managing our workforce to achieve greater flexibility and productivity.
4. Enhancing a culture of leadership & leadership capability across the company.
5. Developing and strengthening our brand.
6. Optimising and transforming our support functions across the company.
7. Building our capacity and capability to be agile and change oriented.
8. Building our capability for innovation and continuous improvement.
9. Regulatory/political and economic volatility.

10. Attracting outstanding talent from a dynamic market influenced by economic conditions, competitor behaviour and employment trends.
11. Engaging and retaining our people to create shared value from high performance and delivering on investments for the company, and career development and a great place to work for the individual.

The company has a Board sub-committee that meets 3-4 times a year, with organisational culture and leadership an integral part of the committee's discussion.

Hort Innovation staff also complete various relevant training modules including (but not limited to) in the areas of harassment, providing constructive feedback and having difficult conversations.

A reflection of the success of the various training, policies and procedures can be gauged by staff surveys that have been conducted by Hort Innovation. A "One Year of Recognition" survey showed significant improvement for all criteria surveyed, including an increase in the understanding of how individual employees' role contributes to the mission of Hort Innovation and the achievement of an Employee Net Promoter Score (ENPS⁵) of 23.2%, compared to an Australian average ENPS of -23%.

A separate "inclusion survey" showed that over 90% of staff were either very satisfied or somewhat satisfied with their jobs and that they worked with an inclusive team. Furthermore over 80% strongly agreed or agreed that they were contributing to the outcomes of the company and that they were developing and progressing within their roles.

At the same time, staff turnover within the company as at 31 January 2018 was 22% (annual rolling turnover rate). This was slightly lower than the rate in the last reporting period. Turnover data from Mercer (March 2017) indicates an Australian median turnover rate of 17%. Of the 18 voluntary terminations since 2016, career progression was the most common reason cited. Two of the terminations cited dissatisfaction with their treatment by external stakeholders as the primary reason.

4.7 Consultation findings (GHD)

4.7.1 Online survey

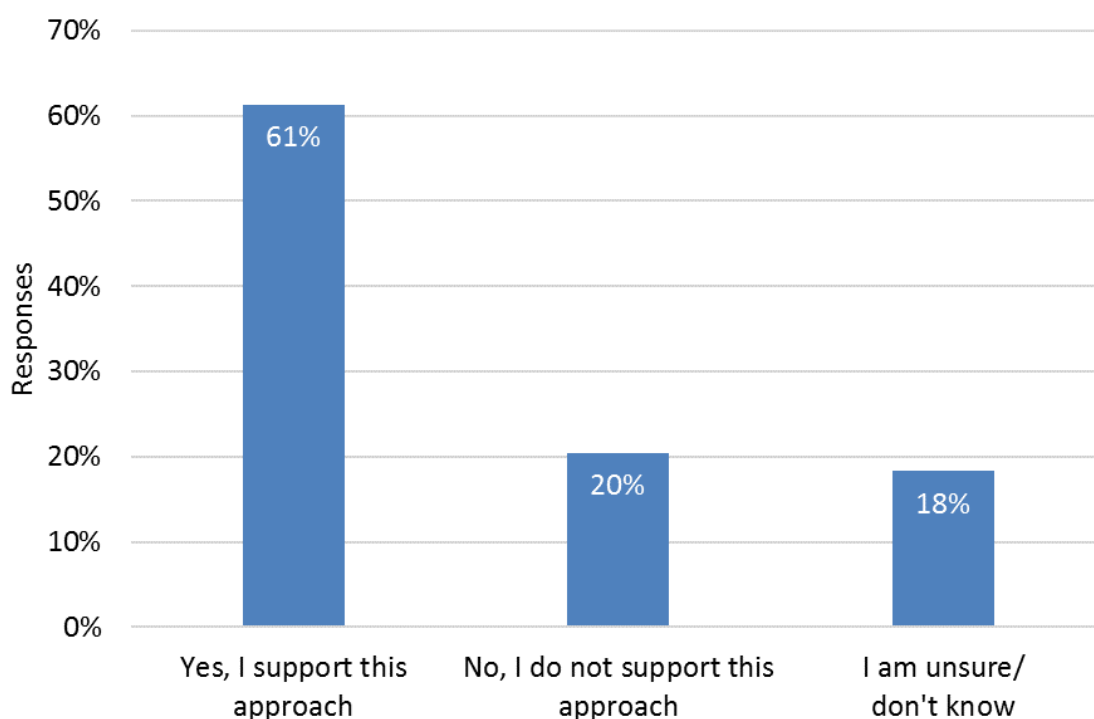
54% of respondents to the online survey are members of Hort Innovation, with a further 11% being unsure of their membership status (refer to Appendix B for complete survey results). More than two-thirds of those respondents who are members report that it was 'easy' or 'very easy' to become a member.

The most commonly reported reason by non-member survey respondents, for not becoming a member, is that they are ineligible (51% of non-member respondents). This suggests a possible misunderstanding amongst some Hort Innovation stakeholders as to who can become a member of the company and the distinction between voting and non-voting members.

About 60% of survey respondents support the Strategic Levy Investment/Frontiers Fund investment model (Figure 6). Almost a fifth of respondents are unsure whether they support this model, which suggests an opportunity for future communication activities to target this area.

⁵ ENPS is the likelihood of an employee to recommend their company as a place to work.

Figure 6 Support for the Strategic Levy Investment / Frontiers Fund investment model (n=228)



4.7.2 Stakeholder interviews and submissions

Some stakeholders commented that there is little value proposition in becoming a Hort Innovation member. Most interviewees are members of their relevant IRB and rely on their IRB to communicate key information from Hort Innovation. In many cases IRB communication activities are funded by Hort Innovation (via Strategic Levy Investment). Although this is well understood by the IRB management teams and acknowledged in IRB communication materials, it is recognised by IRBs that many growers are still unlikely to be aware of this.

Furthermore, levy payers receive the same benefits as Hort Innovation members (e.g. research outputs, communication materials) therefore there is little additional value in becoming a member, other than the opportunity to become a voting member.

Some interviewees commented that the process of being a voting member is too complex and that this deters them from voting at Hort Innovation AGMs. Hort Innovation has sought to address this, as explained in Section 4.2 above.

Stakeholders are generally very supportive of the Strategic Levy Investment/Frontiers Fund investment model concept. Stakeholders value the industry-specific R&D and marketing activities under Strategic Levy Investment however they also appreciate that the cross-industry collaboration possible under the Frontiers Fund is worthy of investment (see Section 6 for details).

Many stakeholders raised concerns regarding Hort Innovation's organisational culture. Common themes raised during interviews include:

- Accountability: that Hort Innovation has a perceived focus on Government rather than growers
- Mutual respect is sometimes questioned
- Lack of transparency, particularly in financial reporting

- Concern regarding timeliness of actions.

Note that these concerns were raised by stakeholders. GHD has considered these concerns in the context of the document review and discussions with all stakeholders and our assessment of the concerns is provided below.

4.8 Conclusion

Hort Innovation has established an organisational structure with associated policies and procedures to meet its obligations under the SFA and the Corporations Act. There may be an opportunity to review the current organisational and internal reporting and approvals model of the company, to ensure ongoing relevance, now that the company's transition from HAL has matured. Hort Innovation recognises this and it is anticipated that this will be considered further over the next 12 months.

Strong growth in Hort Innovation membership is unlikely, however this is not necessarily an issue provided the company continues to strengthen its relationship with IRBs and other stakeholders. GHD understands that the number of Hort Innovation members and voting members as a proportion of total horticultural industry levy payers is comparable with other RDCs, based on anecdotal evidence provided by DAWR.

Stakeholders are generally supportive of the Strategic Levy Investment and Frontiers Funds concept however have a relatively low understanding of the specifics of this funding model, in particular the prioritisation and funding of the Frontiers Funds. Increased communication in this regard will foster greater stakeholder understanding and support for Hort Innovation's investment activities.

GHD recognises that this improved communication is already underway, particularly with the recent release of the Hort Frontiers website which will enhance the company's ability to clearly communicate its Frontiers Funds investments. GHD is satisfied that Hort Innovation has used its funds in accordance with the requirements of the SFA, Constitution and the Act and this is supported by GHD's consultation with DAWR.

Stakeholders have a number of concerns regarding the company's organisational culture. It is GHD's view that many of these concerns will begin to shift as IRBs and other stakeholders continue to see tangible benefits arising from company actions such as the SIAP improvement process. Communication and engagement have a very important role to play in shifting stakeholder perceptions of culture, particularly in terms of improved transparency and timeliness of information. Further discussion on communication and engagement is provided in section 7.

From a human resources perspective the company is making significant gains, as evidenced by a substantial improvement in staff engagement levels and a high employee net promoter score.

5. Program planning and implementation

Hort Innovation's operations and funding were described above, including its obligations under the SFA to prepare a Strategic Plan and Annual Operating Plans (AOP). This section provides more details of the program planning and implementation processes, including the development of Strategic Investment Plans (SIPs) for each levy paying industry.

5.1 Hort Innovation Strategic and Annual Operating Plans

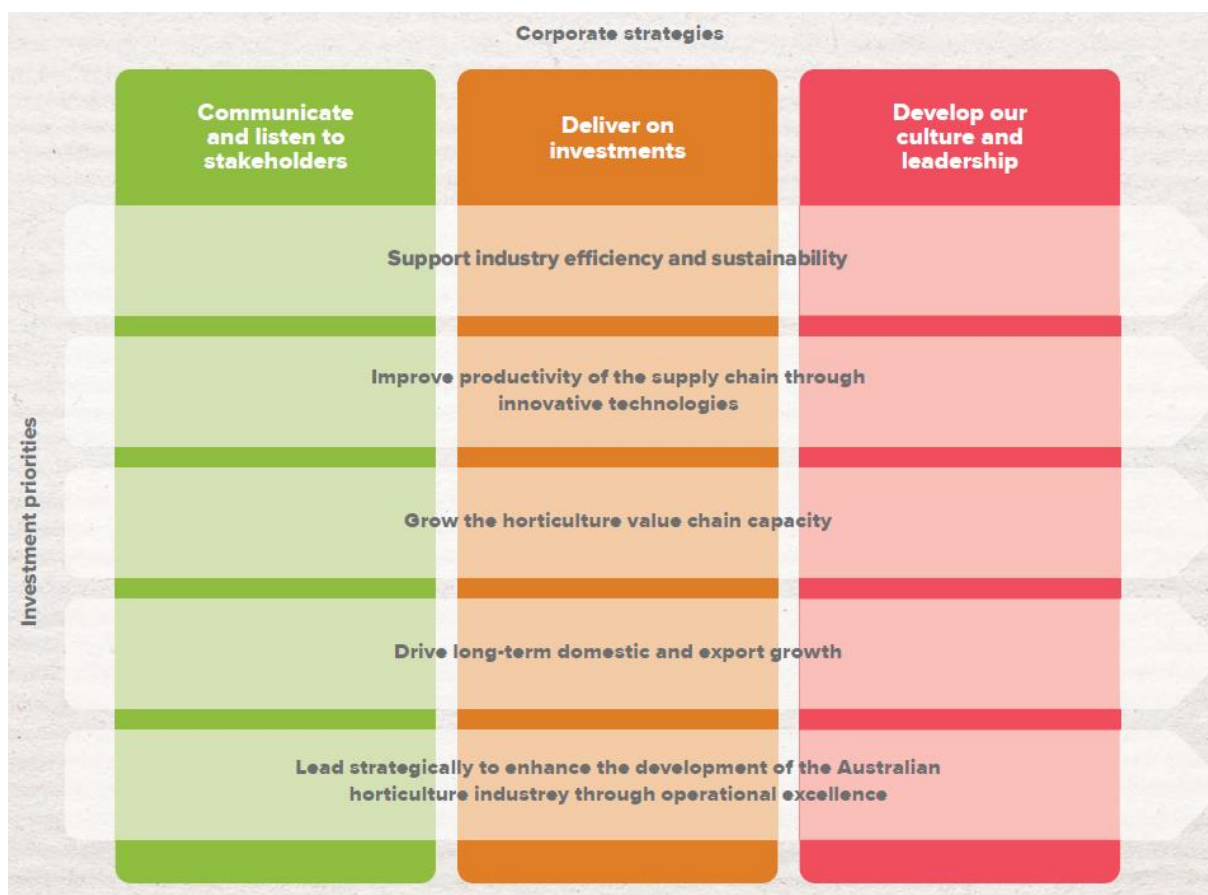
The Hort Innovation Strategic Plan was released in 2016 with the strategic planning process including:

- 28 regional meetings and workshops with stakeholders in key horticultural growing areas throughout 2015 and 2016;
- Two national roadshows:
 - 'Between the Rows' – provided opportunities for growers to hear from the Chair, CEO and other Senior Management regarding the proposed changes to the horticulture RDC and also to provide their feedback;
 - The Strategic Plan Consultation – in developing the company's Strategic Plan, a series of regional meetings were held nationally to seek grower input. This consultation plan required agreement from the Department prior to implementation. An independent facilitator was engaged to facilitate the meetings with a summary of the outputs published on the company's website.

The consultation undertaken to inform Strategic Levy and Frontiers Fund investment priorities is described in Section 7.1.

The Strategic Plan has three pillars (corporate strategies) with five underlying investment priorities for the period 2016 to 2020, as shown in Figure 7. The plan includes a number of activities and Key Performance Indicators (KPIs) under each strategy and priority area, to assist in ongoing monitoring and evaluation.

Figure 7 Hort Innovation corporate strategies and investment priorities



Source: Hort Innovation Strategic Plan, 2016

An AOP is prepared each year in accordance with the requirements of the SFA. The AOP details the specific activities and actions that will be undertaken in a given financial year, to help deliver the strategies and investment priorities identified in the Strategic Plan.

The 2016-17 AOP includes a list of KPIs for the three pillars of strategic intent: communicate and listen to stakeholders, deliver on investments and develop our culture and leadership. There is alignment between the AOP and Annual Report (AR) and where possible each activity has been quantified. For example, the 2016-17 AOP listed as a key action to implement the communications strategy that aligns target audiences with content. The corresponding 2016-17 AR outlines the progress to date on this action and quantifies the number of campaigns and to how many contacts within Hort Innovation's CRM database. GHD has sighted evidence that the Hort Innovation executive management conduct in-depth quarterly assessments of progress against each KPI.

5.2 Industry Strategic Investment Plans

Hort Innovation has developed a program framework that links its strategy and investment priorities to the investment process via Strategic Investment Plans (SIPs) for each industry which is designed to guide the investment of levy funds over a five year period. The SIPs have been prepared by external consultants in the majority of cases (a small number of SIPs were developed by Hort Innovation to minimise costs for smaller industries), with support from Hort Innovation and SIAPs. The SIP development was informed by consultation with growers, including more than 100 face to face meetings and events (Hort Innovation Annual Operating Plan 2017/18, with a full list of industry consultation workshops provided on the industry-specific

web page of the Hort Innovation website). Draft SIPs were published on the Hort Innovation website for industry review and feedback, prior to finalisation.

Each SIP has a similar format and includes an industry risk analysis, SWOT⁶ analysis, investment priorities, impact assessment comprising an independent benefit cost analysis of the likely impact associated with achieving the outcomes identified in each plan (as described in Section 6.2), and an M&E plan. All of the SIPs are available on Hort Innovation's website, as are the Annual Reports for each of the industry Strategic Levy Funds.

The SIPs provide a strategic approach to the investment of levy funds and as such provide a better opportunity for achieving improved returns on investment compared to a non-strategic approach that was arguably in existence at HAL. The ACIL Allen report found that one of the core challenges at HAL was that there were multiple and unclear objectives driven by embedded conflict of interest and a planning hierarchy and effort skewed towards individual industries.

5.2.1 Frontiers Funds planning

Planning for Frontiers Funds followed a different path to the Strategic Levy Investments (see Appendix G for a detailed timeline of activities) with an initial report titled Strategic Co-investment Funding Pool (now Frontiers Fund) Prioritisation of Research Funds (2016) which obtained input associated with more than 100 submissions in response to the 2015 Consultation Paper (Determining the Strategic Investment Priorities for the Australian Horticulture Industry), and comprehensive feedback from key stakeholders from across Australia's horticulture sector. The report:

- Identified five foundation co-investment funds for immediate establishment;
- Nominated a further fifteen potential funds for consideration as the Frontiers Fund model matures and Hort Innovation develops the capacity to effectively support a larger Frontiers Fund portfolio (although it is anticipated that a mature Frontiers Fund portfolio will consist of no more than ten to fifteen funds);
- Described the selection criteria associated with individual program and project investment decisions; and
- Outlined the broad implementation process and timetable associated with the establishment of the funds.

With respect to selection criteria, the report outlined that program and project submissions must demonstrate the following:

- Sufficient co-investment funds are available;
- A significant cross-industry issue is being addressed;
- Potential outcomes are transformative in its nature (not business as usual);
- New learning will be achieved (and not replicating previous learnings);
- A medium-longer term (5-15 year outlook) is the intent (not short term);
- The outcome has the potential to build underlying cross-industry capacity;
- Research will build and/or capitalise on the competitive advantage of the sector;
- There is a strong probability for successful research outcomes;
- That a clear path to adoption is articulated from the outset;

⁶ Strengths, Weaknesses, Opportunities and Threats

- Potential innovation adopters are involved from the outset;
- Significant financial provision for extension has been budgeted;
- The research will contribute to Australia's global competitiveness; and
- The research aligns with Government research directions.

In addition, the report identified that each fund would have an expert panel established to consider all program and project submissions and advise on selection considerations (see Section 5.5 below).

Based on the application of the above criteria, including an ex-ante benefit:cost assessment of outcomes, the Board agreed to fund the seven Frontiers Funds programs currently in operation.

5.3 Concept management and procurement

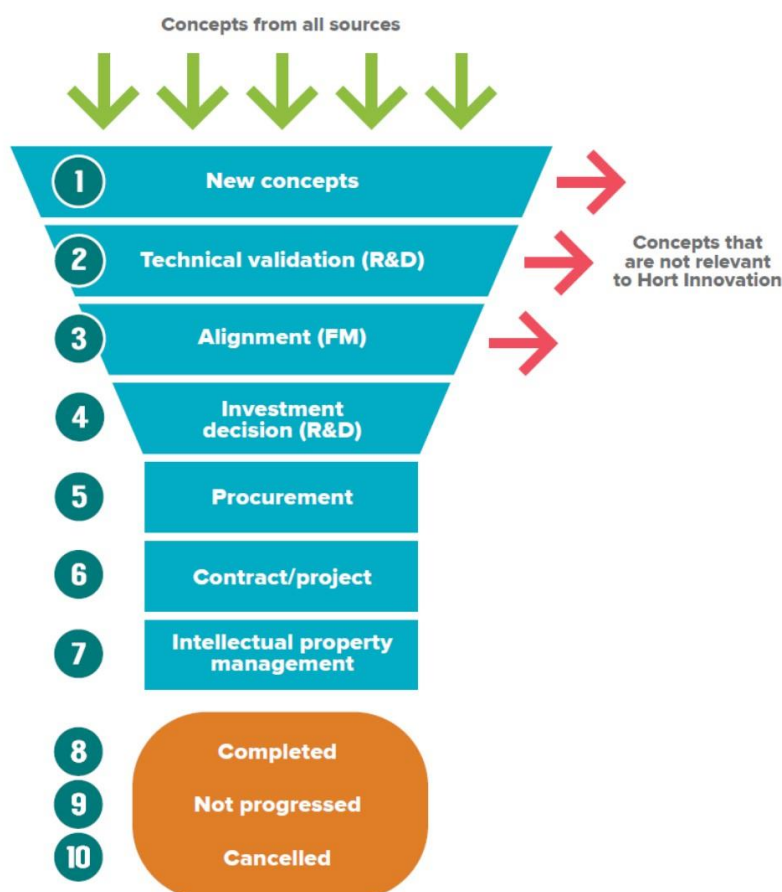
Hort Innovation's investment process is shown in Figure 8. In summary, anyone with a new R&D idea (e.g. grower, researcher, supply chain stakeholder) can submit their research concept for consideration. Initially all research concepts are validated by Hort Innovation R&D (or Marketing) Managers, to ensure relevance to the company's strategy and industry SIPs. This process involves analysis of the concept to assess its viability (including cost and duration) and technical validity, and importantly, is undertaken by the Hort Innovation R&D Manager with the relevant subject matter expertise.

Relevant R&D concepts are then reviewed by Fund Managers to ensure alignment with industry Strategic Investment Plans (SIPs, see Section 5.2) or Frontiers Fund priorities. R&D Managers are then assisted by Strategic Investment Advisory Panels (SIAPs, see Section 5.4) and Expert Advisory Panels (EAPs, see Section 5.5), which review and evaluate R&D concepts. These panels provide advice from an industry perspective as to which concepts should proceed to procurement, however investment decisions are also informed by business cases and risk analyses conducted by Fund Managers.

The ultimate investment decision is made by Hort Innovation in accordance with the company's delegations of authority, which include a number of decisions being escalated to the Board for approval depending on the Life of Project (LOP) value of the investment and/or other risk factors (e.g. foreign investment),

R&D Managers are responsible for preparing tender briefs, with input from the relevant SIAPs or EAPs. R&D investment proposals are sourced via a competitive tender process and assessed by a Tender Evaluation Panel (which usually includes non-conflicted SIAP members / growers), to assist in ensuring probity and value for money.

Figure 8 Investment process



Source: Hort Innovation

Hort Innovation is aware of some stakeholder criticism regarding the efficiency of its investment process (see Section 5.12 below) and has therefore been considering a hybrid model, whereby some limited targeted ‘calls’ for proposals could be undertaken to encourage concepts in specific areas to address identified ‘gaps’ in investment under industry SIPs or Frontiers Fund strategic plans. Direct procurement already occurs when appropriate and in accordance with the SFA.

Furthermore, although an investment concept can be submitted at any time, the concepts are reviewed in batches for efficiency. The company has identified this as one source of criticism for the slow turnaround of some responses and has been considering the introduction of a number of concept ‘gates’ throughout the year, with evidence sighted by the review team in this regard.

5.4 Strategic Investment Advisory Panels

In 2015 and 2016 Hort Innovation developed a number of Strategic Investment Advisory Panels (SIAPs). The purpose of the SIAPs is to provide robust investment advice, to inform the company’s Strategic Levy Investments. The process undertaken to appoint panel members was as follows:

- Positions advertised nationally through rural media, IRB publications and Hort Innovation membership and networks;
- Short-listing of candidates by an external recruitment company, in conjunction with Hort Innovation and industry;
- Interviews by an interview panel comprising an independent person, a Hort Innovation director and an IRB grower director; and

- Discussions between the interview panel and the industry Relationship Manager to determine the appropriate makeup of the panel depending on the requirements of each individual industry.

There are approximately 325 people appointed across 35 SIAPs. The SIAPs are a completely new advisory system and structure. There is a SIAP for each levy paying industry, comprised of growers and other industry stakeholders. Up to three IRB representatives can be SIAP members for their industry at any one point in time. Each SIAP has an independent Chair and specific Terms of Reference.

Over the first two years of the SIAPs a number of concerns were raised by SIAP members and Chairs. These included the SIAP composition, timeliness of relevant Hort Innovation staff activities (e.g. setting meeting dates, provision of agendas and meeting papers, distribution of meeting minutes), documentation quality, financial data quality and transparency, and the feedback provided to SIAPs regarding which R&D concepts proceeded to procurement.

In response to this feedback, Hort Innovation implemented a number of initial changes to the SIAPs (e.g. increasing the number of IRB representatives, appointment of independent minute takers, appointment of independent Chairs) and then initiated a formal SIAP improvement process in 2017. This process is underpinned by a documented plan that is regularly updated and identifies key actions, timeframes, roles and responsibilities, and progress to date. Increased quality, timeliness and frequency of communication with SIAPs is a core component of this plan. The greater Executive team involvement in SIAP meetings over the last six months is also planned to continue. The SIAP improvement process is ongoing however the review team has received positive feedback from those SIAPs who have experienced the improved process first-hand.

5.5 Expert Advisory Panels

Expert Advisory Panels (EAPs) provide advice to Hort Innovation regarding the investments undertaken across the seven Frontiers Funds. There is an EAP for each fund, comprised of technical experts and at least two growers. Each EAP has clear Terms of Reference and EAP members are listed on the Hort Innovation website.

There are approximately 45 people appointed across seven EAPs. The process undertaken to establish the EAPs included:

- Development of an open market EOI which was circulated via Hort Innovation's suppliers database and communicated to key contacts who were not in the database
- Evaluation of EOI applications by an external expert from each industry
- Internal review of short-listed candidates by the relevant Hort Innovation Business Development Manager to select the EAP members with the Board approving final appointments.

5.6 Trade Assessments Panel

Hort Innovation has developed a Horticulture Trade Strategy 2017 – 2025, which aims to 'align and coordinate the export interest and efforts of the horticulture industry as a whole'. Further details regarding the company's Trade Unit are provided in Section 4.6.1.

One of the Trade Unit's responsibilities is to provide advice to DAWR on market access and market improvement priorities for the horticultural sector. This advice is developed by the Trade Assessments Panel (TAP), following its assessment of market access / improvement applications. The panel is comprised of independent industry experts appointed by Hort

Innovation following a public EOI process. The panel is facilitated by the Hort Innovation Trade Manager and is chaired by a Hort Innovation director.

5.7 Industry Trade Advisory Panel

The industry Trade Advisory Panel (iTAP) provides advice to Hort Innovation, specifically in identifying R&D gaps or deficiencies that are impacting market access and recommending appropriate methods to address these. Similarly to the TAP, the panel is comprised of independent industry experts appointed by Hort Innovation following a public EOI process. The panel is facilitated by the Hort Innovation Trade Manager or Trade Unit delegate.

5.8 Nut Industry Trade Advisory Panel

Similar to the iTAP, the nut industry Trade Advisory Panel (niTAP) provides nut specific advice to Hort Innovation on trade issues affecting the sector. The panel is comprised of representatives of the Australian nut industry following a public EOI process. The Panel is facilitated by a Trade Unit delegate.

5.9 Alignment of planned versus actual expenditure

A summary of planned versus actual expenditure over the review period is provided in Table 2. Alignment of planned and actual expenditure is also discussed in Section 5.1 above. The AOPs set out specific KPIs against the three corporate strategy pillars and these are reported against in the corresponding Annual Reports. GHD has noted some difficulty in following the financial reporting tables between the AOPs and Annual Reports, and this could be improved.

5.10 Intellectual Property (IP) management

Hort Innovation has an IP policy with the latest version dated November 2017. The SFA requires Hort Innovation to develop, maintain and implement an IP Management Plan, and as such the IP Policy and IP Management Framework were developed.

The IP policy states that Hort Innovation creates and exercises IP in all aspects of its business. Hort Innovation will rarely create commercially-valuable IP in its own right, but may own or have rights in relation to commercially-valuable IP which are outputs from R&D projects or which result from marketing programs. Hort Innovation may be involved in the dissemination or commercialisation of R&D outputs, or receive royalties or other benefits from the commercialisation of such IP by others. Hort Innovation may also procure other goods or services which result in the acquisition, creation, licensing or use of IP by Hort Innovation.

IP acquired or created in the course of Hort Innovation projects requires active management by Hort Innovation personnel to mitigate potential risks.

GHD has sighted the Commercial-in-Confidence IP Register as at November 2017. The register includes 93 entries and lists for each the relevant project, partners, owner of the IP, the investment by Hort Innovation and equity of IP to be exploited, and comments of clarification.

The IP management process also includes a schedule of Trade Marks owned by Hort Innovation and overseen on its behalf by suitably qualified external legal counsel. As of January 2018 there were 38 Trade Marks registered in Australia and 20 registered in New Zealand.

Research agreements with contractors include clauses regarding the protection of pre-existing and project output IP as well as conditions on commercialisation and infringement.

Hort Innovation also provides IP training to staff. In 2017, six separate training events were delivered by a contracted service provider.

As noted in Section 4.6.2, an IP management review and process improvement plan has been undertaken by the R&D Lead and Senior Legal Counsel.

As part of the consultation for this project, some R&D providers were concerned that the concept approach for generating ideas for investments (section 5.3) did not provide sufficient assurance that IP would be protected and that, as a result, they were reluctant to submit ideas via the concept approach in the future. Their concerns were that their “know how” and “trade secrets” would be made available to competitors if the concept progressed to the request for tender stage, and that this would reduce their competitive advantage in an open tender process.

The concept form defines IP to mean “statutory and other proprietary rights in respect of copyright and neighbouring rights, all rights in relation to inventions (whether patentable or not), patents, plant breeder rights, registered and unregistered trademarks, registered and unregistered designs, circuit layout, know how, trade secrets, rights to require information to be kept confidential”. GHD notes that this definition differs from that provided in research agreements⁷, and that this may be causing some confusion.

In response to the research providers’ concerns, Hort Innovation provided GHD with the following:

- Hort Innovation staff review all concepts received and have the ability to keep the IP information provided by proponents confidential
- The concept form is deliberately brief and its purpose is not designed to enable proponents to set out in detail the ‘machinations’ behind their idea/concept
- Hort Innovation does not wish to receive any IP at this concept stage, but if legitimate IP is disclosed the proponents must state this and it will be respected (if it is not already in the public domain)
- The issue is likely to be unrelated to IP as such, and more related to inter-academic rivalry or competitive advantage, and the correct place for this is at the RFP proposal stage where specific information, methods etc. are able to be set out in full and protected
- Hort Innovation values the continuously open research concept facility as it encourages and supports innovation.

While GHD accepts that this is a reasonable response from Hort Innovation, the details need to be communicated to providers so they are aware of the protections provided.

Hort Innovation has also informed GHD that it is currently reviewing the concept approach to investment initiation to ensure that it is the most suitable process for capturing ideas from external parties. Management is considering introducing a hybrid model that combines both “concept” and “call” methods for innovations, as discussed in Section 5.3.

⁷ Intellectual Property means all patents, patent applications, trademarks, designs, plant breeder's rights, copyright, know-how, trade secrets, eligible layout rights, domain names, internet addresses, data, and all and any other intellectual property rights, whether registered or unregistered, and rights to apply for any of the same, and includes the Confidential Information.

5.11 Collaboration

Hort Innovation collaborates with other RDCs both formally and informally to deliver mutually beneficial RD&E, share information, reduce duplication of effort and address common challenges. Formal collaboration activities are summarised in Table 3, while informal activities include relevant staff participation in:

- RDC CEO and Chairs meetings at least four times annually, to discussion current collaborative projects and future opportunities;
- Quarterly meetings of RDC Communication Managers;
- The Impact Assessment Working Group, comprised of RDC M&E representatives;
- A meeting of RDC Business Managers, which occurs three times a year; and
- RDC IT Manager meetings, where relevant.

Table 3 Summary of Hort Innovation formal collaboration

Collaboration	Details
National Climate Change Research Strategy for Primary Industries (CCRSPI)	Hort Innovation and other RDCs take part in the CCRSPI program which funds and manages research according to the specific needs of their industry and region. The CCRSPI partners and supporters consist of 15 RDCs and another nine government agencies with a collaborative approach to discuss climate change research and to identify priorities for future investment.
National Soil Research, Development & Extension Strategy	The National Soil Research, Development and Extension Strategy is a national framework for coordinating actions to ensure soil research and development becomes more targeted and collaborative, and that research better meets the needs of farmers. Hort Innovation takes part in the initiative with other RDCs as a reference group to provide representation and ensure successful stakeholder engagement, provide knowledge and expertise for the strategy development, and to provide feedback on relevant documents to ensure accuracy in reporting.
National Plant Biosecurity Strategy	Hort Innovation is the Biosecurity champion RDC and co-sponsors the National Plant Biosecurity RD&E Strategy Implementation Committee, which identifies opportunities for cross-RDC / sectoral collaboration and areas of duplication in plant biosecurity RD&E. Led by Hort Innovation, this

Collaboration	Details
	<p>partnership arrangement includes the six other plant-based RDCs⁸ and seeks to streamline funding efforts and attract investment partners.</p> <p>Hort Innovation also leads the Plant Biosecurity Research Initiative across the seven plant RDCs, Plant Health Australia and DAWR.</p>
National Water Use in Agriculture RD&E Strategy	<p>Hort Innovation is one of nine RDCs that form the membership committee for the Water Use in Agriculture RD&E Strategy. The scope of the strategy involves RD&E directly by addressing water management and agricultural water management at the farm level, with an emphasis on RD&E to help achieve efficient farming systems with high water use successfully. The membership committee develops the strategy which involves a high level of stakeholder engagement to provide opportunity for direct input and to comment on draft versions of the strategy.</p>
Rural R&D for Profit program	<p>Hort Innovation leads (or has led) several projects over the review period:</p> <ul style="list-style-type: none"> • Adaptive area-wide management of Queensland fruit fly (Qfly) using Sterile Insect Technology • National centre for post-harvest disinfestation research on Mediterranean fruit fly (Australian Medfly R&D Centre) • Multi-scale monitoring tools for managing Australian tree crops • Advanced production systems for the temperate nut crop industries <p>Hort Innovation is also currently involved , or has been involved during the review period, in several projects led by other RDCs:</p> <ul style="list-style-type: none"> • Market and consumer insights to drive food value chain innovation and growth (led by Meat & Livestock Australia)

⁸ Wine Australia; Forest Wood Products Australia; Cotton Research and Development Corporation; Grains Research and Development Corporation; Rural Industries Research and Development Corporation and Sugar Research Australia

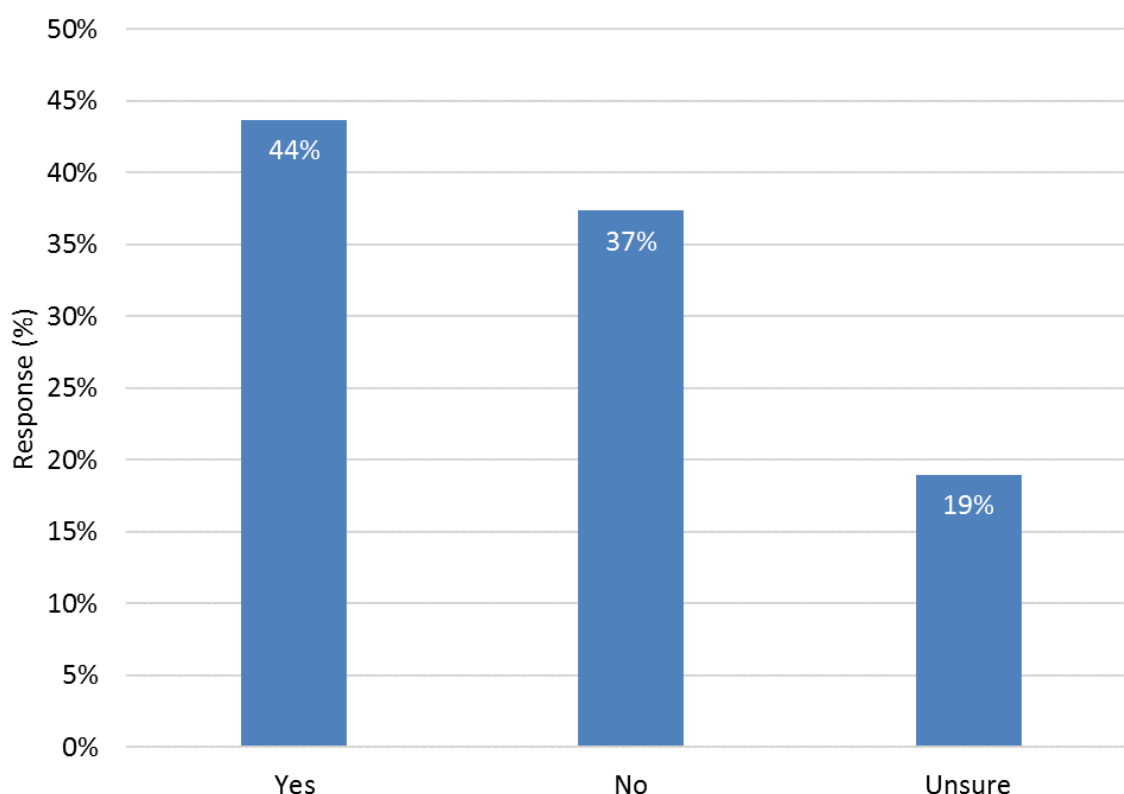
Collaboration	Details
	<ul style="list-style-type: none"> • Accelerating precision agriculture to decision agriculture (led by Cotton Research and Development Corporation) • Digital technologies for dynamic management of disease, stress and yield (Wine Australia) • Improved use of seasonal forecasting to increase farmer profitability (former Rural Industries Research and Development Corporation) • Stimulating private sector extension in Australian agriculture to increase returns from R&D (led by Dairy Australia) • More profit from nitrogen: enhancing the nutrient use efficiency of intensive cropping and pasture systems (Cotton Research and Development Corporation) • Consolidating knowledge of extension to better deliver practical results to primary producers, founded on what producers want from extension services (led by Rural Industries Research and Development Corporation) • Securing pollination for more productive agriculture (Agri Futures)

5.12 Consultation findings (GHD)

5.12.1 Online survey

44% of all survey respondents consider that they have sufficient opportunities to inform Hort Innovation's strategic planning and investment of levy funds (Figure 9). A significant proportion of respondents, however, feel they have insufficient opportunities to inform this process (37%) and a further 19% are unsure in this regard. Again, this may reflect stakeholders' lack of understanding as to how they can inform the strategic planning and investment process, which may be a future focus area for communication activities.

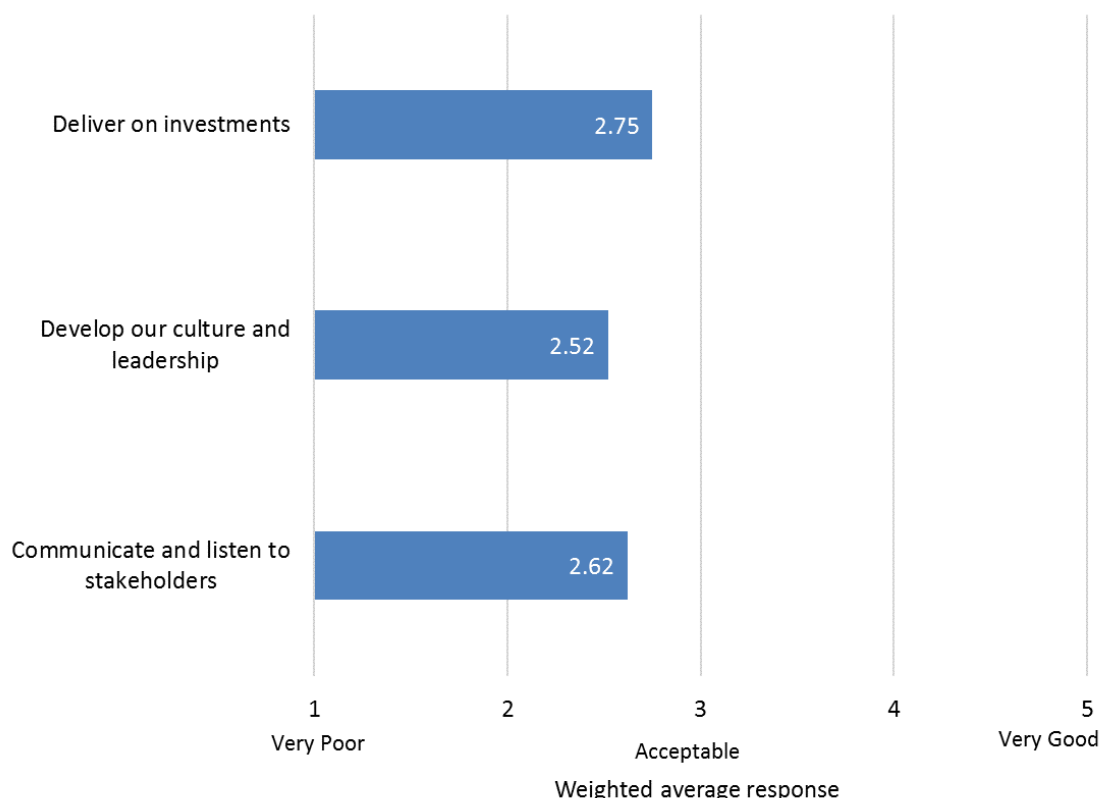
Figure 9 Does Hort Innovation provide sufficient opportunities for levy payers and other stakeholders to inform the company's strategic planning and investment of levy funds? (n=228)



Survey respondents were asked how Hort Innovation is performing in regards to delivering against its three corporate strategies (Figure 9). GHD considers that these results are a reflection of the frustrations that respondents have encountered in their previous dealings with Hort Innovation, which were raised by many stakeholders during interviews. We consider that much of the reason for the negative sentiment is a result of the lack of communication by Hort Innovation, and that the company is aware of many of the criticisms and has implemented changes to address these concerns. Evidence of Hort Innovation's responses is provided in subsequent sections of this report, for example the SIAP improvement process.

As such, the stakeholder responses likely represent a "lag" indicator of performance. GHD considers that Hort Innovation has recognised valid areas of concern and are working to correct these issues.

Figure 10 Performance in delivering against corporate strategies (n=228)



5.12.2 Stakeholder interviews and submissions

External stakeholders have relatively low understanding of the Hort Innovation strategic plan and opportunities available to inform this plan. This is not a concern to most stakeholders interviewed, however, as most place greater importance on the individual IRB strategic plans (where these exist) and SIPs.

There are differing views amongst stakeholders regarding the SIPs. Most interviewees welcome having a consistent planning template across industries. Some IRBs reported having significant involvement in the development of their SIP from the beginning of the planning process, and were therefore very satisfied with the end product. Other IRBs were presented with a draft SIP by Hort Innovation, which they then provided input to and were pleased with the outcome. Some stakeholders felt they had insufficient opportunity to inform their SIP (see Section 5.2 above regarding the process for SIP development and industry feedback) and/or they remain unhappy with the end product.

There is a strong desire amongst industry stakeholders for specific timelines, budgets, and roles and responsibilities to be included in the SIPs. Hort Innovation understands this viewpoint, however it considers that the SIPs are not designed to include this level of detail (which will change over time); rather, the SIAPs consider these items at each meeting and also undertake a gap analysis in the implementation of the SIPs.

Many stakeholders questioned the validity of the Return on Investment (ROI) quoted in the SIPs, particularly in regards to the assumptions underpinning this calculation. Ex-ante impact assessments are discussed further in Section 6.

Most stakeholders recognise that the Hort Innovation concept management and procurement process is more rigorous than under HAL. This is generally welcomed by stakeholders, although

some people commented that due to the previous poor behaviour of a handful of industries everyone has been penalised by having to invest significantly more resources in the development of proposals. Some people also commented that in some instances the formal RFP process is not warranted (e.g. when there is only one service provider who is appropriate for a specific activity). There is flexibility in this regard within the current guidelines, however this is not well understood by stakeholders.

Many industry stakeholders questioned the accountability of service providers, particularly in terms of timeliness of milestone delivery and the quality of research outputs. Several people linked this to a perceived lack of Relationship Manager capacity, and also questioned the quality of Hort Innovation's supplier management systems. In contrast, one research provider stated that the administrative effort and expense is, on the whole, a lot better. They commented that there is one point of contact now which is far more effective and that in the past it was arduous and bureaucratic whereas now smaller issues are taken care of far more quickly and efficiently.

IP management was raised by several research providers and industry stakeholders as an area of concern. There is a lack of stakeholder understanding regarding how IP is managed in the concept management and procurement process, particularly in the initial concept stage. Some researchers reported their reluctance to share research ideas in the funnel, for fear that other researchers will take their idea and write a successful research proposal. Similarly some industry stakeholders are concerned that the funnel is deterring some researchers from proposing research concepts and that R&D capacity is being lost to other sectors and/or overseas, to the detriment of industry.

Most stakeholders were unable to comment on whether Hort Innovation was sufficiently collaborating with other RDCs. Some people noted, however, that collaboration should be strategic rather than 'collaboration for the sake of collaboration'. There is a strong desire for greater collaboration at the project / program level, which is discussed further in Section 6 below.

5.13 Conclusion

Hort Innovation has clearly developed and is implementing the relevant strategic and operational plans with associated priorities, targets and budgets. GHD has experienced some difficulty in following the financial reporting tables between the AOPs and Annual Reports, which could be improved in future reporting cycles.

Stakeholders report more awareness of, and involvement in, the development of SIPs with little or no involvement in the whole of company strategic plan. While they were not concerned with this outcome, they were concerned with the lack of information on the selection of Frontiers Funds and the process of project selection for these.

The consistent program framework adopted for the SIPs is welcomed by many stakeholders, however some stakeholders expressed a desire for greater involvement in the SIP development, which can be addressed in the development of future SIPs (and the communication of stakeholder opportunities to inform this process).

Communication will also have an important role to play in addressing the other concerns raised by stakeholders, as GHD recognises that the company is already taking actions to address most, if not all, of these. Examples of this include the SIAP improvement process and management of IP.

The company is genuine in its commitments to collaboration with other RDCs, as well as efforts to foster industry collaboration internally (e.g. Fund Managers responsible for clusters of 'like' industries). The company recognises the multiple benefits of relevant collaboration including more efficient use of resources and knowledge sharing.

6. Delivery of benefits

6.1 Approach to monitoring and evaluation

The SFA requires Hort Innovation to develop and maintain an appropriate Program and Evaluation Framework, to guide project planning, monitoring and evaluation of outcomes, including economic returns.

Hort Innovation, with the assistance of evaluation specialists Clear Horizon Consulting, has developed a comprehensive Organisational Evaluation Framework to meet its evaluation requirements under its Statutory Funding Agreement as well as to meet its own identified needs. The initial document was developed prior to the release of the Hort Innovation Strategic Plan in April 2016, and subsequently updated and made available on the Hort Innovation website in December 2016.

The Organisational Evaluation Framework is designed to operate at all levels of the organisation, including corporate activities, Strategic Levy and Frontiers Funds investments. The framework outlines 12 key evaluation questions to address the effectiveness, appropriate, relevance, impact and legacy of Hort Innovation's investments as well as its organisational effectiveness⁹. It also provides the program logic to support the corporate strategy of delivering on investments with activities and outcomes based on the five investment priorities outlined in Hort Innovation's Strategic Plan.

Importantly, the Organisational Evaluation Framework outlines performance expectations, data collection and analysis methods, and reporting frequency and audience. Suggested evaluation methods include both quantitative and qualitative approaches, however, the framework is not prescriptive. Rather, the framework suggests that the choice of method is commensurate with the scale of investment, the time available for data collection and evaluation capability. Reference is also made to the Council of Rural Research and Development Corporation's (CRRDC) requirements for impact assessment of certain R&D projects.

Hort Innovation provided GHD with a comprehensive summary of its implementation activities in line with its Organisation Evaluation Framework as part of this review. Key initiatives for corporate and investment monitoring and evaluation include:

- Indicative program logics, M&E plans and ex-ante impact assessments for all industry SIPs
- Business cases, M&E plans, milestone and final reporting at the project level
- Mid-term evaluations for all projects with a life of project value greater than or equal to \$800,000
- End of project evaluations and fund level evaluations, including ex-post impact assessment
- Stakeholder and staff surveying (including Net Promoter Score, Diversity and Inclusion indexes, and Stakeholder Sentiment Survey)

The company has also demonstrated that it has taken steps to embed an "M&E mindset" providing information, training and tools for staff and delivery partners, updating its Hi-Link model, and allocating staff to business case development and analytical support. To assist with the measurement of changes that have occurred across the sector, Hort Innovation has invested in the production of the *Australian Horticultural Statistics Handbook* (produced for three years to date and updated as more information becomes available), which is available on the company's website, and a number of strategic levy funds have invested in data and benchmarking projects (with the support of, and/or at the request of, those industries).

⁹ Hort Innovation 2016, Organisational Evaluation Framework, Version 1, December 2016.

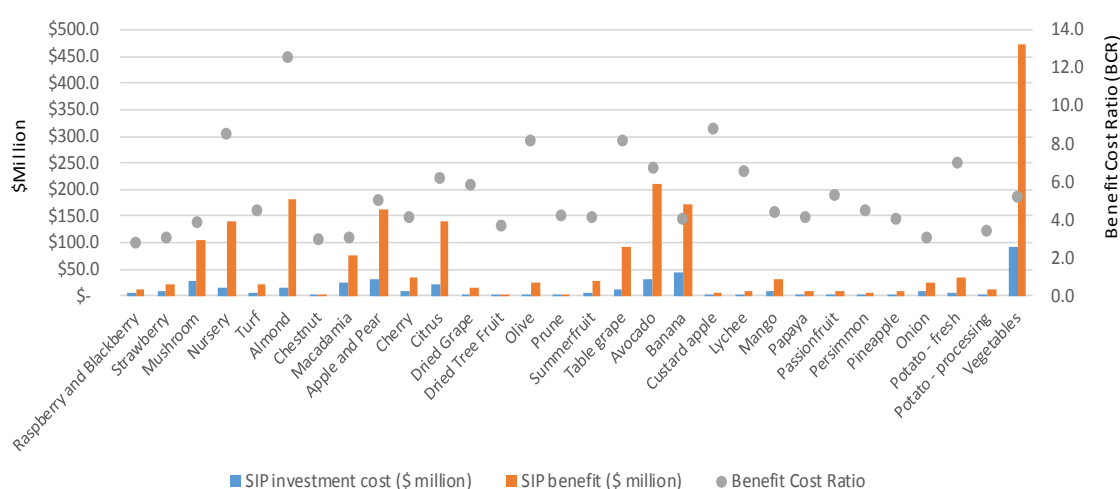
6.2 Benefits and costs of investments

6.2.1 Ex-ante impact assessments

Independent ex-ante impact assessments have been undertaken for 30 industry SIPs to assess the likely impact associated with achieving the outcomes identified in each SIP. The SIP impact assessments used cost benefit analysis to assess the risk adjusted net benefits over a 15-year period.

The cost benefit analyses indicates that the potential benefits of the SIPs is in the order of \$2,057.7 million compared to a total investment cost of \$382.8 million, representing an average benefit cost ratio (BCR) of 5.4. The reported BCRs ranged from 2.8 (Raspberry and Blackberry) to 12.6 (Almond). A summary of the completed SIP impact assessments by industry is provided in Figure 11.

Figure 11 SIP impact assessment by industry



Source: Hort Innovation

Hort Innovation also provided a summary of ex-ante impact assessments completed for Frontiers Funds. This analysis of outcomes for six of its Frontiers Funds initiatives showed that investment of approximately \$12 million is expected to lead to benefits in the order of \$85 million, which gives a BCR of 7.0.

At the time of this review 147 project business cases have been completed, including 35 detailed business cases for projects greater than or equal to \$800,000 and Frontiers Fund investments. Business cases are intended to provide information to support investment decisions in line with outcomes identified in the SIPs, and to provide a reference point to support ongoing monitoring and evaluation.

In February 2018, Hort Innovation, on advice from its Investment Committee, reviewed its business case development requirements and determined to continue to develop business cases for investments with a life of project value greater than or equal to \$800,000, all Hort Frontiers investments, and for projects by special request. This approach will provide a more targeted approach to business case development and allow Hort Innovation to re-direct resources toward the now required ex-post impact assessments.

GHD has reviewed both the concise and detailed business case templates and notes that they appropriately include consideration of strategic alignment, project cost and expected impact, including economic, social and environmental outcomes. Detailed business cases also include consideration of risk and IP management.

There is no wrong or right answer in regards to setting trigger levels for business case development or evaluation requirements. Most importantly, an organisation needs to consider its own needs, compliance with any mandatory requirements (e.g. CRRDC and SFA), strategic alignment, project size and risk. From this review GHD is satisfied that these factors have been considered and further, that Hort Innovation has demonstrated its preparedness to review and adapt its approach to best meet the company's needs from its evaluation framework.

6.2.2 Ex-post impact assessments

At the time of this review, Hort Innovation has commissioned one ex-post impact assessment at the fund level. In 2017 independent consultants, Consulting and Implementation Services (CIS), conducted an impact assessment of vegetable R&D levy funded projects delivered over the five-year period between 2012 and 2017. The assessment involved the review of 143 projects with a total investment cost of approximately \$66 million. This represented more than half the value of fund investments over the five year period.

The impact assessment was conducted using cost benefit analysis, as well as additional analysis using the Hi-Link economic model developed to capture the market (or price) impacts of R&D adoption, referred to as second round impacts. The analysis found that vegetable R&D fund investments over the period 2012-2017 had delivered considerable benefits, with a reported BCR of 10.8. The second round impact was estimated to deliver a BCR of 2.1 when measured against industry production and 1.8 when measured against farm income.

Hort Innovation has also commissioned a number of mid-term project evaluations and end of project evaluations. Mid-term evaluations are a requirement for all projects with a value greater than or equal to \$800,000. Project level evaluations do not typically involve benefit cost analysis but are used as a tool for continuous improvement. Hort Innovation provided a number of examples where milestone reporting and evaluation findings have been used to modify project planning, vary contracts where appropriate, and lead to improved project outcomes.

Hort Innovation is currently in the process of developing its approach to undertaking further ex-post impact assessment. It is recognised that this approach will need to align with the CRRDC *Impact Assessment Guidelines* as well as consider the allocation of an appropriate level of funding for each industry. Quantitative assessment of investment benefits is a challenge faced across the Rural RDCs. The CRRDC has recently published an impact assessment and performance reporting update showing a decline in the number of Rural RDCs submitting project cluster evaluations in recent years, including Hort Innovation¹⁰.

It is understood that the CRRDC is currently in the process of updating its *Impact Assessment Guidelines* and *Impact Assessment Program Management Procedures*. Hort Innovation is well across the direction of the CRRDC as an active member of the CRRDC Evaluation Working Group and is therefore well placed to respond to the future requirements of the CRRDC.

6.2.3 Stakeholder Sentiment Survey

In 2017 Hort Innovation commissioned an independent Stakeholder Sentiment Survey to gauge growers' views of the company's R&D and marketing investments, communications and engagement activities (Down to Earth Research, 2017). Computer Assisted Telephone Interviews (CATI) were undertaken with 400 randomly selected growers¹¹ comprised of:

¹⁰ Agtrans Research, AgEconPlus and EconSearch (2016) *Cross-RDC Impact Assessment and Performance Reporting Update Stage 1: Cross RDC Impact Assessment for the Period 1 July 2009 to 30 June 2015*. Prepared for the Council of Rural Research and Development Corporations, October 2016.

¹¹ All horticulture industries were represented in the interviews.

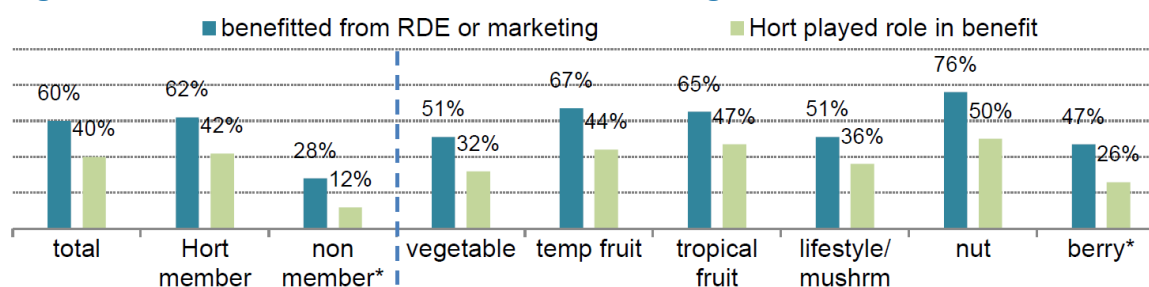
- 375 Hort Innovation members
- 25 non-members

Unlike the survey undertaken by GHD, which was not designed to be statistically significant and instead sought to provide stakeholders with an opportunity to contribute to the review if desired, the Down to Earth Research survey was statistically valid in that:

- Quotas were set to ensure each horticultural industry was included in the survey;
- The sample of Hort Innovation members and non-members was stratified;
- The standard error of the survey results at the 95% confidence level is approximately +/- 4.1%; and
- A strong survey completion rate (74%) was achieved.

The survey found that 60% of respondents believe they have benefited directly from horticultural research, development, extension (RDE) and/or marketing activities over the 5 year period to 2017 (Figure 12). 40% of respondents attributed these benefits (at least in part) to Hort Innovation. This result is likely to have been influenced by some stakeholders' lack of understanding of the IRB activities that are funded by industry levies, as noted in section 4.7.2. Unsurprisingly, respondents who are not Hort Innovation members reported the lowest level of both direct benefits and benefits attributable to Hort Innovation.

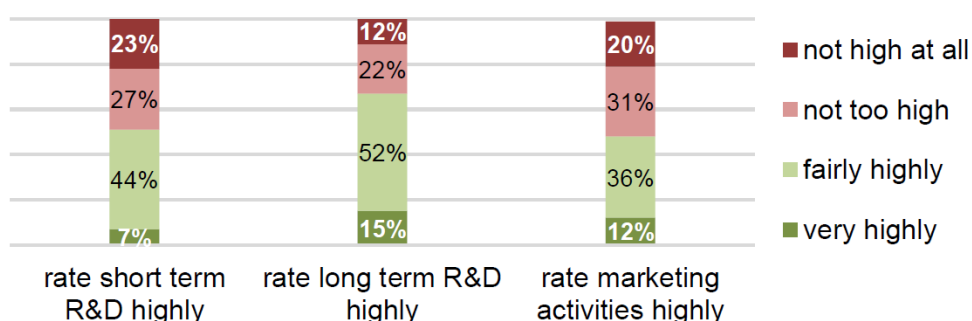
Figure 12 Direct benefit from RD&E or Marketing



*indicates small sample size

Respondents were evenly split in regards to the short term benefits of Hort Innovation's R&D investments (Figure 13), however two-thirds of respondents rate the long term benefits of the company's investments highly. Respondents are divided regarding Hort Innovation's investments in marketing activities.

Figure 13 Rating of specific investment aspects



*indicates small sample size

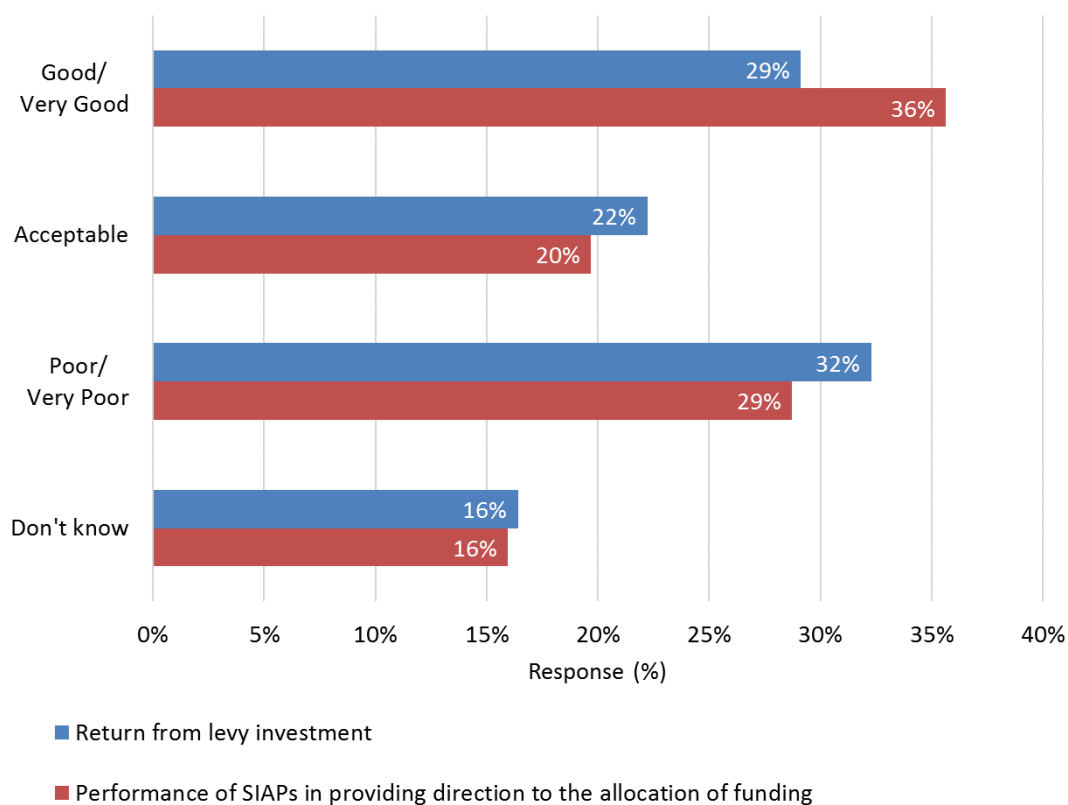
Hort Innovation intends to undertake the Stakeholder Sentiment Survey on an annual to bi-annual basis, to enable a longitudinal monitoring and evaluation health check of performance.

6.3 Consultation findings (GHD)

6.3.1 Online survey

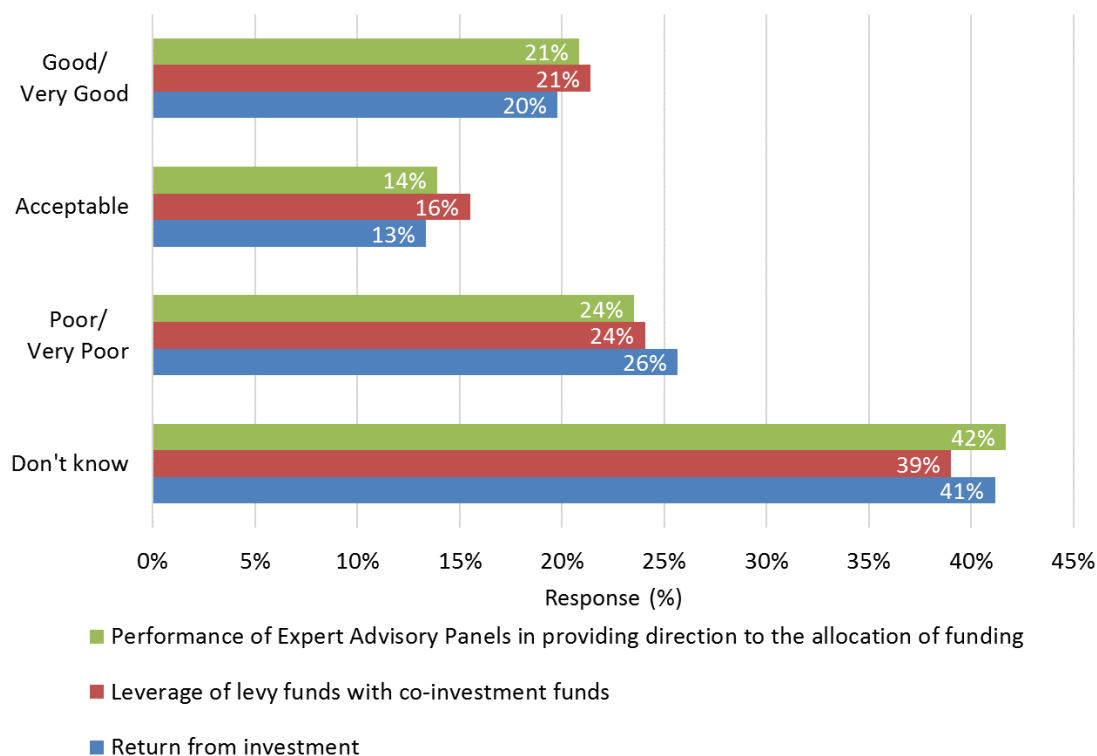
More than half of survey respondents to the online survey completed as part of this review consider Strategic Levy Investment to be performing at an acceptable to very good level (Figure 14). 16% of respondents are unsure of performance.

Figure 14 Strategic Levy Investment performance (n=228)



A substantial proportion of respondents are unsure of the performance of Frontiers Fund (Figure 15). This likely reflects a general lack of stakeholder understanding of the activities undertaken in the Frontiers Fund (see Section 6.3.2 below), and the fact that these long term investment projects are in the relatively early stages.

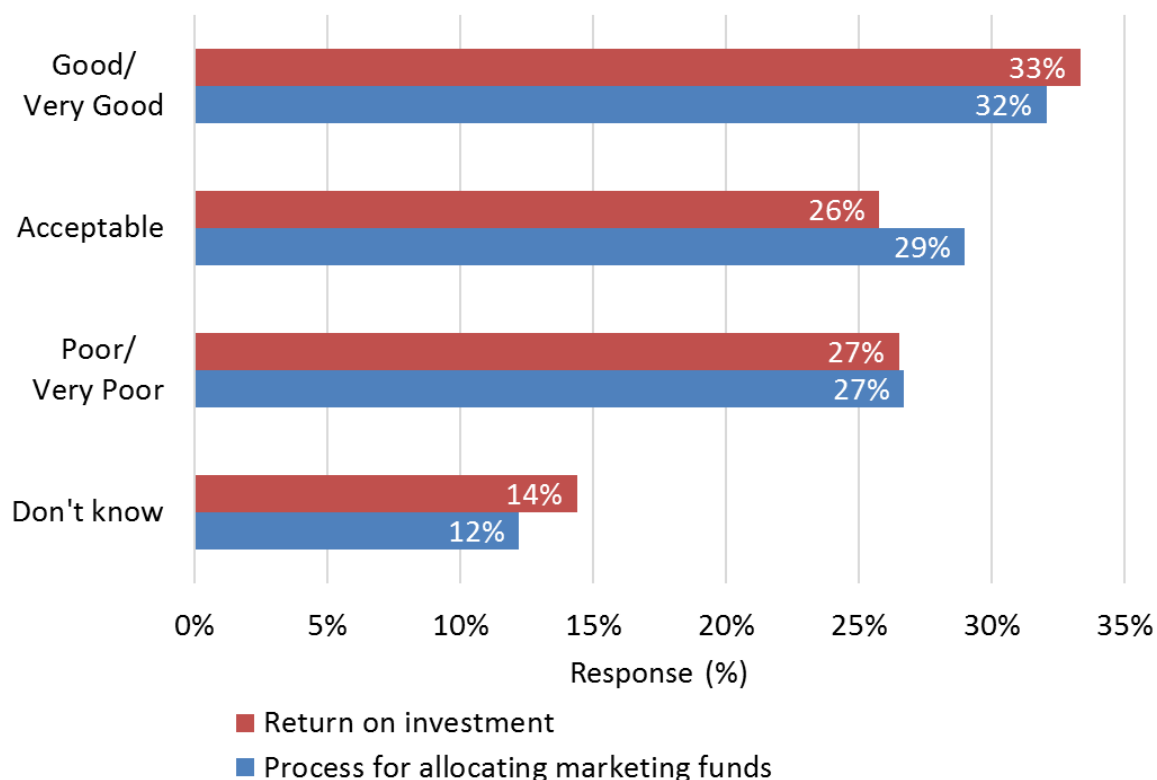
Figure 15 Frontiers Fund performance (n=228)



The majority of respondents agree that their marketing levy provides an acceptable to very good return on investment (59%) and that the process of allocating marketing funds is sound (61%) (Figure 16). However, six industries considered that delays caused by Hort Innovation had resulted in their industry missing a complete season of marketing activities. In addition, several industries questioned whether marketing levies should be managed by Hort Innovation with their preference being Recommendation 6 of the ACIL Allen report – *Hort Innovation is to engage in marketing on a fee for service basis, and only on the request of the body representing the industry that contributes marketing levy funds*. This is discussed further in Section 6.3.2 below.

The expenditure of R&D and marketing funds is legislated through the *Horticulture Marketing and Research and Development Services Act 2000* which nominates Hort Innovation as the industry services body. The Act requires that the R&D and marketing levy amounts for horticulture must be paid to Hort Innovation and that conditions of expenditure are imposed by the Act or the SFA. Section 7.8 of the SFA states that Hort Innovation must not delegate or outsource the responsibility for the management, allocation or investment of funds to third parties, including to IRBs.

Figure 16 Marketing levy performance (n=228)



6.3.2 Stakeholder interviews and submissions

There was various feedback from stakeholders contacted for interviews or providing submissions regarding the relative returns from Hort Innovation's R&D versus marketing activities, however, most agree that these investments provide benefits. Consultation indicated that there is a tendency amongst larger growers to want greater focus on 'Blue Sky' research.

Some interviewees commented that the SIP approach may have led to less popular but better investment decisions aided by the economic modelling to show how the benefits associated with certain outcomes are distributed. Many stakeholders, however, commented that they did not have a good understanding of the analysis and assumptions that underpinned the ex-ante impact assessments.

Many stakeholders questioned why Hort Innovation did not adopt the ACIL Allen Review recommendation regarding the provision of marketing services, however, GHD notes that Hort Innovation was directed by the then Minister for Agriculture to not adopt this particular recommendation, which is reflected in the current SFA. Most stakeholders commented that marketing activities should be subject to the same management and procurement process as R&D concepts, to ensure transparency and maximise outcomes. This process is discussed further in Section 5.

While stakeholders are generally very supportive of the Frontiers Funds concept, as noted in Section 4.7.2, there is a relatively poor understanding of how the seven Frontiers Funds were prioritised, and of the activities undertaken to date within each fund. Most stakeholders acknowledge that it is too early to quantify or report the results of these investments, however there is a strong desire for greater financial transparency (e.g. the break-down of funding sources) and progress milestone updates. This is discussed further in Section 7.

Some stakeholders are concerned that the current Frontiers Funds priorities do not adequately represent the need for cross-industry collaboration. There is a lack of stakeholder understanding

of the alternative avenues for cross-industry collaboration (such as those stemming from the Rural R&D for Profit program).

There is a strong appetite amongst stakeholders for greater collaboration at the project and program level, to achieve cost efficiencies and maximise the return on investment. Some stakeholders perceive that there are silos within Hort Innovation, particularly at the Fund Manager and R&D Manager levels, which are resulting in duplication of effort. It was questioned whether resource constraints, particularly at the Relationship Manager level, are contributing to this issue.

Many IRBs (particularly smaller industries) commented that they would like to share resources where feasible (e.g. a shared industry development officer) and that they would like Hort Innovation to provide leadership and direction to help achieve this.

6.4 Conclusion

Hort Innovation has a comprehensive monitoring and evaluation framework in place to assist strategic decision making and continuous improvement, examples of which have been evident throughout the review. Quite understandably, in developing SIPs and Frontiers Fund priorities, the focus has been on ex-ante impact assessment to guide investment decisions and to identify the expected outcomes (i.e. net benefits) from fund level investment.

Ex-ante impact assessments indicate that Hort Innovation's SIPs have the potential to deliver benefits in the order of \$2,057.7 Million compared to a total investment cost of \$382.8 Million, representing a BCR of 5.4. Ex-ante impact assessments of outcomes for six of its Frontiers Fund initiatives showed that investment of approximately \$12 million is expected to lead to benefits in the order of \$85 million, representing a BCR of 7.0.

As investments are made in projects, the development of business cases, milestone reporting and completion of mid-term evaluations (for certain projects) all provide the opportunity to ensure that specific projects are on track to deliver the expected benefits to industry.

To date there has been limited ex-post impact assessment to determine if expected benefits have in fact been delivered. A fund level impact assessment that has been completed for the vegetable industry, however, returned a BCR of 10.8, suggesting that the investment has delivered considerable benefits.

Stakeholder consultation indicates that most stakeholders consider that investment in horticultural R&D and marketing activities are providing benefits. With respect to the return on investment from marketing activities, there were mixed views from stakeholders on the value of Hort Innovation's management. The views varied between industries who praised the performance and supported the continuation of Hort Innovation's procurement management through to those who were highly critical and considered that marketing should be the responsibility of the IRBs.

There was a degree of uncertainty, however, expressed in regard to the performance of Frontiers funds, which is likely to reflect a general lack of stakeholder understanding of the activities undertaken in the Frontiers fund and the fact that these long term investment projects are in the relatively early stages.

The large focus on ex-ante assessment suggests that Hort Innovation is taking a proactive approach to evaluation as a tool to guide strategic investment decisions and continuous improvement, rather than simply undertaking assessments at the end of a program's life to meet its SFA obligations. However, while this is particularly useful for internal decision making, outcomes (i.e. net benefits) are of primary concern to those stakeholders providing the investment dollars, in particular, levy payers and the Australian Government.

The focus on ex-ante impact assessments has been a relatively new approach for Hort Innovation and laid a robust foundation for establishing monitoring and evaluation plans, so that data is available to undertake ex-post impact assessments. Hort Innovation is now in the process of transitioning to a greater focus on ex-post assessments, which will need to include a process for communicating both project and fund level outcomes to key stakeholders. A key challenge will be determining the appropriate funding allocation to meet CRRDC requirements as well as add value to the various Strategic Levy and Frontiers Fund investment activities.

7. Engagement, consultation and communication

7.1 Communication and engagement

7.1.1 Communication and engagement plan

Hort Innovation has a documented Communications Strategy and Execution Plan comprised of:

- A corporate communications framework including mission, guiding principles, desired outcomes and objectives, and Key Performance Indicators;
- A rolling 12-month calendar of Hort Innovation activities including timing of specific communication and engagement tools and methods;
- A work plan that identifies both individual and shared accountabilities for specific Hort Innovation communications and engagement team members.

The company maintains a database of over 4,000 stakeholders, and communicates via a range of mediums including, but not limited to: the quarterly Hort Link publication, monthly Growing Innovation publication, sponsored industry / local grower group events including the annual Hort Connections conference (run by AUSVEG and the Produce Marketing Association, Hort Innovation uses the conference as an opportunity to communicate outcomes to industry, conduct face to face meetings, etc.), company annual operating plans and annual reports, social media and press releases.

7.1.2 IRB communication funding

In addition to the corporate communication and engagement activities undertaken by Hort Innovation, the company funds industry communications projects. The 29 projects funded to date have a combined life-of-project (LOP) value of \$17.5 million and range in size from \$50,000 to \$4.7 million. The average project life is three years.

Of the 29 projects funded, 20 of these are being delivered by IRBs with the balance delivered by communications consultants.

Industry Development Officers, another mode of information and communication delivery, are in addition to the above.

7.1.3 CRM tool

In 2016 Hort Innovation procured an 'off-the-shelf' Customer Relationship Management (CRM) tool to provide increased rigour in the management of its stakeholder database and enable efficient and targeted communication with stakeholders. The CRM tool, developed by a specialist software company, allows relatively low-cost enhancements to be made to the tool. For example, the tool now enables stakeholders to 'opt-in' to the communication materials they wish to receive from the company. The company intends to start using the tool to log its interactions with key stakeholders within the next 12 months.

7.1.4 Hort Innovation website

The Hort Innovation website has a substantial volume of information available for growers and other stakeholders. Each industry has a dedicated web page that includes:

- An overview of completed and ongoing R&D projects;
- The industry SIP;

- A list of SIAP panel members;
- SIAP meeting summaries;
- A summary of R&D project expenditure (as at a specific point in time);
- A financial operating statement (as at a specific point in time);
- Industry publications (e.g. industry fund annual reports, research reports);
- News articles; and
- Contact details for relevant Hort Innovation staff and the IRB.

The website also includes, but is not limited to:

- Background information about the company and relevant staff contact details;
- Membership information;
- News and information about upcoming events; and
- A dedicated delivery partner portal for service providers.

There is an opportunity to improve the timeliness of some information on the website, which is recognised by Hort Innovation and is an area of ongoing improvement.

7.1.5 Frontiers Funds website

Hort Innovation recently launched a dedicated website for its Frontiers Funds. The website includes a description of each fund, an overview of current projects in each fund, and contact details for the relevant Hort Innovation staff involved in each fund. Although it is too early for research outcomes to materialise from Frontiers Fund projects, the website includes videos showing some of the project activities and outputs achieved to date. The website also explains the process of submitting a R&D concept to a Frontiers Fund and includes the concept application form and a Frequently Asked Questions page.

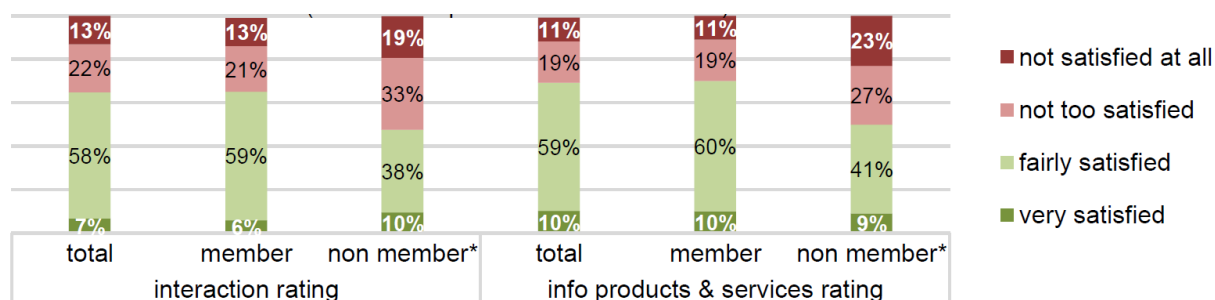
7.1.6 Board to board meetings

The Hort Innovation Board has met with several IRB boards to openly discuss key issues and concerns, and agree an appropriate way forward. Feedback provided to the review team by both the Hort Innovation Board and IRBs is that this has, in most cases, been a constructive process and led to positive outcomes. The Hort Innovation Board has discussed and agreed the next priorities for meetings with IRB boards, with these typically held the day prior to a Hort Innovation board meeting to maximise travel cost efficiencies.

7.2 Stakeholder Sentiment Survey (Down to Earth Research)

Two-thirds of survey respondents are satisfied with their interactions with Hort Innovation (Figure 17), with respondents most often commenting that they are kept informed and have good quality, open communication. Similarly, almost 70% of respondents are satisfied with Hort Innovation's information products and services, with key factors being the delivery of regular and relevant industry information.

Figure 17 Satisfaction with interaction with Hort Innovation, and information products and services



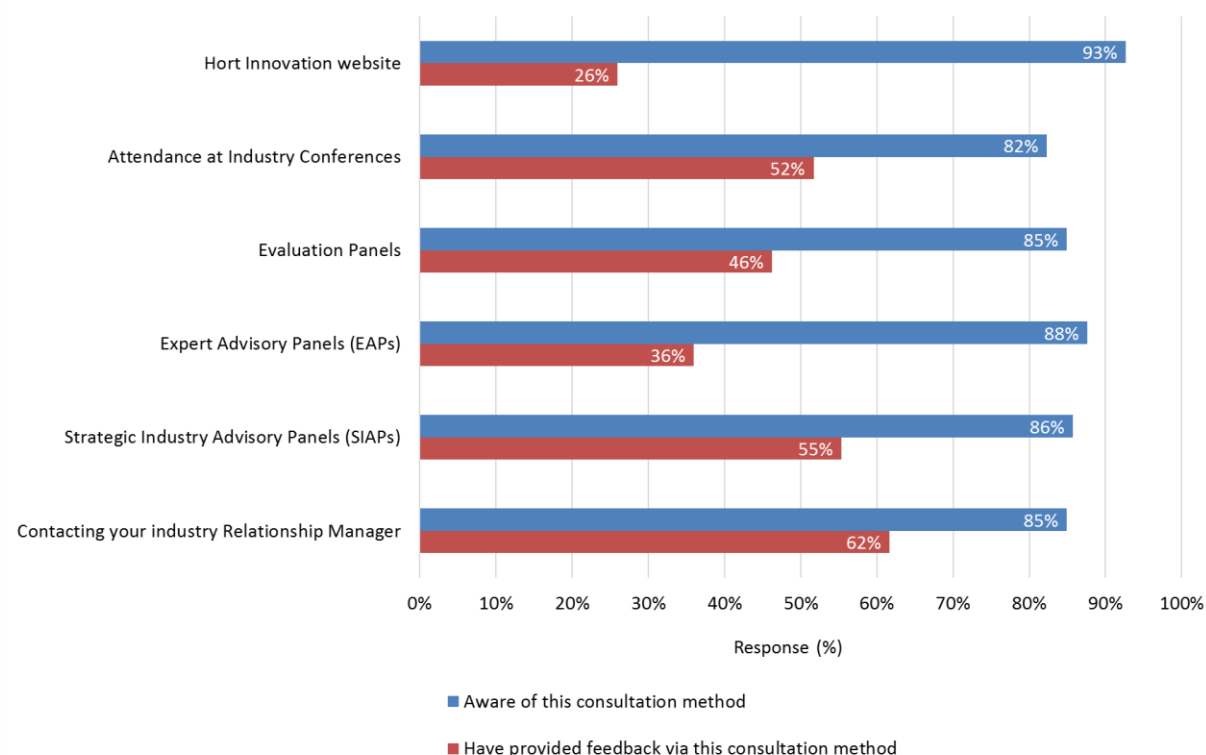
*indicates small sample size

7.3 Consultation findings (GHD)

7.3.1 Online survey

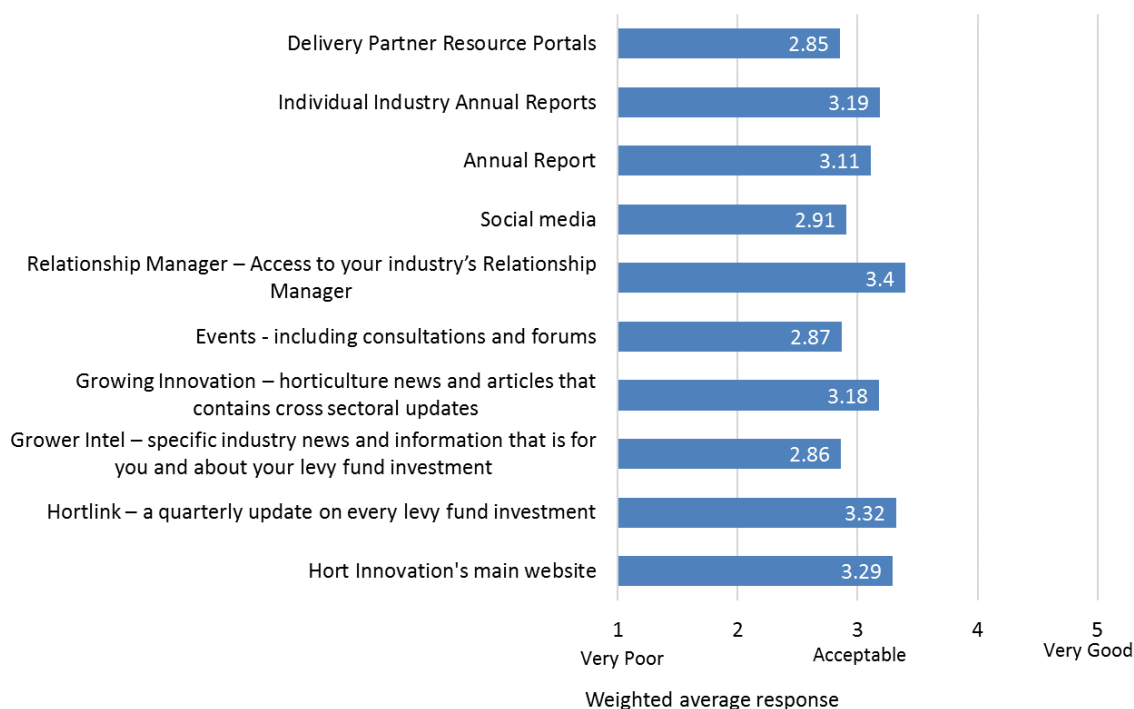
Survey respondents have a strong awareness of the different means by which Hort Innovation consults with stakeholders (Figure 18). Respondents' use of these consultation methods varies, with Relationship Managers being the most utilised method (62% of all respondents) and the Hort Innovation website being the least utilised consultation tool (26%). This likely reflects stakeholders' preference for face-to-face consultation over electronic methods, as also discussed by interviewees and submissions (see Section 7.3.2).

Figure 18 Consultation methods: awareness and use (n=228)



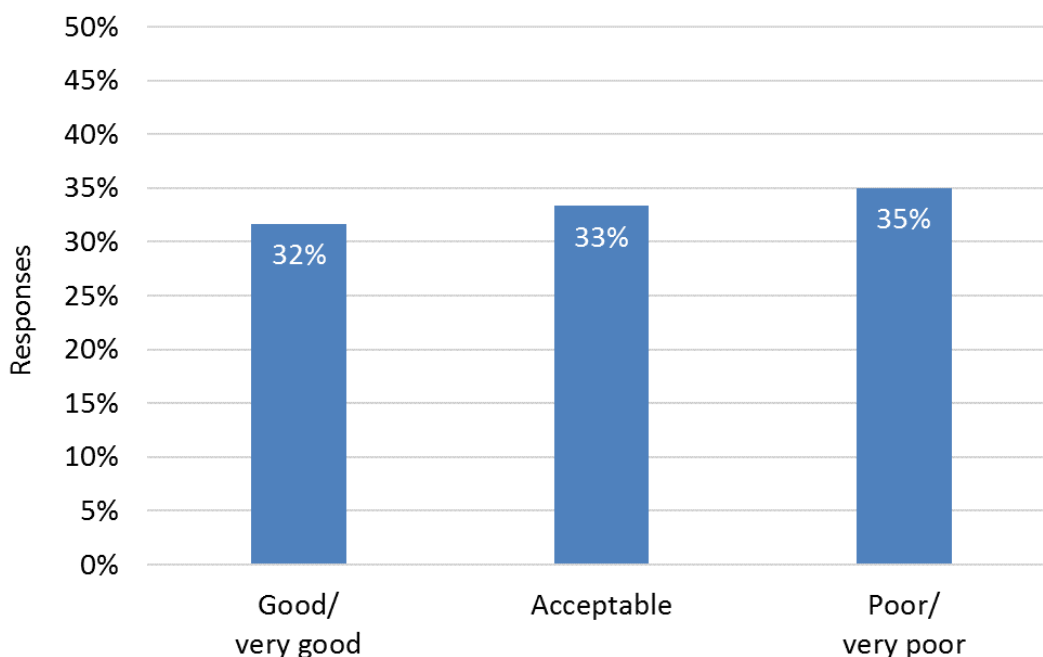
The majority of Hort Innovation's communication activities are considered to be acceptable by respondents (Figure 19), with Relationship Managers again considered to be the most valuable source of communication.

Figure 19 How do you rate each of the following Hort Innovation communications activities? (n=228)



Almost two-thirds of respondents consider Hort Innovation's communication of its activities and research findings to be acceptable (or higher) (Figure 20).

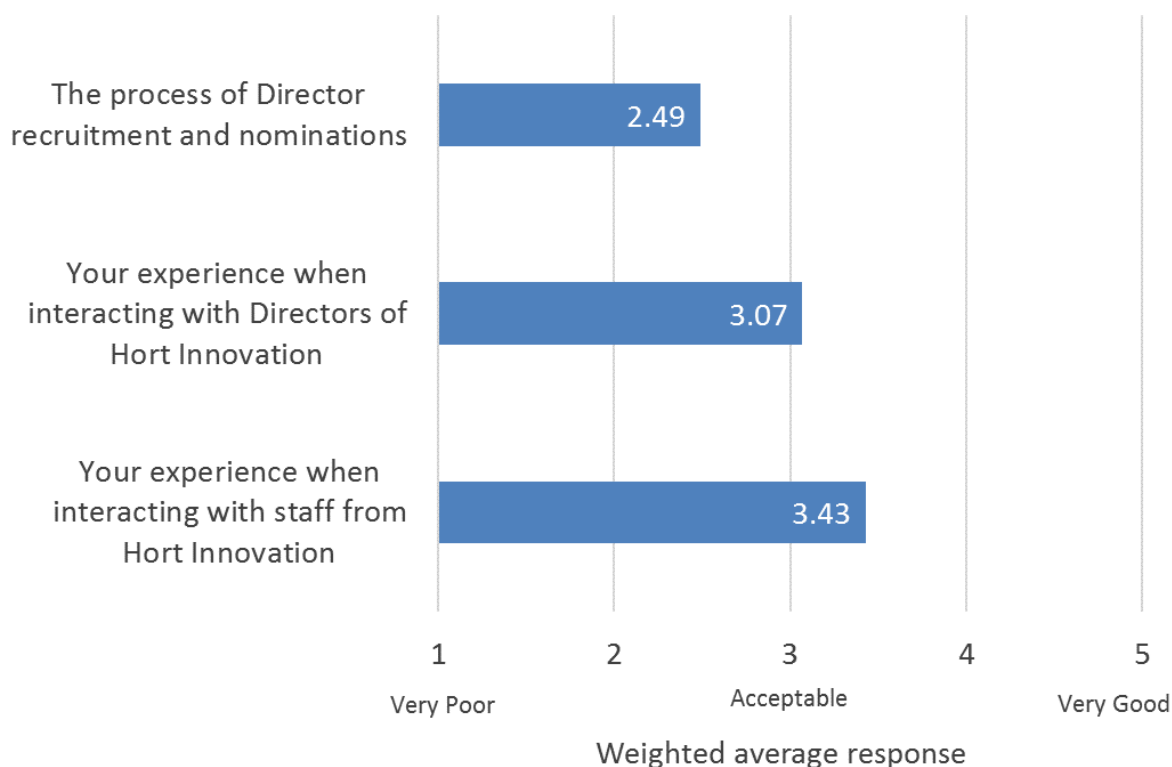
Figure 20 Overall performance in communication of activities and research findings (n=228)



Survey respondents are generally positive about their interactions with Hort Innovation staff and Directors (Figure 21). Respondents are less positive about the process of Director recruitment and nominations, though GHD recognises this is likely to change as the appointment of a

grower to the Director Nomination Committee (commencing 2018) becomes more widely understood (see Section 8.4).

Figure 21 Staff and Board interactions (n=228)



7.3.2 Stakeholder interviews and submissions

IRBs and growers have a very strong desire for more face to face communication and engagement from Hort Innovation management and staff. Other common themes arising from stakeholder interviews and submissions include:

- The heavy reliance on the Hort Innovation website as a communication tool
- Relationship Managers are highly valued by industry however there is a perception that they are under-resourced
- A desire for regional-based forums so growers have the opportunity to ask questions of Hort Innovation management, but also to enable cross-fertilisation of ideas and encourage collaboration
- An opportunity to improve the timeliness and transparency of communication
- Grower reliance on IRBs for information, including dissemination of relevant information from Hort Innovation

SIAP members and Chairs raised several concerns regarding the SIAPs including:

- The timeliness of Hort Innovation actions including the distribution of meeting agendas and papers, the distribution of meeting minutes, and response to emails and phone calls.
- The quality of meeting papers
- The accuracy of meeting minutes
- Financial data quality and transparency

- Feedback provided to SIAPs regarding which projects missed selection and the rationale behind these decisions

Some industry stakeholders who are not SIAP members are concerned by their SIAP composition. Some feel that their SIAP does not adequately reflect their grower base, while others feel that the SIAP has insufficient representation from stakeholders that are not growers.

The review team notes that feedback from those SIAPs who have experienced the improvement process in their most recent meeting is generally very positive.

Much of the above feedback is in contrast to the survey feedback received (discussed in Section 7.3.1 above), which may reflect stakeholder satisfaction with communication of research outputs however a desire for more financial data and timeliness of information.

7.4 Conclusion

Stakeholders have a very strong desire for increased face-to-face communication and engagement in two-way dialogue. Hort Innovation recognises the value of face-to-face engagement with its stakeholders (and that its communication activities during the transition period were not optimal due to the extent of internal changes being implemented) however is also cognisant of the need to strike an appropriate balance between investment in this area and in other competing priority areas. This balance is made more challenging given the number of industries within the horticulture sector, the number of levy payers, and their geographic distribution.

GHD considers that Hort Innovation has the right communications foundations in place and is already aware of, and taking actions to address, most if not all stakeholder concerns regarding the company's operations and performance. As discussed throughout this report, however, the company has an opportunity to improve the communication of its internal and external activities to demonstrate to stakeholders that it is listening and responding. This will have important flow-on benefits in terms of stakeholder perceptions of the company's culture and performance, and will also likely strengthen its relationships with stakeholders. GHD considers that it is critical for the company to continue to foster these relationships to:

- Ensure the ongoing support for the company;
- Enable Hort Innovation's resources to be directed to their highest value use; and
- Achieve the best outcomes for the horticultural industry as a whole.

8. Corporate governance

8.1 Background

The inaugural Hort Innovation Constitution provided for transitional governance arrangements in the initial years, whereby previous HAL Directors and Ministerial Nominated Directors were progressively replaced by a combination of elected or appointed directors (both of which were nominated by a Director Nomination Committee or DNC).

The Statutory Funding Agreement requires that the Company implement a framework of good corporate governance practices in managing and investing the Funds and that the framework should draw on better practice guides as appropriate, including the most current ASX *Corporate Governance Council's Corporate Governance Principles and Recommendations*.

8.2 Board corporate governance documents

The corporate governance framework includes the following documents (non-exhaustive):

- Constitution
- Board Charter
- Charter of the Committees of the Board
- Director Nomination Committee Charter
- Committee Compensation Guidelines
- Code of Conduct and Business Ethics
- Director Code of Conduct
- Delegations of Authority
- Board Effectiveness Review Framework
- Conflicts of Interest Policy and Declarations Procedures
- Risk Management Policy and Framework
- Risk Appetite Statement
- Fraud Control Plan
- IP Policy and Management Plan
- Board skills matrix

8.3 Skills matrix

The Constitution requires that there be an appropriate balance of skills, qualifications and experience amongst board members having regard to the nature of the business and affairs of the company and that the Board develop a board skills matrix to be agreed with the Department. The Board skills matrix guides the DNC in the selection process and is utilised in all board nominations – for both elected and board appointed directors.

The current board appears to have an appropriate balance of skills, qualifications and experience in line with the skills matrix.

8.4 Director Nomination Committee

The DNC has a clear charter and guidelines for who is eligible to be nominated for election or appointment to the Board. The Constitution was amended in 2017 to provide for a Levy Payer (that is not a director) to be appointed to the DNC, and that person to be selected by the Secretary of the Department. The levy payer shall not be eligible for re-appointment.

This amendment, which will provide levy payer input into the process, was proposed by members at the 2017 AGM and supported by the Hort Innovation Board. We note that the limited one year term has some disadvantages from a governance perspective in that the regular turnover will mean that each new levy payer member of the committee will need to be inducted into the process and will not be able to build on their experience in a second term. The countervailing advantage is that it has the potential to spread the role over the years across the many horticultural industries. This is appropriate given that Hort Innovation must act in the interests of all members and levy payers across all industries.

8.5 Independence of Directors

The Constitution requires that the Board be comprised of **independent** non-executive directors. Independent is not defined in the Constitution, but this generally refers to the capacity of directors to bring an independent judgement to matters which come before the Board. One can look for guidance to the ASX guidelines for the meaning of independence, but only to the extent that the guidelines (which were designed for listed companies) do not conflict with Hort Innovation's Constitution and the SFA. It must be born in mind also that the ASX guidelines do not suggest that all board members shall be independent, only a majority. This is different from the requirement for all Hort Innovation Board members to be independent.

The ASX guidelines set out factors which are relevant to assessing the independence of a director for an ASX listed company, and say that there may be doubts cast on the independence of a director if he or she:

- Is an executive of the company
- Has in the last three years been a partner, director or senior employee of a provider of material professional service to the company
- Has in the last three years had a material business relationship (e.g. as a customer or supplier) with the company
- Is a substantial security holder (shareholder) of the company
- Has a material contractual relationship with the company
- Has close family ties with a person who falls into any of the categories described above
- Has been a director for such a period that his or her independence may be compromised.

In a RDC like Hort Innovation, fulfilling the Board skills requirements means that many directors will have some connection with industry, either as growers, consultants or otherwise. Connection with the industry does not mean that they are not independent. It is the relationship with the company and its materiality which is the focus of an assessment of independence. Furthermore the SFA expressly states that a director is not disqualified from the office of director from contracting or entering into any arrangement with the company either as supplier, purchaser or otherwise.

Independence is one of the criteria which the DNC is required to take into account when nominating candidates for the Board.

8.6 Conflicts of interest

Conflict of interest refers to a situation where there is a conflict between a director's personal or business interests or duties to any other company, on the one hand, and the interests of Hort Innovation on the other.

Some directors may from time to time have interests which have the potential to give rise to a conflict of interest. Hort Innovation has a Director Conflict of Interest Policy which sets out the requirements for identification, declaration and management of conflicts of interest, including where necessary not participating in a decision where the director may be conflicted. The Board has a standing register of interests of each director and a board agenda item requiring them to declare any interest in matters to be considered at each meeting. The policy appears to be implemented rigorously, board members are well aware of their obligations and the Company Secretary and the Chair play an active role in making sure that any conflicts of interest are appropriately identified and managed.

Conflicts of interest also have the potential to arise for members of Hort Innovation committees and panels. Hort Innovation has provided the Chairs of SIAPs with a briefing paper on how to deal with actual, potential and perceived conflicts of interest and confidentiality for members of Hort Innovation panels and committees. SIAP members are also required to declare their interests upon becoming a SIAP member. The same conflict of interest requirements are in place for the remaining advisory panels – EAPs, TAP, iTAP and niTAP.

8.7 SIAP governance

One of the driving forces for change in the ACIL Allen Report was to change the governance model which had created an institutionalised conflict of interest for IRBs. In light of this, in the early days of transition Hort Innovation took an overly cautious approach to IRB representation on the SIAP panels because of a perception of conflict of interest. Over time there has been a move away from this position and progressively there have been appointments of two IRB members to panels and now three.

Some IRBs would now like Hort Innovation to allow them to send proxies to meetings if the member is unavailable. Hort Innovation is concerned about that approach for a number reasons. The SIAPs are skills based advisory panels (not representative) so having proxies would be inconsistent with the governance model. Secondly, as the SIAPs only meet two or three times a year there would be a risk of losing continuity of contribution if proxies are attending some meetings. Thirdly, Hort Innovation believes that where there is already provision for three members from the same IRB on the panel, and if one member cannot make the meeting, the other two can debrief with that member before and after the meeting. Hort Innovation understands there may have been some difficulty with meeting attendance in the past due to short notice of meetings but it is now moving to schedule SIAP meetings one year in advance (as part of the SIAP improvement process) which should improve this.

Hort Innovation acknowledges the important contribution of IRBs to SIAPs from a skills-based perspective and will monitor the outcomes of the SIAP improvement process in addressing past concerns (see section 5.4 regarding the SIAP improvement process).

8.8 Board committees

There are three board sub committees which assist the Board in its overseeing responsibilities, providing advice and recommendations and reporting to the Board:

- Investment Committee
- Audit and Risk Committee

- Remuneration and Appointments Committee

They are composed of members with diverse and varied backgrounds.

The committees have clear Charters and the minutes and board papers suggest that the committees are actively performing their roles.

8.9 Role of the Board

Under the Constitution, the principal functions of the Board are: a) to decide strategies and policies to be followed by the Company; and b) to ensure the proper, efficient and effective performance of the Company's functions.

There is evidence that the Board sets the strategic direction, is actively involved in the strategic planning and discusses strategic issues regularly in its board meetings. In addition the Board has participated in a strategic thinking process about what the future might hold for Hort Innovation and its stakeholders in 2022.

One of Hort Innovation's strategic pillars is to 'Develop our Leadership Culture'. The Board has an important role in driving this through the appointment of its next CEO to strengthen its transformative change management leadership.

There is also evidence of the Board monitoring and supervising management in the performance of the company functions and where they have concerns, guiding management, providing perspective and holding them accountable. Board members are made aware of concerns by both the management and stakeholders and are cognisant of issues and how they are being addressed. At times the Board has met with boards of the IRBs to help resolve concerns (see Section 7.1.6).

8.10 Diversity

The ASX good governance guidelines recommend that a company has a diversity policy which includes requirements for the Board or relevant committee to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them. This includes disclosure of the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation.

Hort Innovation's Diversity and Inclusion Policy is currently a work in progress. We are informed that much work has been done in this area over the past 12 months with the view that actual practice is most important and the written policy to support practices will be in place in the near future.

Hort Innovation has one-third female directorship and has met (in advance) the representation aims of the Australian Institute of Company Directors (AICD) for 30% of female directorship for ASX listed companies by 2018. Each board sub-committee has a female director. Reference to gender diversity is made in all calls for director applicants.

8.11 Delegations of Authority

There is a Delegations Policy for projects and investments. There are no other written delegations for board decision making (other than the Board and Committee Charters).

However, examples of decisions reserved for board decision making are (i) annual budgets; (ii) corporate structure / increased headcount; (iii) membership of the advisory panels; (iv) industry Strategic Investment Plans and Frontiers Fund Strategic Plans; (v) corporate policies.

8.12 Board performance evaluation

The Board engages in a range of activities by way of self-evaluation including regular one-on-one meetings between the Chairman and each director, discussions in board only 'in camera sessions' of board meetings, completion of AICD self-assessment tool and board committee reflection on performance. The Board has also undertaken work on team member thinking preferences to improve communication, decision making and problem solving using 'HBDI'¹² surveys and workshops. In 2018 the Board will undertake an externally facilitated performance review where feedback will be sought from Executives and Senior Management as well as directors. These board activities are consistent with contemporary good governance standards.

8.13 Risk and fraud management

The company has a well-developed risk management framework, policies and risk register and there has been definition of risk appetite in line with contemporary risk management approaches. A Senior Risk Officer has been appointed and the management's work on risk is oversighted by the Audit and Risk Committee of the Board. Further work is being undertaken to improve the approach to board reporting. The Board, particularly through the Investment Committee, are encouraging senior management who deliver the Board reporting not only to approach it as a process, but to also take a narrative approach which encourages them to thoroughly consider the meaning of the risks.

As required under the SFA, Hort Innovation has a Fraud Control Plan which sets out its approach to prevention, detection, reporting and handling of fraud in the workplace. It forms part of Hort Innovation's Risk Management Policy and Framework together with its Code of Conduct and Ethics and Whistle blower Policy. It has been designed to meet the better practice fraud control principles in accordance with Australian Standard AS8001-2008.

The current Fraud Control Plan was prepared in 2015 and is currently being reviewed and redrafted. We are informed that there are significant changes in the draft updated Fraud Control Plan and Fraud Risk Assessment, which will be completed for reporting to the June 2018 Audit and Risk Management Committee meeting.

The external auditor, Ernst & Young, has identified that the Fraud Control Plan will be an input into their audit process. Hort Innovation's Internal Audit Plan 2018 includes an audit of Fraud Control in the areas of payroll, invoices & payments commencing in June 2018.

We are also informed that Hort Innovation is undertaking a review of its key policies e.g. Code of Conduct, Ethics and Whistleblower policies, each of which will be reviewed in terms of Fraud Control in addition to the possible creation of Vendor Access and Vendor Code of Conduct policies, which have been identified as possible gaps.

In summary, as required, Hort Innovation has developed a Fraud Control plan and Assessment which are currently being reviewed and therefore are evolving. As part of the Plan, processes have been put in place to mitigate the risk of staff fraud due to Hort Innovation's identification of fraudulent activities by an employee in 2015. There have been no further incidents of fraud identified.

8.14 Conclusion

Hort Innovation complies with its corporate governance obligations. Governance frameworks and policies are sound and well developed.

Hort Innovation's corporate governance practices have been reconciled favourably with ASX Corporate Governance Council's Corporate Governance Principles and Recommendations,

¹² Herrmann Brain Dominance Indicator

Third Edition, March 2014 (see Appendix F). While those principles have been designed for companies listed on the ASX, they can largely be applied to Hort Innovation but with some adaptation given the company's different governance model and its purpose of managing and investing industry levies and contractual payments. The ASX guidelines suggest that ASX listed companies make disclosure of a range of aspects of its corporate governance practices (e.g. board charter and charter of its board sub committees) and that it provide information about itself and its governance via its website, including corporate governance policies and other corporate governance materials referred to in the ASX recommendations (paragraph 6.1). Where we have not been able to locate disclosure of such documents on Hort Innovation's website, we have marked them as a "No". This does not necessarily mean that they do not have the practice or document – only that it does not seem to have been disclosed on the website.

The disclosure requirements for an ASX listed company are not necessarily applicable to an RDC like Hort Innovation, but given the value of transparency with its stakeholders, Hort Innovation may like to consider adding a Governance section to its website and disclosing some of its good governance frameworks, documents and practices.

The Board organisation is well supported by an experienced Company Secretary and overall board members collectively have good governance experience and an appropriate skills mix.

9. Conclusions and recommendations

For ease of reference the conclusions and recommendations arising from the Hort Innovation review of performance are structured according to the review Terms of Reference. The recommendations are not in priority order. A table indicating priority level and timeframes for implementation is provided in Appendix H.

9.1 Assess how the transition from the previous governance arrangements of HAL affected Hort Innovation's performance

The transition from HAL to Hort Innovation has been a difficult process requiring wholesale changes to the company's structure and operations as required under the new SFA and as recommended by the previous ACIL Allen performance review. In addition, the Minister for Agriculture set clear expectations in regard to a number of issues that required Hort Innovation's compliance, notwithstanding the fact that the company had some reservations about the implementation of these expectations. Of main concern was the expectation that existing consultation funding arrangements with IRBs was to cease on the signing of the new SFA.

In hindsight, Hort Innovation and stakeholders are of the opinion that the transition resulted in the pendulum swinging too far toward exclusion of appropriate levels of IRB involvement, and that this has had a detrimental impact on stakeholder relationships, especially with some IRBs. GHD considers that this was due to Hort Innovation adopting a more narrow interpretation of its SFA requirements based on the Minister's expectations.

The impact of this on Hort Innovation's performance during the transition phase (i.e. the first 18-24 months) is difficult to measure, however the constant need to respond to criticism has certainly consumed staff time and resources that may have otherwise been utilised in furthering the identification and implementation of investments.

At the same time, the transition to Hort Innovation has enabled the company to introduce new (or enhance existing) procedures and governance systems that will potentially result in more innovative investments that are delivered via a more efficient, effective and responsive organisation.

While the following is not an exhaustive list, the improvements include (note that specific recommendations to enhance performance for several of these are included in later recommendations within this section):

- A skills-based board with well documented procedures and risk management tools to ensure their responsibilities under the Constitution and SFA are implemented
- An Executive Management team and staffing structure with position descriptions that clearly detail roles and responsibilities
- An overall company strategic plan and industry SIPs that set clear directions for prioritising investments, including for Strategic Levy Funds and Frontiers Funds that maximise co-investments with partners for both short, medium and longer term investments
- Introduction of a procurement model driving capacity building (a Constitutional mandate) and value for money (a requirement of the SFA)
- The introduction of the concept pipeline that seeks to capture novel ideas for investments in response to corporate and industry strategies
- Use of skills-based SIAPs, EAPs, TAP, iTAP and niTAP to provide advice on project priorities

- Formation of a Trade Unit focussed on international competitiveness (as specified in the Constitution)
- Formation of a Data and Insights unit, to drive more informed investment decision making
- Procurement management tools that are robust and less bureaucratic (although some stakeholders consider response times are too lengthy and the process is more bureaucratic)
- Communication tools that form the basis for more effective stakeholder communication (although engagement with the tools by growers in particular may not be occurring).

As each of these improvements have been implemented, in some cases deficiencies have been identified and Hort Innovation has responded to correct those deficiencies, although not consistently communicating their learnings and changes to stakeholders.

For example, many stakeholders informed GHD that they considered the procurement model was time consuming, and the overly prescriptive requirement for projects to go to tender was failing to provide certainty and continuity for research providers.

The transition from HAL to Hort Innovation was expected to result in improvements in performance in the following five key areas. Our summary findings for each area based on our document review and consultation is as follows:

Reduced conflict of interest: policies have been developed at all levels of the company, including advisory panels, and are being implemented. There has been some comments from the consultation phase that IRBs have been unfairly rejected by Hort Innovation from participating in advisory roles. GHD considers that initially Hort Innovation took an overly cautious approach to IRB members because of a perception of conflict of interest, but that such membership is now subject to skills-based appointments (including up to three IRB representatives on SIAPs), with conflicts of interest being appropriately addressed via relevant governance processes.

Reduced administrative effort and expense: GHD is unable to categorically confirm that such reduction has occurred based on the financial information available (Table 2), although an independent report stated that corporate support costs incurred by Hort Innovation appear to be within the range of overhead costs incurred by other RDCs and NFP organisations in Australia. GHD has also been provided with information that the number of days for the project pipeline (concept to contract) is substantially less than with HAL. At the same time, certain stakeholders consider the processes to be overly bureaucratic and with insufficient flexibility.

In addition, GHD considers that Hort Innovation has been required to spend unnecessary time and expense on addressing often unfounded industry complaints from certain IRBs, and that this has detracted from its performance. This does not mean that all complaints regarding Hort Innovation's performance are unfounded and need not be addressed. GHD considers that there have been a number of legitimate complaints, but in the main these have been addressed (at least internally) by Hort Innovation. However, communication to stakeholders of the actions taken by Hort Innovation to address these issues has not always been timely.

Improved accountability and transparency: Hort Innovation has processes and procedures in place to ensure proper accountability and transparency at all levels. The implementation of the procedures is subject to a range of internal and external audits. There has been some stakeholder concerns with the difficulty of getting up-to-date financial information, but GHD considers that this is largely a function of the management accounting system that is based on forward budget estimates that are subject to variable income streams associated with levy receipts and co-investment funding. The annual financial reports are subject to external audits.

Improved measurement of industry wide impacts: Hort Innovation has established an M&E framework by which it can methodically measure impacts of its investments. There is a focus on ex-ante impact assessments that has laid a robust foundation for establishing M&E plans, so that data is available to undertake ex-post impact assessments.

Improved grower and other stakeholder engagement: Hort Innovation has a number of stakeholder avenues for engagement and communication, especially through its advisory panels (SIAPs, EAPs, TAP, iTAP and niTAP) and communication projects with providers, including IRBs. Its activities are guided via an overall communications strategy, with information provided on its website and available through a variety of electronic publications.

“Communicate and listen to stakeholders” is one of Hort Innovation’s three pillars of strategic intent and GHD considers that extensive time and energy is expended but that the effectiveness of the engagement could be enhanced (see section 9.2.4 for more detail).

On balance, GHD considers that the transition to Hort Innovation has established a framework for improved performance on all criteria, but that there is a need for ongoing improvements in implementation and communication of its processes to ensure the changes are fully appreciated by stakeholders.

Recommendation 1

Hort Innovation to consolidate on the improvements achieved during the transition phase (first 18-24 months of the company) with further refinement and continuous improvement based on the lessons learned from stakeholder feedback and internal company assessments, with emphasis on the implementation of a refined communication and engagement plan and the role of IRBs to maximise the effectiveness of its communications activities.

9.2 Assess Hort Innovation’s performance against its Strategic and Operational Plans

9.2.1 Performance of Hort Innovation in meetings its obligations under its Deed of Agreement 2014-2018 with the Commonwealth

GHD has developed a list of the main obligations for Hort Innovation under its SFA and we consider that the company is meeting all of these obligations based on our review of documentation and consultation with directors and staff, and also following our consultation with DAWR and other government representatives (see Appendix E).

GHD has observed that Hort Innovation also holds regular informal discussions with DAWR in which progress on performance and issues arising are raised in a proactive manner. While this relationship has been characterised by some stakeholders as demonstrating that Hort Innovation is serving government at the expense of levy payers (most probably as a result of the expectations by the former Minister for Agriculture required for the transition and subsequent SFA and constitution as discussed in section 2.1.1), GHD considers that the relationship is professional and exists for the sole purpose of ensuring the best outcomes for the horticulture industry as a whole.

Recommendation 2

Hort Innovation to continue to foster both formal and informal communication channels with the Commonwealth in the interests of ensuring the company’s SFA obligations are discharged in a timely and effective manner, and better communicate its SFA obligations to stakeholders.

9.2.2 Development, implementation and efficiency in delivery of its Strategic, Annual Operational, Risk Management, Fraud Control, Intellectual Property plans and the company's effectiveness in delivering upon the priorities, targets and budgets set out in those plans

Hort Innovation has clearly developed the relevant plans with associated priorities, targets and budgets as outlined in the body of this report and summarised in a checklist at Appendix E. In addition, GHD considers that Hort Innovation is implementing the plans as per the guidelines, but at the same time is open to challenge to ensure continuous improvement in the efficient and effective delivery of investments. This is evidenced by its internal audit processes and implementation of any corrective actions if identified. In addition, the consistent framework adopted for the SIPs has enabled a disciplined approach to the consideration of investment priorities.

The AOPs set out specific KPIs against the three corporate strategy pillars and these are reported against in the corresponding Annual Reports. GHD has noted some difficulty in following the financial reporting tables between the AOPs and Annual Reports, and this could be improved.

Stakeholders were more aware of, and had more involvement in, the development of SIPs with little or no involvement in the whole of company strategic plan and AOPs. While they were not concerned with this outcome, they were concerned with the lack of information on the selection of Frontiers Funds and the process of project selection for these.

While GHD considers that Hort Innovation is meeting its requirements under the SFA with respect to the delivery of its Strategic Plan, AOP and Annual Reports, there is a need to improve the relevant reports to ensure consistency between the documents and more detail on Frontiers Funds.

Recommendation 3

Hort Innovation to improve its reports to:

- *ensure consistency in the presentation of information on financial forecasting in AOPs and subsequent financial reports in Annual Reports; and*
- *provide more description on the source of funds for Frontiers Funds and the rationale for the selection of Frontiers Fund projects.*

In addition, there is a disconnect between the financial accounting system that reports on the allocation of funds and the funds management system that considers future income streams from levies and other sources for budgeting purposes. Currently these two systems are not linked and require a manual transfer of data which is both time consuming and prone to human error. The delays and errors in reporting have caused concerns at the Board level and with IRBs and SIAPs and Hort Innovation is in the process of developing an improved system that will address the concerns.

It should be noted that the issue does not have an impact on the integrity of Hort Innovation's financial reporting systems. The annual accounts are an accurate reflection of the funds expended and are allocated appropriately via its costs allocation policy as stated in the annual Financial Report which is confirmed by an external auditor.

The management accounting system for budgeting purposes relies on forecasts of income from levies and other sources which are subject to variation as a result of levy receipts being determined by seasonal production and market pricing. This means that forecasting requires continual updating as conditions change.

Despite this, Hort Innovation's plan to continue to develop an integrated financial and management accounting reporting system will result in a more efficient process that will be more acceptable at both a management level and for communicating funds management to industry stakeholders.

Recommendation 4

Hort Innovation complete the development of an integrated financial and management accounting system that will provide more timely and accurate reports to guide investments.

9.2.3 Structure and operations of the company, to ensure good practice and systems of corporate governance

To date, the Board's oversight has focussed on improvements to the Hort Innovation operating model, transition issues, communication and projects. As these areas are embedded, there should be additional time to spend on elevating the strategic focus of the organisation and thinking forward about big issues in R&D and marketing in Australian horticulture.

During the transition phase (i.e. the first 18-24 months' of Hort Innovation), the company adopted a "fund-centric" model centred around fund managers to deliver its investments. This has resulted in uncertainties with regard to responsibilities and accountabilities especially in regard to Strategic Levy investments. Hort Innovation is open to considering an alternative structure with a more direct line reporting model to remove this uncertainty.

Hort Innovation has had difficulty in attracting levy payers to join as voting members of the company and then to exercise their voting rights at AGMs. This is not an unusual outcome for other RDCs in Australia and is likely to only become problematic if there is a serious difference of opinion between levy payers and management.

GHD reviewed the corporate governance structure and operations of the Board against the current *ASX Corporate Governance Council's Corporate Governance Principles and Recommendations*. We consider that Hort Innovation has met these requirements (noting that the Diversity and Inclusion Policy is currently being drafted) and that this has ensured good practice and systems of corporate governance at Hort Innovation.

However, in the interests of continuous improvement, we recommend the following:

Recommendation 5

Hort Innovation to complete a review of the current organisational and internal reporting and approvals model to determine if it is the most effective and efficient structure for delivering its corporate activities, including responsiveness to levy payer requests, and adopt the recommendations from the review while being cognisant of any cost implications.

Recommendation 6

Hort Innovation to:

- *complete its Diversity & Inclusion Policy including measurable objectives for achieving gender diversity;*
- *include Delegations of Authority matters reserved for the Board in a policy document; and*
- *add a Governance section to its website thereby disclosing its non-confidential good governance frameworks, documents and practices.*

9.2.4 The effectiveness of the arrangements for engagement, consultation and communication with, and feedback to, stakeholders (including levy payers, members, advisory panel participants, industry representative bodies, and the Commonwealth Government) including the opportunities for levy payers and other contributors to influence the investment of levies

GHD considers that the engagement/consultation/communication arrangements have been less than effective until recently (in part due to some stakeholders' preference not to access information electronically), but there is evidence of improvement in the last 6-9 months. Not surprisingly, certain IRBs (not all) have been highly critical of Hort Innovation's performance which likely stems, at least initially, from their change in ownership status of the company and the loss of consultation funding at inception.

Hort Innovation's ability to reach and communicate to its new and significantly wider membership is constrained by a history of indirect access to growers (via IRBs) under HAL and by a lack of any mandated levy payer register.

GHD recognises that Hort Innovation has implemented a website to assist with the communication of operations and investment outcomes to growers and other stakeholders, but it appears that many growers prefer to obtain information from their relevant IRB. When considering the role of IRBs, it is important to recognise that these bodies, although not owners of the company in their own right, are comprised of levy payers and members of Hort Innovation who have a genuine interest in ensuring their levies are invested diligently so as to maximise their return on investments.

IRBs consist of grower members who rely heavily on the organisation for their information on the full range of industry issues that impact on the profitability of individual farms, although not all growers/levy payers are members (membership is voluntary and requires an annual subscription).

Membership of Hort Innovation is open to any eligible industry participant, being an entity that is carrying on an enterprise within a horticultural industry under a registered ABN. However, IRBs are excluded from membership. Only levy payers or contributors to Collective Industry Funds can be voting members of Hort Innovation.

Hort Innovation has been actively promoting for levy payers to join as members. Currently there are 2,281 members and 288 voting members out of a total levy payer base from some 30,000 horticulture businesses nationally (HAC & HAL 2009). While this appears to be a low level of members, it is not very different to member numbers in other RDCs, and is symptomatic of the lack of demonstrated value that membership offers to most growers (above that of any levy payer).

Hort Innovation recognises the significance of the communication channel with growers that is provided by IRBs, and as a result many receive levy funds from Hort Innovation to deliver communication projects, based on competitive tendering outcomes.

As described earlier in this report, confidential IRB submissions and on-line survey comments have listed a number of allegations of Hort Innovation being non-responsive on certain issues raised by the IRBs, or that the company has reneged on commitments made, including producing inaccurate minutes of formal meetings.

GHD raised these issues anonymously with the Board and Executive Management team. Their response was that, apart from some isolated instances, all commitments have been made in good faith but that implementation may not be straightforward and that this has been communicated to the IRBs or individuals, albeit perhaps not as speedily as required. With respect to inaccuracy of minutes, this arose because of outside minute takers without industry

knowledge being employed with the outcome being minutes and associated actions that were not suited to purpose. In these instances, board and staff members have operated in good faith and certainly not with any lack of integrity.

GHD has been informed by Hort Innovation of instances bordering on staff harassment by IRB representatives when making complaints about issues. GHD has sighted exit interview summaries of staff who have resigned from Hort Innovation over the last 18 months and a number cited dissatisfaction with treatment by external stakeholders as a reason for departure.

GHD is unable to gauge the full extent of dissatisfaction between IRBs and Hort Innovation because at least some is suspected to come from those who are more vociferous while others who are satisfied remain silent.

Regardless of where the fault lies, the outcomes are not helpful to all concerned – Hort Innovation expends time and energy on responding to what they consider are often unfounded concerns, and IRBs are frustrated that their concerns are not addressed. While GHD is uncertain if the friction between some IRBs and Hort Innovation is having a material impact on performance, it may be an opportune time to codify the relationship so that responsibilities and methods of engagement are clear.

GHD notes that Hort Innovation has developed a comprehensive corporate communications framework with its goal “to ensure growers get the information that they need to grow their business how, where and when they want.”

While Hort Innovation has a duty to apply its independent judgement (in particular in reconciling conflicting priorities, balancing long and short-term needs and in ensuring activities are consistent with its functions and powers), there is a need to consider advice from stakeholders, in particular IRBs, to improve performance. In this regard, Hort Innovation has been considering the idea of developing a generic agreement with IRBs to better articulate the engagement processes between the parties and has been discussing this with some industries.

Any agreement would outline the expectations and processes through which Hort Innovation would regularly consult with levy payers through their IRBs to ensure there is a mechanism for an exchange of views on the company’s performance. Such an agreement, or Statement of Intent, would not provide an IRB with any particular authority to direct Hort Innovation.

Recommendation 7

Hort Innovation to develop a generic agreement, or Statement of Intent, between Hort Innovation and IRBs that codifies the relationship and includes a complaints handling process, with the scope of the agreement to be jointly agreed between Hort Innovation and IRBs.

Note that the implementation of this Statement of Intent is not expected to require levy funds for its operation. IRBs may separately continue to manage Hort Innovation projects, including communications projects, based on current competitive tendering arrangements.

GHD considers that the exclusion of IRBs from being non-voting members of Hort Innovation in the Constitution is a source of antagonism that is inhibiting the healthy relationship between the parties. The resolution of the issue would require a change to the Constitution, a matter over which Hort Innovation does not have control as it requires a special resolution of Voting members to be successfully passed. However, Hort Innovation could put a resolution for member vote to achieve this outcome.

Recommendation 8

Hort Innovation, in consultation with IRBs and the Commonwealth, to put a resolution for member vote removing the exclusion of IRBs from being members of the company.

GHD has found that many of the performance issues raised during consultation for this review have in fact been recognised by Hort Innovation and are being addressed. However, stakeholders are generally not aware of the actions being taken to improve performance.

Recommendation 9

Hort Innovation to better communicate to stakeholders the improvements that are being progressed to address issues identified as potentially negatively impacting on its performance, including:

- *Progression of the SIAP improvement process*
- *Improved communication of Frontiers Funds, especially the benefits of attracting co-investors for cross-industry outcomes with minimal use of levy funds*
- *Consideration of a hybrid model for project initiation (concept plus call)*
- *Consideration of how better to achieve collaboration between smaller industries that results in more efficient delivery of services and reduces the risk of a “siloe” approach.*
- *Activities in support of food safety initiatives and crisis management.*

9.2.5 Hort Innovation’s efforts in cross-RDC collaboration

Hort Innovation has been active in collaborating with other RDCs and service providers to seek funding and initiate projects that have multi-sector and community benefits beyond the horticulture sector itself. This cross-collaboration is a requirement within the SFA in order to address the government’s Rural RD&E Priorities and the overarching National Science and Research Priorities. These investments are in part a recognition of the co-investment R&D funding provided to the horticulture industry by the Commonwealth.

Recommendation 10

Hort Innovation to continue to seek cross-RDC collaboration opportunities that will benefit horticulture as well as the broader agricultural industries and community.

9.3 Assess the delivery of benefits to Australian horticulture industries and community in general, including the achievement of value for money, and quantitative measures where appropriate such as return on investment and cost benefit analyses

Hort Innovation has a comprehensive M&E framework in place to inform decision making and continuous improvement. To date, the company’s focus has been on ex-ante impact assessment as part of the development of SIPs and Frontiers Fund priorities. While this is useful for internal decision making, outcomes are of primary concern to levy payers and the Australian Government. Hort Innovation recognises this and is now in the process of transitioning to a greater focus on ex-post assessments, which will need to include a process for communicating both project and fund level outcomes to key stakeholders..

Recommendation 11

Hort Innovation to finalise its approach to transition the monitoring and evaluation focus from ex-ante impact assessment to ex-post impact assessments to test if expected benefits have been delivered and inform future investment decisions.

A key challenge will be determining the appropriate funding allocation to meet CRRDC requirements as well as add value to the various Strategic Levy and Frontiers Fund investment activities.

Recommendation 12

Hort Innovation to ensure that risk is a consideration in allocating resources and establishing triggers for monitoring and evaluation, noting that at the moment the framework currently links the determination of monitoring and evaluation methods to size of project, availability of data and M&E capability. This is likely to be of particular importance to Frontiers Fund investments.

Hort Innovation's Organisational Evaluation Framework is designed to operate at all levels of the organisation, including corporate activities, Strategic Levy and Frontiers Funds investments. It provides the program logic to support the corporate strategy of delivering on investments with activities and outcomes based on the five investment priorities outlined in Hort Innovation's Strategic Plan. The company is planning to amend Section 6 to increase the frequency of reporting.

Recommendation 13

Hort Innovation to amend Section 6 of the Organisational Evaluation Framework to increase the frequency of reporting to growers and levy payers, and investors and co-investors from just end-of-investment cycle reporting. This update to the framework will also better reflect Hort Innovation's current practice, which is to provide more regular updates to these stakeholders.

Stakeholder consultation indicates that most stakeholders consider that investment in horticultural R&D and marketing activities are providing benefits. With respect to the return on investment from marketing activities, there were mixed views from stakeholders on the value of Hort Innovation's management of procurement. The views varied between industries who praised the performance and supported the continuation of Hort Innovation's procurement management through to those who were highly critical and considered that marketing should be the responsibility of the IRBs.

As discussed in section 6.3, the expenditure of R&D and marketing funds is legislated through the *Horticulture Marketing and Research and Development Services Act 2000* which nominates Hort Innovation as the industry services body. The Act requires that the marketing levy amounts must be paid to Hort Innovation. Both the Act and the SFA include conditions of expenditure of the levy, including that Hort Innovation must not delegate or outsource the responsibility for the management, allocation or investment of funds to third parties, including to IRBs.

Despite the above, the SFA does not preclude payments to IRBs to procure goods and services where the procurement process is open, transparent and competitive (where appropriate) with appropriate measures to demonstrate performance.

However, GHD considers that there is a need for more transparency by Hort Innovation in the marketing arrangements for industries. This is especially the case for smaller industries who could potentially obtain economies of scale of their marketing investment through collaboration with other industries.

In addition, such transparency would also enable specific industries to better scrutinise marketing arrangements and thus potentially avoid issues in the past where delays have led to missing a full season of marketing activities.

In recognition of the diversity of opinion on marketing, GHD recommends the following:

Recommendation 14

Hort Innovation, if requested by an IRB whose industry has a marketing levy, to review the marketing arrangements for that industry (including potential for collaboration with other industries) to determine if marketing projects can be delivered in a more efficient and effective manner with the aim of improving the return on investment from levy funds.

Appendices

Appendix A – Documents reviewed

Folder	Title of Document
01 General Corporate	01 Constitution 24 November 2017 02 Deed of Agreement 2014-18-18 Nov 2015 03 Deed of Variation - 17 November 2015 04 2014 08 05 (emailed 8 Aug) - Letter - Minister Joyce to S Snell - Expect... 05 Min Joyce to S Snell - HAL 06 2015 06 17 - Letter - Minister Joyce to J Lloyd - HIA strategic plan, co... 08 Record of Hort Innovation SFA meeting 12 April 2017 - FINAL 09 Record of Hort Innovation SFA meeting 2 November 2016 - FINAL 10 Record of HIA SFA meeting 15 April 2016 - FINAL 11 Minutes of Six Monthly Meeting - Hort Innovation and DAWR - 12 Nov 2015 - Final 12 FINAL EEP Cessation Plan 221215
02 Background	01 ACILAllen_HAL 02 Letter to Department - ACIL Allen recommendations - 4 December 2015 03 12 5613 4.3 Future Focus report (2) 04 12 34338 Report - Future Focus Stage 2 - 2008 07 30 05 12 5621 5 Future Focus
03 Strategy	Annual-Operating-Plan_2017-18 Hort Innovation AOP FY16-17 Final Horticulture Innovation Australia - AOP-2015-2016 (2) Hort Innovation Strategy-Corporate Initiatives & 2016-17 Budget - Q3 Review 23-03-2017 Hort Innovation Strategy-Corporate Initiatives & 2016-17 Budget - Q4 Review June 2017 HORTIN-3 Strategy Q3 Review Summary Strategy Q4 Review Summary Hort Innovation Strategy-Corporate Initiatives 2017-18 Strategy - Corporate Initiatives 2017-18 Q1 Review Summary Strategy Q1 Review Summary Innovation funnel Visio-Funnel_Diagram_a4_v02 HIA Interim Strategy Hort-Innovation-Strategic-Plan-Web T2015 Interim Strategy - Presentation
04 Finance	Cost Allocation Policy Cost Allocation Policy 2017 DRAFT - Horticulture Innovation Australia - Review of Cost Recovery Model
05 Procurement	0-Procurement manual 0-Procurement manual Ver 2 2.3 - Procurement EOI standard 3.1 - Procurement Addendum

Folder	Title of Document
	3.2 - Procurement Declaration form for groups
	3.3 - Procurement Declaration form for individuals
	3.4 - Procurement Initial review standard
	3.5 - Procurement Note taking sheets for individuals
	3.6 - Procurement Score calculations - price weighted
	3.7 - Procurement Clarification
	3.8 - Procurement Evaluation report simple
	3.9 - Procurement Evaluation report standard
	4.1 - Procurement Contract finalisation standard
	5.1 - Procurement Contract plan standard
	5.2 - Procurement Performance report template
	6.1 - Procurement Contract finalisation standard
	7.1 - Procurement Guideline - engagement with marketplace
	7.2 - Procurement Guideline - evaluation
	7.3 - Procurement Guideline - performance reporting
	7.4 - Procurement Guideline - probity and procurement
	7.5 - Procurement Guideline - procurement risk
	7.6 - Procurement Guideline - statements of requirements
	7.7 - Procurement Guideline - procurement governance
	8.0 - Procurement Appendix B Process Flowchart
	A4 - Mandatory Response Table - MK
	HIA Successful letter examples
	HIA Unsuccessful letter example
	Hort Frontiers RFP Standard v0.1
	Marketing Procurement RFQ - Standard Ver.2
	Panel Member Update Template
	Procurement Assessment Sheet Ver 2 May 2016
	Procurement Plan Ver. 8(2)
	Procurement RFP - Standard Ver 10.2
	Procurement RFP - Standard Ver V0.1 - Marketing
	RFP ad and post template
	RFQ - Blank for R&D June 2016v2
	RFQ - Blank for RD July 2017v2
	Step by step guide to the procurement process Marketing Corp Ver 2
	Step-by-step guide to the new procurement process R&D Ver 2
06 Human Resources	
	A6 Presentation HR Strategy - RAC
	Code of Conduct and Business Ethics - Feb 2016
	DI results Dec 2017 - Exec pres 14.12.17
	Employee's Guide to Year-end PDRs and goal Setting June 2017
	Fund Manager PD
	G2 HR Policies RAC Feb 18
	G3 WHS RAC Feb 18
	Goal Alignment Team and Company
	H170502IH2 Signed Participant List
	Hort Innovation Getting the most out of your mid-year
	HR APPROVED 2017 - Conflict of Interest Policy

Folder	Title of Document
	Marketing Manager_PD August 2017
	Mid-Year Performance and Development Reviews
	NEW - terminations and reasons
	R&D Manager - Plant Breeding and Biotechnology July 17
	Succession Planning Template
	Visio-Org Chart for Distribution - Jan 2018
	Visio-Org Chart for Distribution - no cost model - Jan 2018
07 Intellectual Property	
	IP Policy - Version 23 November 2017
	IP Management Plan - Version 23 November 2017
	2017 Nov update - Hort IP Register
	2017 Nov update - Hort IP Register - Updated
	Domain Name Register
	Horticulture Innovation Australia Limited - Schedule of Trade marks (Jan... UPDATED VERSION - Horticulture Innovation Australia Limited - Schedule of Trade Marks (Jan...
	Confidentiality Agreement - Template - Feb 2016
	Contractor Services Agreement Template (2)
	Marketing Consultancy Agreement - Template - Jan 2016 - Word Version
	Template - HIA Research Consultancy Agreement - v1.0 - 2015 01 15
	Template - Hort Innovation Research Agreement - ver 1.4(b) - 2017-10-16
	Template - Hort Innovation Research Agreement - ver 1.4(b) - FrontierFunds_20170927
	2016 Revised Agenda for IP Training (email)
	2017 IP relating training
08 Risk	
	0 BCP Synopsis
	1. Incident Management Plan Draft
	2. RMT Plan Draft
	3. Crisis Communications Plan Draft
	5. Brisbane Recovery Plan Draft
	6. Melbourne Recovery Plan Draft
	B1 BCP Framework - Nov17 ARC Approved
	B1 BCP Policy - NOV17 ARC Approved
	E1 Fraud Risks and Controls
	Hort Innovation Fraud Control Plan - V1.1 - 26 November 2015
	A1 Risk Management Policy and Framework V2.0 23 November 2017 - Final
	A1 Risk Management Policy and Framework V2.0 23 November 2017 - post Board - SH marked_PH
	E2_A1 Strategic Risk Register
	RM003 Risk Criteria and Appetite Statement Jan 18_Portrait
09 Internal Audit	
	F1 Internal Audit Plan_Post ARC Nov17
10 Evaluation	
	Impact assessment of a single project for GHD (email)
	2012-2017 Vegetable Review (Case Studies)
	2012-2017 Vegetable Review (Full Report)
	2012-2017 Vegetable Review (Presentation)

Folder	Title of Document
	2012-2017 Vegetable Review (Summary Report)
	Business case list 2017-18
	CRRDC, 2014, Impact Assessment Guideline V.1-070514
	Example business case - BA17518 Development of Strategic Marketing Plan for Australian Bananas
	Example business case - BS17000 Strawberry breeding program
	HIA-SIP-ME-Template-v5 - 2016 12 16
	Hort Innovation business case and analytical guidelines v3.1
	Hort Innovation Independent Evaluations Register
	Hort Innovation Investment Business Case Template - CONCISE - v3.1
	Hort Innovation Investment Business Case Template - DETAILED - v3.1
	Investment impact summary_ex ante and ex post_170927
	Mango SIP impact assessment summary v4 2017 12 16
	New - HIA SIP Logic - v7 - 2016 12 16
	New - Hort Innovation - ME implementation summary - March 2018
	Olive SIP impact assessment summary
	Overview of the HI-Link model_internal_170517

11 Formal Advisory Mechanisms

EAP members for all Funds
 EAP-LPD - Declaration of Interests
 EAP-LPD - AgriPolitical Undertaking
 EAP-LPD-Confidentiality Agreement
Email RE Review of Performance - Documents required please
 EOI Expert Panel Leadership levy payer representation
 Expert Panel ToR - EAP-LP
 RE Review of Performance GHD - SIAP Terms of Reference + additional information
 SIAP - Template - Code of Conduct - Word version - April 2016
 SIAP - Template - Confidentiality and Declaration of Interests - April 2016
 SIAP - Template - Terms of Reference - TOR - April 2016
 SIAP Panelists - As of 26 Mar 18
 Email to EW - Reply re Note to W Scherf **(Email)**
 Hort Innovation SIAP Chairs Meeting - 1 Aug **(Email)**
 SIAP Chairs Feedback EW & POB - Note to W Scherf **(Email)**
 SIAP Chairs Forum - August 2017 - some comments from ES Wallis **(Email)**
 SIAP Chairs Forum Agenda - 1 Aug 17 **(Email)**
 SIAP Chairs Forum Aug 18 - RDV Feedback **(Email)**
 RE SIAP Chair meeting - RDV Input **(Email)**
 RE SIAP Chair meeting EW input **(Email)**
 SIAP Chair Forum summary - 2018 03
 SIAP Chairs Feedback - checklist - 2018 03
 SIAP Chairs Feedback - checklist - 2018 02 26
 SIAP Chairs Forum 27 Feb 18 - summary - internal circulation **(EMAIL)**
 SIAP Chairs meeting - 2018 02 27
 SIAP Chairs Meeting - Agenda - 26 Feb 18
 Board Paper - E3.1 - SIAP Improvements Update - 2017 09 04
 Board Paper - SIAP Improvements Update - 2017 11 14

Folder	Title of Document
	Board Paper - SIAP Improvements Update - 2018 03 09
	Board Presentation - Placement SIAP Improvements - 2017 10 24
	Action plan SIAP Improvements v2
	SIAP & EAP Scheduling & Event Forecast Spreadsheet
	SIAP IMPROVEMENT PROCESS
	SIAP QA Feedback to Working Group - 2017 11 09
	SIAP Suggested Cycle
	SIAP TF Notes 20171109
	SIAP TF Notes 20171116
	SIAP TF Notes 20171121
	SIAP TF Notes 20171128
	SIAP TF Notes 20171207
	SIAP TF Notes 20171212
	SIAP TF Notes 20180124
	SIAP TF Notes 20180131
	SIAP TF Notes 20180208
	SIAP TF Notes 20180216
	The Most Up to Date SIAP Papers - Avocado SIAP Papers April 2018
	<i>Stakeholder Sentiment Survey 2017 Cluster Summary Report</i>
	Stakeholder Sentiment Survey 2017 Report FINAL PDF
12 Consultation	
13 Communication	
	2016 Communication Plan
	2017 Communications Plan_
	2018 Communications Strategy and Execution Plan_
	01 CRM - Company Review - 2018 03.docx
	02 CRM-Hort Innovation-QUICK-REFERENCEv02
	03 GHD - Review - CRM - Screen Shots Examples
	2nd Team Offsite Agenda
	Comms Membership strategy - Final
	Communications review and next steps 16-17
	Creating the new GROWER EXPERIENCE briefing paper
	First Team Offsite
	Rethinking the Brand-strategy presentation
	Thrid Team offsite_90 plans embedded
	<i>01 Hort Innovation - Publically available documents and publications</i>
14 Investments	
	Email - For Information re Final Compliance Review
	Final Compliance Review
	Final Compliance Review
	Delegations of Authority - Projects and Investments - v1.2
	Email - Review of Performance - Documents required please
	Rural R&D for Profit Project Summary_AK
	FW Pre Hort Innovation IAC Process verses current (EMAIL)
	G5b - Pool 2 Consultation Paper PENULTIMATE DRAFT 030215v9
	HAL Transformational Research Whitepaper - Final 2
	HIA Pool 2 Investment Funds SUMMARY DOC RELEASE 280715(2)

Folder	Title of Document
	HIA pool 2 impact modelling final v2
	HIA SCIFP Fund Prioritisation FINAL
	Hort Frontiers - Summary - 2018 04
	Hort Innovation - Further information regarding Frontiers - Co-Investors
	Hort Innovation - further information requested regarding Hort Frontiers
	Hort Innovation Rural R&D for Profit projects
	NEW - Frontiers funding questions Hort Innovation
	Pool 2 - Net Economic Impact analysis
	Pool 2 Board Paper March 2016
	RE Hort Innovation - further information requested regarding Hort Frontiers
	SCIFP feedback for HIA Board FINAL 1304151
	White Paper HIA Board Draft V7.1 180515

15 Board Governance

F1_A1 Risk Management Landscape
 Behavioural Capabilities Talkbook 2017
 Board Paper Oct 2017 Guidelines and Escalation procedures for Dealing with External Bullying
 Board Skills Matrix 2018 - Board approved 2018 03 22
 Delegations of Authority - Investments - 2018 - V1.0 - Board approved 22 March 2018
 Director Nomination Committee Charter 2018
 Director Remuneration - Attachment
 Director Remuneration - Benchmarking December 2014
 HIA_Blueprint_Values In Action
 Hort Innovation Review - Governance Materials - Part 1 **(Email)**
 HortInn-GROW- Poster
 Information for interested Hort Innovation levy payers - DRAFT
 Letter D Quinlivan - Appointment - 2018 03 23
 Hort Innovation Review - Governance Materials - Part II **(Email)**
 10.2017 11 23 Board MINUTES - Signed
 2018 03 22 Board Minutes - 22 March 2018 - DRAFT01 - Board feedback incorporated
 20180201 - Board Minutes - 1-2 February 2018 - Signed
 20180202 - Hort Innvoation - Board Business Papers - February 2018 - FINAL
 Board Meeting Papers - Meeting - 22 March 2018
 Board Papers - 23 Nov 2017 (SS SH)
 Hort Innovation - Board - Strategy Day - NOTES - 1 February 2018-02 - sent to Andrew Farmer
 04 2014 08 05 (emailed 8 Aug) - Letter - Minister Joyce to S Snell - Expect...
 Gift register
 HORT INNOVATION BOARD SKILLS QUESTIONNAIRE
 HORT INNOVATION BOARD SKILLS QUESTIONNAIRE - Response Summary
 Proposed Attendance List - 5 December 2016
 Upcoming Training - 'Reporting to the Board' - Tuesday afternoon 2 May 12.30 - 4:00pm **(EMAIL)**
 Appointment Letter - NED - updated 2018
 Briefing Paper - Governance

Folder	Title of Document
	<p>Agenda - Director Induction - Mary Corbett - 24 July 2017 and 1 August 2017 - DRAFT</p> <p>Agenda - New Director Induction - 14 Dec 2016</p> <p>Director Conflict of Interest Policy</p> <p>Director Induction - 14 Dec 2016</p> <p>Hort Innovation Review - Governance Materials - Part VI (Email)</p> <p>Apple & Pear - SIAP Meetings-Minutes-20180312</p> <p>Banana-SIAP Meetings-Minutes-20171017</p> <p>Dried Grapes - SIAP Meetings-Minutes-20171004</p> <p>Emailed provid information to SIAP Minutes</p> <p>Olive - SIAP Meetings-Minutes-20171213</p> <p><i>B2.2 Directors Standing Declarations - current to 19 January 2018</i></p> <p><i>Board Calendar 2018 - approved Sep 2017</i></p> <p><i>Board Charter - 10 December 2016</i></p> <p><i>Board Evaluation Process - Revised and Updated 23 November 2017</i></p> <p><i>Charter of the Committees of the Board 27 October 2017</i></p> <p><i>Director Nomination Committee Charter 2017</i></p> <p><i>F5.2 Board Schedule 2018-22 January 2018</i></p> <p><i>F6.2 Committee Compensation Guidelines 2018</i></p> <p><i>RE ASX Corporate governance principles (EMAIL)</i></p>
16 General Governance	<p>01 F4.2 Compliance Schedule 2018 - Updated to 22 January 2018</p> <p>02 G6 Compliance Schedule 2017 - Updated to 7 November 2017</p> <p>03 G4-Compliance Schedule 2015 - current to 16 November 2015</p> <p>04 F5 Compliance Schedule 2015-16</p>
17 Member Governance	<p>RE Hort Innovation - Number of Members and Voting Members (Email)</p>
18 GHD and Hort Innovation - Minutes of Meeting	<p>Minutes from Inception Meeting 16 January 2018</p>
19 Trade	<p>DRAFT - Horticulture Trade Strategy (003)</p> <p>Hort Innovation Status of Technical Market Access Requests_Sept 2017</p> <p>SMH Article - Launch of Taste Australia</p> <p>TAP - Assessment and prioritisation-process (1)</p> <p>Trade panels - iTAP - AgriPolitical Undertaking</p> <p>Trade panels - iTAP - Confidentiality Agreement</p> <p>Trade panels - iTAP - Declaration of Interests</p> <p>Trade-Panellists-July-2017</p> <p>Trade-panels-iTAR-ToR(1)</p> <p>Trade-panels-TAP-ToR</p>
20 Technology-Systems Contact Lists	<p>Confidential - Not for Distribution - Hort Innovation Review of Performance 2018</p> <p>Confidential - Not for Distribution - Hort Innovation ROP 2018 - Revised</p> <p>Email addresses for APS and Pollination EAP members (EMAIL)</p> <p>Email addresses for EAP members (EMAIL)</p>

Folder	Title of Document
	Email addresses for TAP and Asian Markets (EMAIL)
	Past Director Contacts
	Sample Grower List by Industry - GHD 2018 02 19

Additional Documents Provided by Hort Innovation by email

Report On Progress Against ACIL Allen Recommendations
 ACIL Allen Implementation of Recommendations
 06 Min Joyce to S Snell - Confidential Letter
 Audit Of Voting Entitlements
 Audit Process -2017-Summary for AGM.docx
 Hort Frontiers Investment Summary - November 2017
 C3 - Food Safety Paper - DM
 Appendix 1: List of Food Safety Investment (since 2012)
 Food Safety In Horticulture Roundtable: Outcomes and next steps
 Hort Innovation in 2022.pdf
 Hort Frontiers - Copy of Co-Investors-May 2018.xlsx
 Hort Frontiers Summary table for GHD.pdf
 Fraud Update1.pdf
 Horticulture Innovation Australia Limited - Fraud Control Plan
 Hort Innovation - Stakeholder Sentiment Survey 2017 Report
 Attachment 3 – About the Gap Policies
 E5.2 Gap Analysis
 Internal Audit - Procurement Management Action Plan Sep-16
 Internal Audit - Human Resources Management Action Plan Oct-16
 Intellectual Property ("IP") Policy and IP Management Plan Update
 C1 - Intellectual Property Management Update
 Internal Audit - Investment Approvals Management Action Plan Sep-16
 Internal Audit - Stakeholder Communications Management Action Plan Jun-16
 Recommendations Monitor - Salinger Privacy @ Nov17
 Recommendations Monitor - Jacobs Security @ Jan18
 Industry Communications Projects - as at May 2018

Appendix B – Online survey questions and summary of results



Hort Innovation Independent Performance Review

BACKGROUND

This survey seeks to obtain feedback on the performance of Horticulture Innovation Australia Limited (HIAL or Hort Innovation) in:

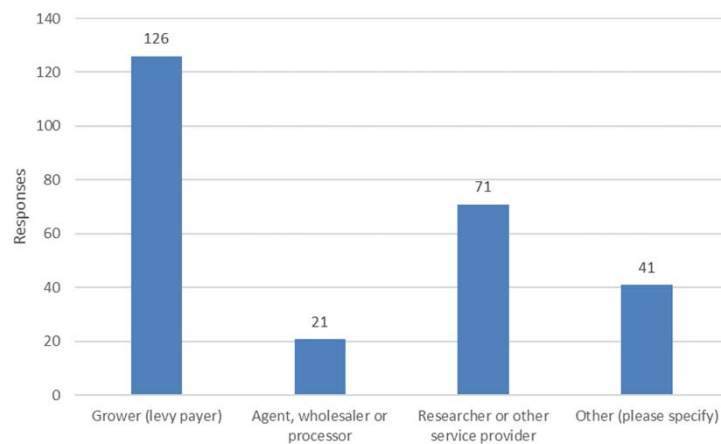
- Transitioning from the previous governance arrangements of Horticulture Australia Limited
- (HAL)
- Delivering against Strategic and Operational Plans
- Delivering benefits to Australian horticulture industries

The information collected will inform an independent performance review of the organisation (undertaken by GHD Pty Ltd), as required under the Deed of Agreement with the Commonwealth Government.

All survey responses are confidential and only aggregated responses will be used for the purposes of reporting.

About You

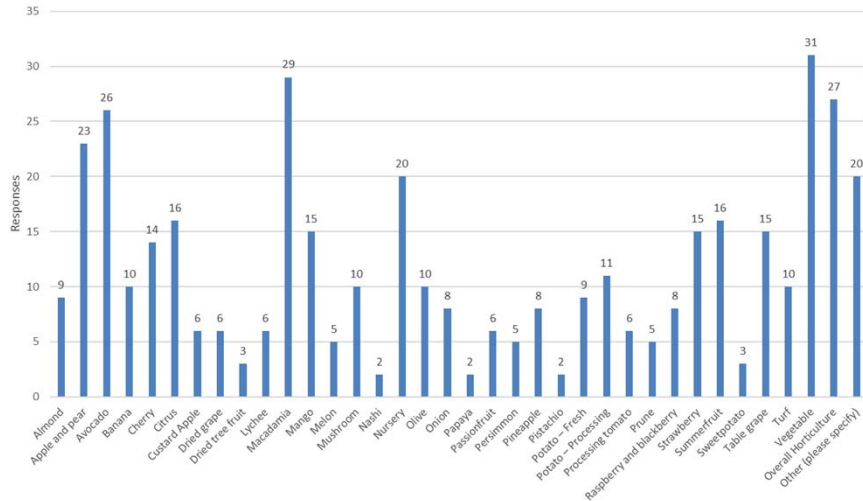
1. What is your role in the horticultural industry? (please select all that apply)



228 responses in total (respondents were able to select multiple roles – above totals to 259)

About You

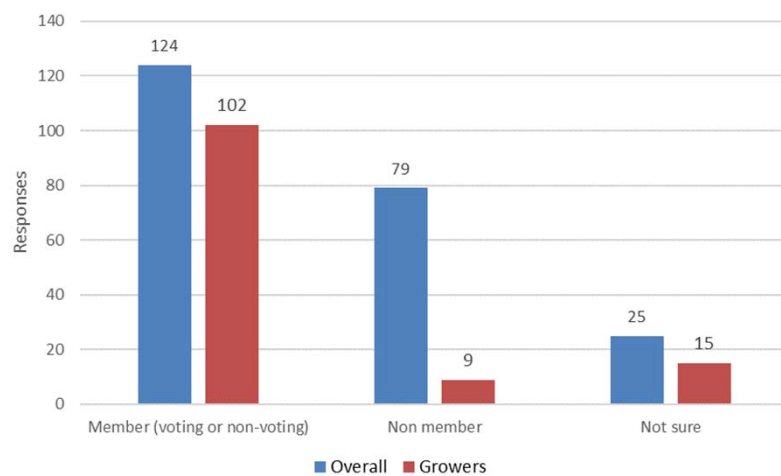
2. Please select which industry/industries you are primarily involved in?



Membership

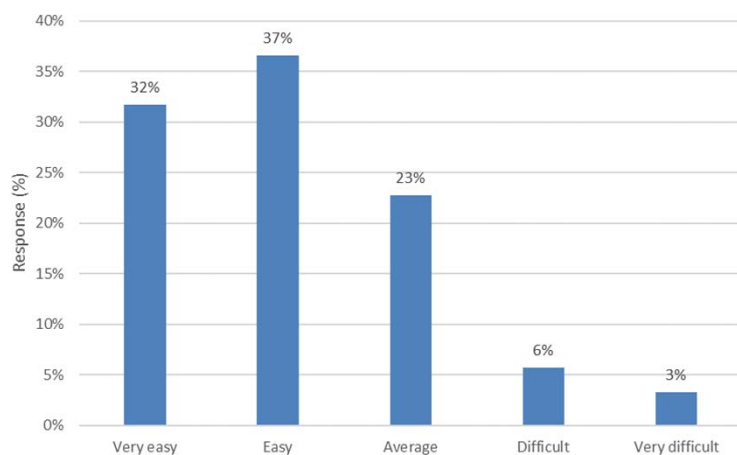
3. All levy payers are eligible to become voting members of Hort Innovation, while other non-levy paying industry participants can become non-voting members of Hort Innovation. Note that Hort Innovation membership is different from membership to peak industry representative or grower bodies, and requires a separate sign-up process.

Please select below which category applies to you/your business.



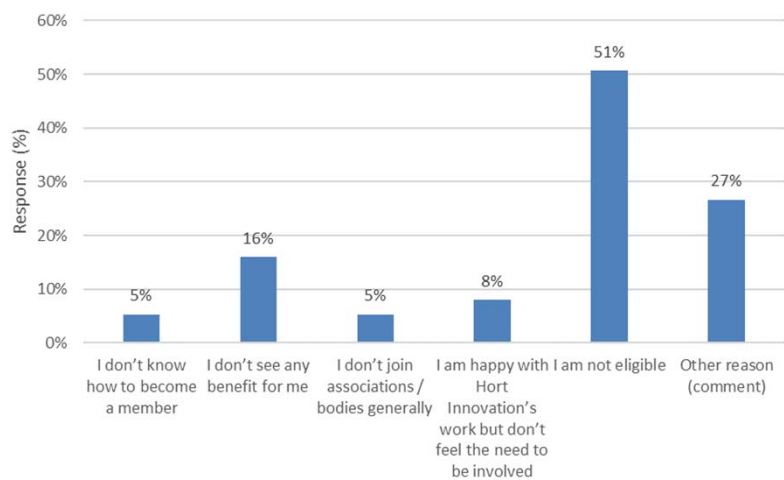
Members

4. How easy was it to become a member?



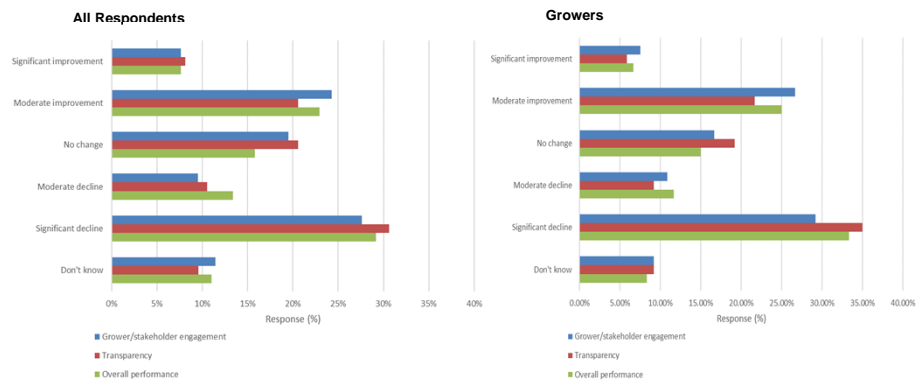
Non-Members

5. Why have you not become a member?



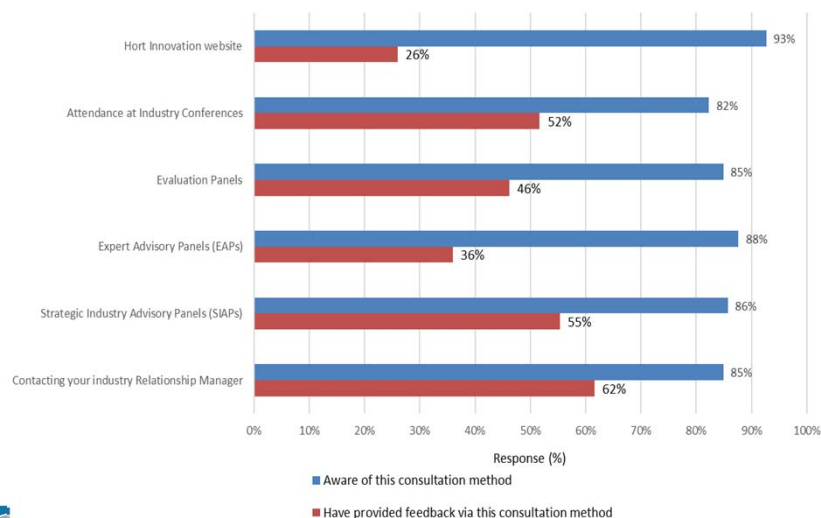
Performance under new governance arrangements

6. How has the transition from the previous governance arrangements of Horticulture Australia Limited (HAL) affected the organisation's performance in the following areas?



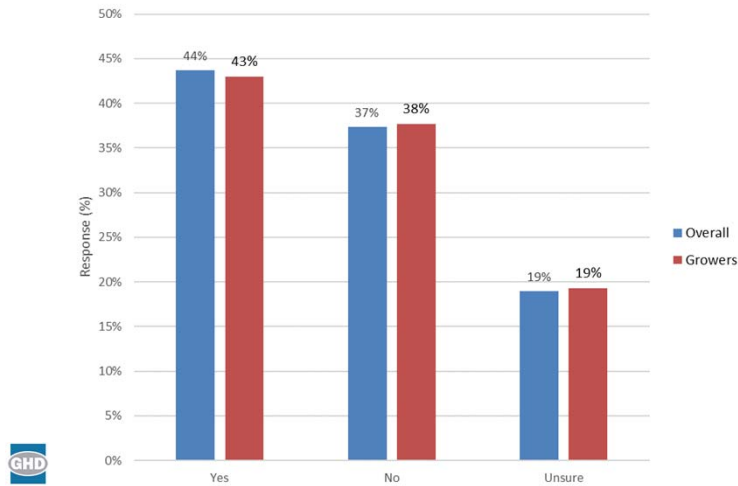
Performance against Strategic and Operational Plans

7. Hort Innovation has a range of mechanisms for obtaining stakeholder input. Which of the following mechanisms are you aware of, and which have you used? (Tick all that apply)



Performance against Strategic and Operational Plans

8. Does Hort Innovation provide sufficient opportunities for levy payers and other stakeholders to inform the company's strategic planning and investment of levy funds?

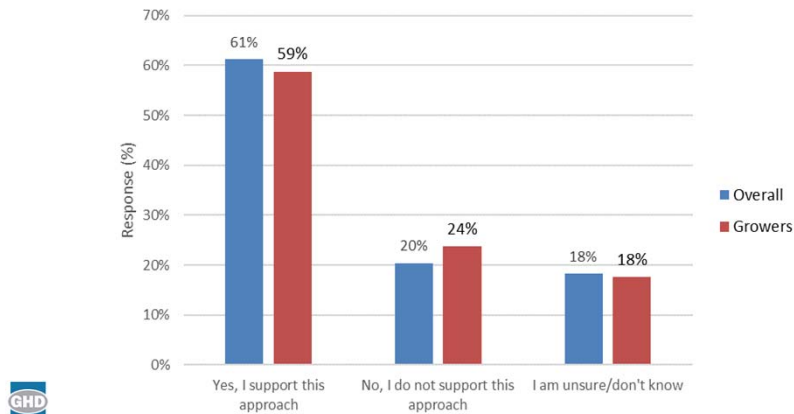


Performance against Strategic and Operational Plans

9. Hort Innovation has two separate investment mechanism: Strategic Levy Investments (Pool 1) allocated to industry specific projects, as directed by the Strategic Investment Advisory Panels (SIAPs); and Hort Frontiers Strategic Partnership Initiatives (Pool 2) using co-investment funds to address long term cross-sectoral priorities, with funds currently allocated across the following areas:

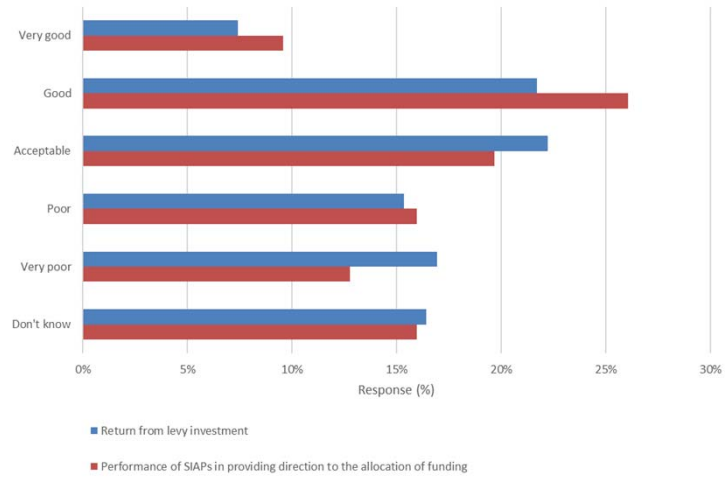
- *Advanced Production Systems Fund
- *Asian Markets Fund
- *Health, Nutrition and Food Safety Fund
- *Pollination Fund
- *Fruit Fly Fund
- *Green Cities Fund
- *Leadership Fund

With allocation of investments in each Fund directed by the Expert Advisory Panels (EAPs)



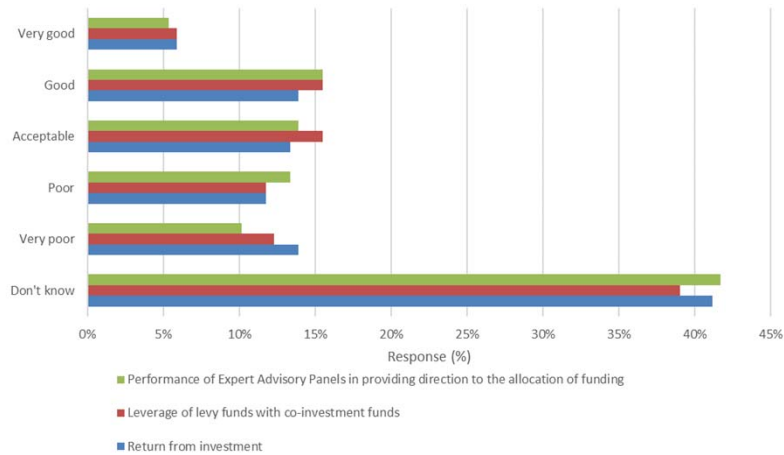
Performance against Strategic and Operational Plans

10. For the industry-specific Strategic Levy Investments (Pool 1) please rate the following:



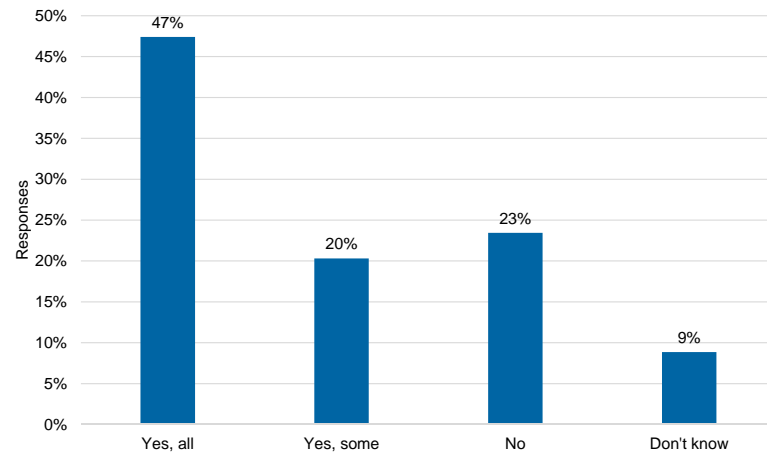
Performance against Strategic and Operational Plans

11. For the long term cross-sectoral Hort Frontiers Strategic Partnership Initiatives (Pool 2) please rate the following:



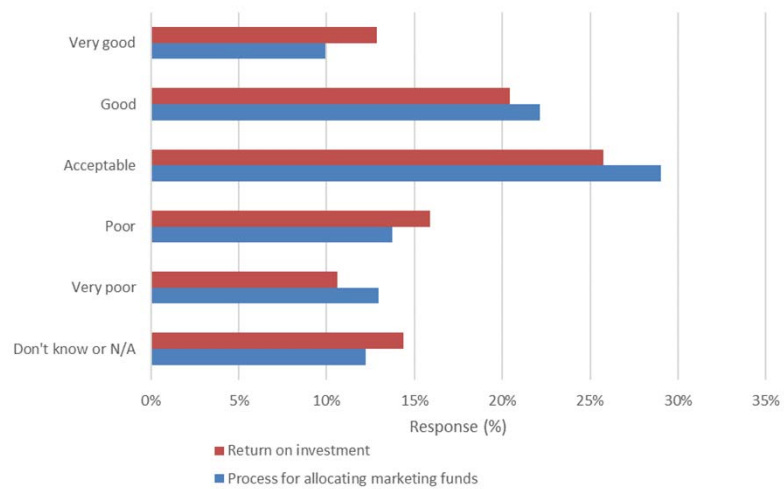
Performance against Strategic and Operational Plans

12. Do the horticultural industry/ies with which you are involved have a marketing levy:



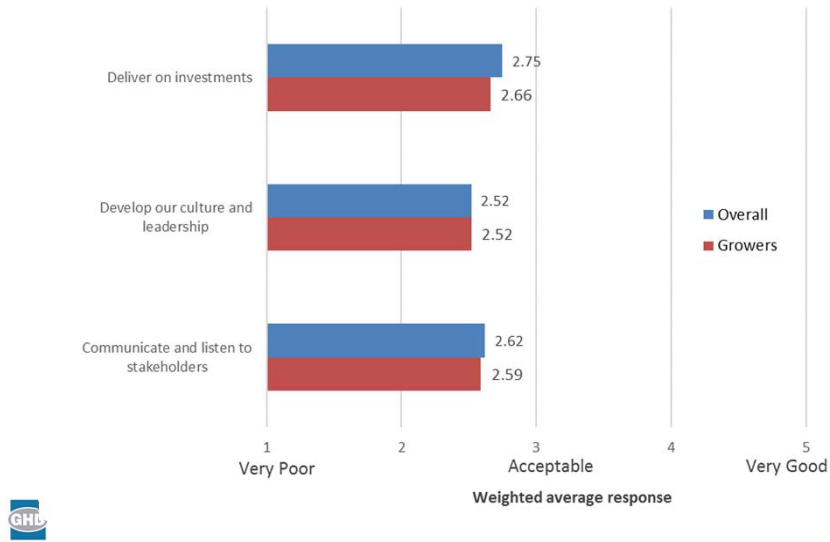
Marketing Levy

13. For the investment of industry marketing levy funds, please rate the following:



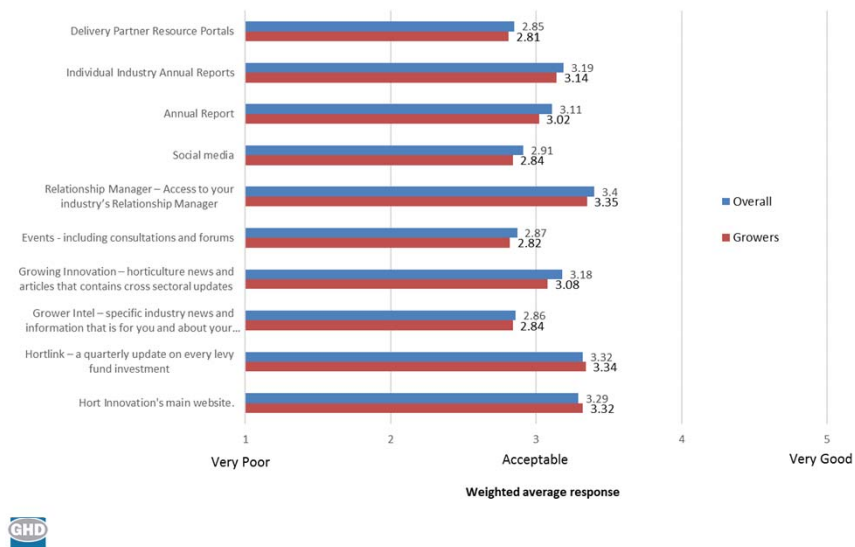
Corporate Strategy

14. How do you rate Hort Innovation's performance in delivering against the following corporate strategies?



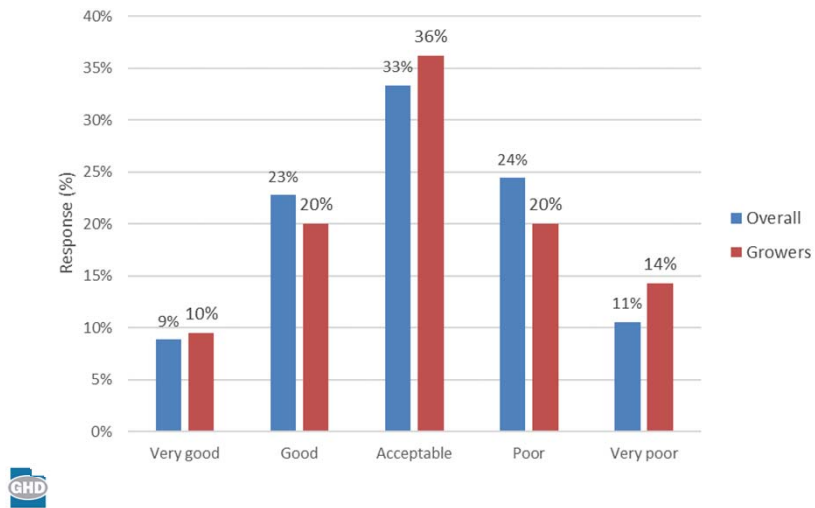
Communication

15. How do you rate each of the following Hort Innovation communications activities?



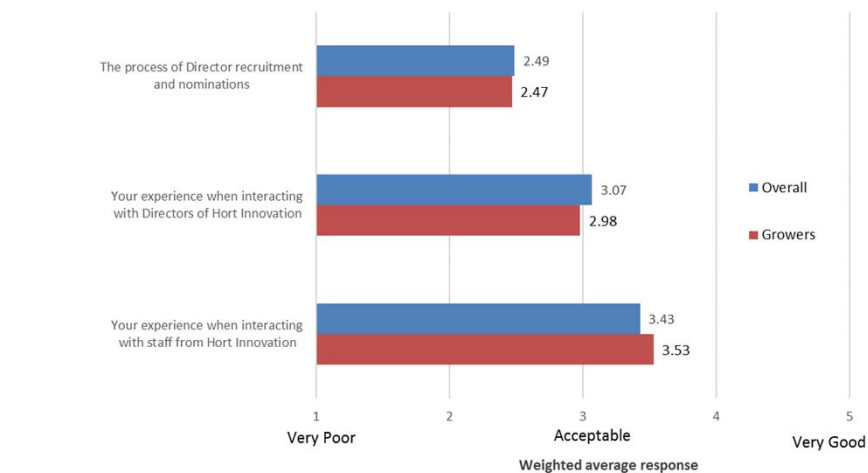
Communication

16. Overall, how do you rate Hort Innovation's performance in communication of activities and research findings?



Staff and Board

17. Please rate the following:



Final Comments

18. Is there anything else you would like to comment on regarding the performance of Hort Innovation?



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Appendix C – Agencies and organisations interviewed

Almond Board of Australia
Apple & Pear Australia Limited
Australian Pineapples Pty Ltd
Australian Banana Growers Council Inc
Australian Blueberry Growers Association Inc
Australian Garlic Industry Association Incorporated
Australian Lychee Growers Association
Australian Macadamia Society Limited
Australian Mango Industry Association Ltd
Australian Melon Association Inc
Australian Mushroom Growers Association Ltd
Australian Nashi Growers Association
Australian Nut Industry Council Inc
Australian Olive Association Ltd
Australian Pecan Growers Association Inc
Australian Processing Tomato Research Council Inc
Australian Prune Industry Association
Australian Sweetpotato Growers Inc
Australian Table Grape Association
Australian Walnut Industry Association
AUSVEG
Avocados Australia Limited
Canned Fruits Industry Council of Australia
Chestnuts Australia Incorporated
Citrus Australia Limited
Custard Apples Australia Inc
Department of Agriculture & Food Queensland
Department of Agriculture & Water Resources (DAWR)
Department of Agriculture and Water Resources - Trade
Dried Fruits Australia Inc
Flower Association of Queensland Inc
Growcom Australia

Hazelnut Growers of Australia Inc
Melon SIAP
NSW Farmers
Nursery & Garden Industry Australia Ltd
Olive SIAP
Onions Australia
Papaya Australia Ltd
Passionfruit Australia Inc
Persimmon Industry Australia Incorporated
Pineapple SIAP
Pistachio Growers of Australia Inc
Pistachio SIAP
Plant Biosecurity Cooperative Research Centre
Potatoes South Australia
Potato Processors Association of Australia Inc.
Raspberries and Blackberries Australia
Strawberries Australia Inc
Summerfruit Australia Ltd
Turf Australia Limited
Vegetables WA
VicSPA
Voice of Horticulture Limited
Western Sydney University

Appendix D – Summary of submissions

Seven submissions were received. A summary of the major themes arising from the submissions is provided below. GHD's findings against these themes are provided in the right hand column.

Table A1 Overview of submissions

Theme	GHD findings
<p>Improvement in transparency and communications from RMs and fund managers (particularly over the last 6-9 months).</p> <p>But there is a further need for genuine engagement, including the need to “get boots dirty”.</p>	<p>Hort Innovation has acknowledged that improvement in communications was required and has commenced working towards this.</p> <p>More on-ground presence increases costs which Hort Innovation will need to assess against benefits.</p>
<p>Acknowledged that there is a genuine effort of Hort staff</p> <p>But RMs are required to take responsibility for non-core activities that reduce their available time on their core responsibilities. Greater involvement of Executive Management is required.</p>	<p>Hort Innovation staff are generally dedicated professionals but response times may sometimes take too long.</p> <p>Some staff have been subject to harassment by industry individuals and this is totally unacceptable.</p> <p>Executive Management team has been distracted by the need to respond to criticism from some IRBs.</p> <p>A generic agreement with IRBs to codify the relationship would be well received.</p>
<p>Strategic focus (shift away from industry-specific R&D and marketing, towards Hort Innovation management priorities and Frontiers Fund, support for Frontiers Fund concept but further info required).</p> <p>High cost of developing initial Strategic Plan but of reduced relevance due to lack of financial or budgetary information.</p>	<p>Dedicated Frontiers Fund web page now active.</p> <p>Address as part of future communications / engagement.</p>
<p>Governance (reappointment of directors despite lack of member support, conflict of interest can be managed via effective processes, potential conflict of interest of some SIAP and EAP members, board involvement needs to be on risk-based approach)</p>	<p>In accordance with SFA and Constitution.</p> <p>Grower representative now on Director Nomination Committee.</p> <p>Conflict of interest policies similar for board and other advisory panels and can be applied regardless of the individuals being considered.</p>
<p>SIP development and implementation (sidelining of some IRBs in SIP development; lack financial data, timelines and roles/responsibilities; incorrect information requiring rework; poor fund management).</p> <p>Need to ensure SIPs are “living” documents so remain relevant to current industry issues.</p>	<p>Part of the heavy work load with the transition. Hort Innovation now encourages more industry input.</p> <p>Consistent format with ex ante BCRs is an improvement from HAL.</p> <p>Recent SIP development has been less problematic.</p>

Theme	GHD findings
<p>EAPs (lack of transparency re process for appointment of panel members; EAP receiving incomplete information).</p>	<p>Positions were advertised and responses are likely due to a misunderstanding.</p> <p>To be addressed as part of future communications / engagement, including more details of Frontiers Funds.</p>
<p>SIAPs (inconsistent use of SIAP, members receive incomplete information, poor financial data, need for greater transparency, timeliness of management actions, lack of feedback, change in concept scope post-approval).</p>	<p>Hort Innovation acknowledges past deficiencies and has commenced SIAP improvement process to correct.</p> <p>Address as part of future communications / engagement.</p>
<p>Concept management and procurement (accountability of service providers, procurement process stifling research in terms of IP management, procurement inefficient and not timely, poor communication once concept is submitted, poor RFP documentation, silos across RMs / FMs / research managers, RMs under-resourced, transparency of tender evaluation panel appointment, imperfect information to evaluation panel, marketing should be via RFP process).</p> <p>Also, leading to a decline in research capacity because the process does not encourage continuity within research establishments that need to invest in both human and capital resources to remain current.</p> <p>Submissions stated that Hort Innovation often cites the SFA as the cause of the constraint.</p> <p>Delays in tendering and contracting a significant number of projects has led to the loss of an entire season of results.</p> <p>R&D projects have been delayed at the Hort Innovation end of the project “funnel” due to lack of interest, lack of urgency, lack of personnel or lack of concern.</p>	<p>Hort Innovation acknowledges that the concept approach by itself may not lead to timely response to industry requirements.</p> <p>It is considering using a hybrid approach (concept + call) to correct this.</p> <p>Hort Innovation states that the timeline of project development is significantly less compared to under HAL.</p> <p>Hort Innovation is supportive of collaboration between industries that will lead to more efficient use of resources (time, funds) and reduce risks of a silo approach.</p> <p>Interpretation of the SFA by Hort Innovation has been narrow and too reliant on prior Ministerial expectations.</p>
<p>Financial performance (reduced detail and frequency of reporting, no formal opportunity to ask questions, lack of clarity and communications around CCR and capping of matching R&D funds).</p> <p>Highlighted for Collective Industry Funds (CIF – non-levy) and levy funds.</p> <p>Numerous example of correspondence seeking information about expenditure, processes around development of SIPs and management of SIAPs and about the management of IP, that have gone unanswered or answers have not provided sufficient information.</p> <p>R&D budgets being overspent with no meaningful funds available to address new work or emergencies for the next two years.</p>	<p>Hort Innovation differentiates between historic financial reporting (stating that this is 100% accurate and subject to external audit for Annual Reports) and management accounting that projects likely income from levies and potential investments (uncertain due to variable nature of levies collection due to seasonal and market strategies).</p> <p>GHD considers there is a need to improve the connectivity between the financial accounting reporting system and the management accounting financial system to avoid the current need for manual transcription that is prone to error.</p> <p>GHD notes that Hort Innovation is finalising its new CCR policy and is including industries in discussions.</p>

Theme	GHD findings
	<p>Partially addressed in SIAP improvement process.</p> <p>Address as part of future communications / engagement.</p>
<p>Communication and engagement with industry (heavy reliance on website, lack of engagement with IRBs and levy payers, not timely).</p> <p>Does the company see its primary stakeholder and client as the Department or Minister, as it appears it is not levy payers. There is little respect for industry representative bodies and the extent to which they are legitimate and democratic representatives of levy payers.</p> <p>The Harmonised Australian Retailer Produce Scheme (HARPS) project, funded by cross-industry levies has been implemented with no input from IRBs, with the result that the levy payers were not consulted or communicated with until after the scheme had been put in place.</p>	<p>Address as part of future communications / engagement, including the need to “get boots dirty”.</p> <p>There will be a cost of increased engagement that will need to be weighed against the benefits.</p>
<p>Organisational culture (arrogance of senior management, focus on process and reputation, focus on government rather than levy payers, lack of respect for IRBs, lack of transparency and collaboration).</p> <p>It is very much a parent/child type relationship and has led to a less than effective working environment, for staff (where morale is poor), R&D providers and IRBs.</p>	<p>Staff engagement survey results indicate generally favourable work place environment and staff satisfaction.</p> <p>Address as part of future communications / engagement.</p> <p>Hort Innovation has been considering a more formal agreement with IRBs and has discussed with some industries.</p>
<p>HARPS (additional cost and paperwork involved, lack of IRB engagement).</p>	<p>Address as part of future communications / engagement, including through an agreement with IRBs on expectations concerning communications with IRB members.</p>
<p>Voluntary contributions (highly valued, encouraged collaboration).</p>	<p>Removed following recommendation from ACIL Allen report, as VC considered to be not strategic and also creates difficulty with respect to cap on government contribution for the whole of horticulture (0.5% of GVP).</p> <p>Frontiers Fund offers better opportunity for co-investment by national and international providers with funds eligible for matching Commonwealth funding.</p>
<p>Improving measurement of industry wide impacts</p> <p>The short timeframe since transition does not really allow an objective assessment of Hort Innovation’s ability to measure impacts of investments they have made.</p>	<p>GHD notes there is a comprehensive M&E framework that is moving from ex-ante analysis to more ex-post analysis as projects/programs mature.</p>
<p>IP management</p> <p>Hort Innovation contract with service providers vests all generated IP in Hort Innovation,</p>	<p>GHD has sighted Hort Innovations IP register and notes that the company is in the process of implementing a new IP management system</p>

Theme	GHD findings
regardless of whether Hort Innovation have any commercial capacity or skills to protect or commercialise this IP. This has the potential cause delays, additional costs and missed opportunities in the industry adoption and benefit capture of investment outcomes.	which will also involve a greater involvement by all industries in better IP management.
Collaboration with RDCs <p>Concern that collaboration was taking resources away from servicing the levy paying industries.</p> <p>This was leading to a less responsive investment decision making process and higher corporate cost recovery.</p>	<p>Collaboration is one of the requirements for receiving matching funding as it ensured alignment with government's four Rural RD&E Priorities and its National Science and Research Priorities.</p> <p>Collaboration with co-investors with Frontiers Funds ensured medium to longer term outcomes for the industry with only small requirement for levy funds.</p> <p>Hort Innovation has been pro-active in applying for grant funds under the Rural R&D for Profit program that will provide benefits without committing levy funds.</p> <p>Address misunderstanding as part of future communications / engagement and reporting.</p>

Appendix E – Performance against SFA obligations

GHD has sighted Hort Innovation's comprehensive, up-to-date schedule of reporting obligations to the Commonwealth required under the SFA. The following is GHD's relatively high level of assessment of performance

Relevant Deed Item	Assessment by GHD
4. Transition from HAL	
Report on progress in implementing recommendations of 2014 Review	Achieved with the exception of improved communication with growers, which is still a work in progress (see Table 1, section 2). The need for improvements since transition have been identified and are being implemented, although changes have not been consistently communicated to stakeholders (see 3 for more details).
5. HIAL Corporate Governance and Board Performance	
Report on measures taken to enhance corporate governance	High degree of compliance (refer to section 8).
Independent skills based board	Compliant (refer to section 8).
Director nomination committee	Compliant, including 2017 change to admit a levy paying member (refer to section 8).
Consult with Commonwealth re changes to Constitution	Achieved – DAWR advises appropriate consultation undertaken by Hort Innovation (refer to section 2.3).
Represent interests of members & levy payers	Ongoing – while Hort Innovation strives to achieve effectiveness of its investments, the processes have not been well communicated to members and levy payers.
Levy payers advised of entitlements as members	Satisfactory communications of entitlements leading up to the AGM, and also on website at all times.
Strategic Plan, priorities, key activities available on website	Achieved – strategic plan released in 2016 following an extensive stakeholder consultation process, outlines the corporate strategies and investment priorities and is available on website.
6. Payment of funds	
Payments by Commonwealth (i.e. from LRS)	Achieved, see Annual Reports detailing contributions.
Voluntary contributions	Hort Innovation ceased to accept Voluntary Contributions funding for investments as a result of the 2014 Review (section 4.3). Use of VC legacy funds only.
Matching payments	Achieved, see Annual Reports detailing government contributions.
Certification of amounts spent on R&D	Appropriate cost allocation policies in place, processes and controls appear to be in place. Audit and Finance Committee plays an important role and external audit included in each Annual Report. Certification reports are issued annually to the Department.
Limits on matching amounts	Achieved, matching funding limited to 0.5% of the gross value of horticulture.
7. Application of the funds	
According to SP, AOP and Guidelines	Achieved - expenditure of funds is subject to external audits and reported in each Annual Report.
R&D levies, Marketing levies applied separately	Achieved – external audit of cost allocation policy.

Relevant Deed Item	Assessment by GHD
Reasonable administrative expenses	Achieved - external review found corporate support costs appear to be within the range of overhead costs incurred by other RDCs and NFP organisations in Australia. Hort Innovation is currently reviewing its Corporate Cost Recovery policy (section 4.3).
Not engage in agri-political activity	Achieved - no concerns from DAWR or other stakeholders suggesting non-compliance (see Section 4.5).
Procuring goods from IRBs	Achieved - IRBs only receive project funds if subject to arm-length competitive tendering arrangements or satisfactory reasons for direct procurement have been approved by the Hort Innovation Board.
Determine a balanced portfolio – SP, AOP, AR	Achieved – balanced portfolio guided by SIPs and reported in key strategic and business documents.
Contribute to relevant horticulture industry strategy and cross-sectoral strategies under RD&E Framework	Achieved (see section 5.8).
8. Management of funds	
Necessary accounting systems and cost allocation policy	Achieved – external audit of accounts in Annual Reports.
Systems take into account Risk Mgt, Fraud Control & cost allocation policy	Achieved - good corporate governance arrangements (see section 8.2).
Provide Commonwealth with details of systems etc.	Achieved – DAWR advised GHD that appropriate consultation is undertaken by Hort Innovation.
12. Extension of R&D	
Strategic Plan to address extension, technology transfer, commercialisation of R&D	Achieved, especially as described in SIPs.
Pathways to extension and adoption incl. in planning and approvals processes	As above.
Report on extension activities AR	Achieved – “keeping KPIs front and centre” included in Annual Report. Also, individual industry Annual Reports.
13. Planning	
Program Framework informed by SP and with KPIs	Achieved - Program Framework included in Strategic Plan, with template also included in all SIPs.
Evaluation Framework – include a structured plan for the systematic evaluation of efficiency, effectiveness and impact of HIAL’s key investments	Achieved - section 6.1 addresses Hort Innovations approach to monitoring and evaluation.
Include a means of publishing and dissemination R&D outcomes and outcomes of evaluations	Achieved - Hort Innovation’s website and also via communications projects with IRBs.
Strategic Plan - Covering the 4-year period, review and update at least yearly. Include consultation plan	Achieved.
Annual Operational Plan	Achieved.
Other Plans – Risk Mgt, Fraud Control, IP Management	Achieved.
14. Reports	
Compliance Audit Report – w/n 5 months of end of financial year	Achieved – no concerns raised by DAWR.
Annual Reports – with required inclusions	Achieved – no concerns raised by DAWR. Annual Reports published on Hort Innovation website.

Relevant Deed Item	Assessment by GHD
15. Performance Review (GHD review)	Underway
17. Consultation and Directions	
Meet with C'wealth at least each 6 months	Achieved.
Consultation with levy payers and broader hort industry: review priorities for R&D and marketing, report on performance	Achieved and ongoing – see section 4.7.
21. Acknowledgement of funding (matching)	Achieved. GHD has sighted a range of Hort Innovation and IRB publications that include acknowledgement.

Appendix F – Performance against ASX Principles and Guidelines

ASX Principle & recommendations	Assessment	Documents/Methods
1. Lay solid foundations for management and oversight		
1.1 (a) disclose respective roles & responsibilities of management and	Yes	Board Charter
(b) those matters expressly reserved for the Board and those delegated to management	Partially Yes for Projects and Investments Not all matters reserved for the Board are documented in a policy	Delegations Policy for Projects and Investments
1.2 Undertakes appropriate checks before appointing a person or putting forward a candidate for election as director	Yes	Director Nomination Committee Terms of Reference
1.3 Has a written agreement with each director and senior executive setting out the terms of their appointment	Directors terms set by Constitution Yes	Constitution Letters of appointment for directors recently signed Letters of appointment for senior executive
1.4 Company secretary accountable directly to the Board through the chair on all matters to do with the proper functioning of the Board	Yes	Board Charter
1.5 Diversity policy – measurable objectives for achieving gender diversity	Diversity & Inclusion Policy being drafted 30 % directors are female	
1.6 (a) Process for evaluating performance of the Board and its committees and individual directors	Yes	Board Performance Evaluation Policy Board performance evaluation results

ASX Principle & recommendations	Assessment	Documents/Methods
(b) disclose that performance evaluation has taken place within the reporting period	No	
1.7(a) Process in place for periodically evaluating the performance of senior executives	Yes	
(b) disclose that performance evaluation has taken place within the reporting period	No	
2. Structure the Board to add value		
2.1 Nomination committee	Yes	Director Nomination Committee
2.2 Board skills matrix	Yes	Constitution Director Nomination Committee Terms of Reference
2.3 disclosure of names of directors considered by the Board to be 'independent' directors	All considered independent	Constitution Statutory Funding Agreement
2.4 majority of independent directors	Yes	
2.5 Chair should be an independent director	Yes	Annual Report Chair's CV
3. Act ethically and responsibly		
3.1(a) have a code of conduct for its directors , senior executives and employees	Yes	Code of Conduct & Business Ethics Board Code of Conduct
(b) disclose that code or a summary of it	No	
4. Safeguard integrity in corporate reporting		

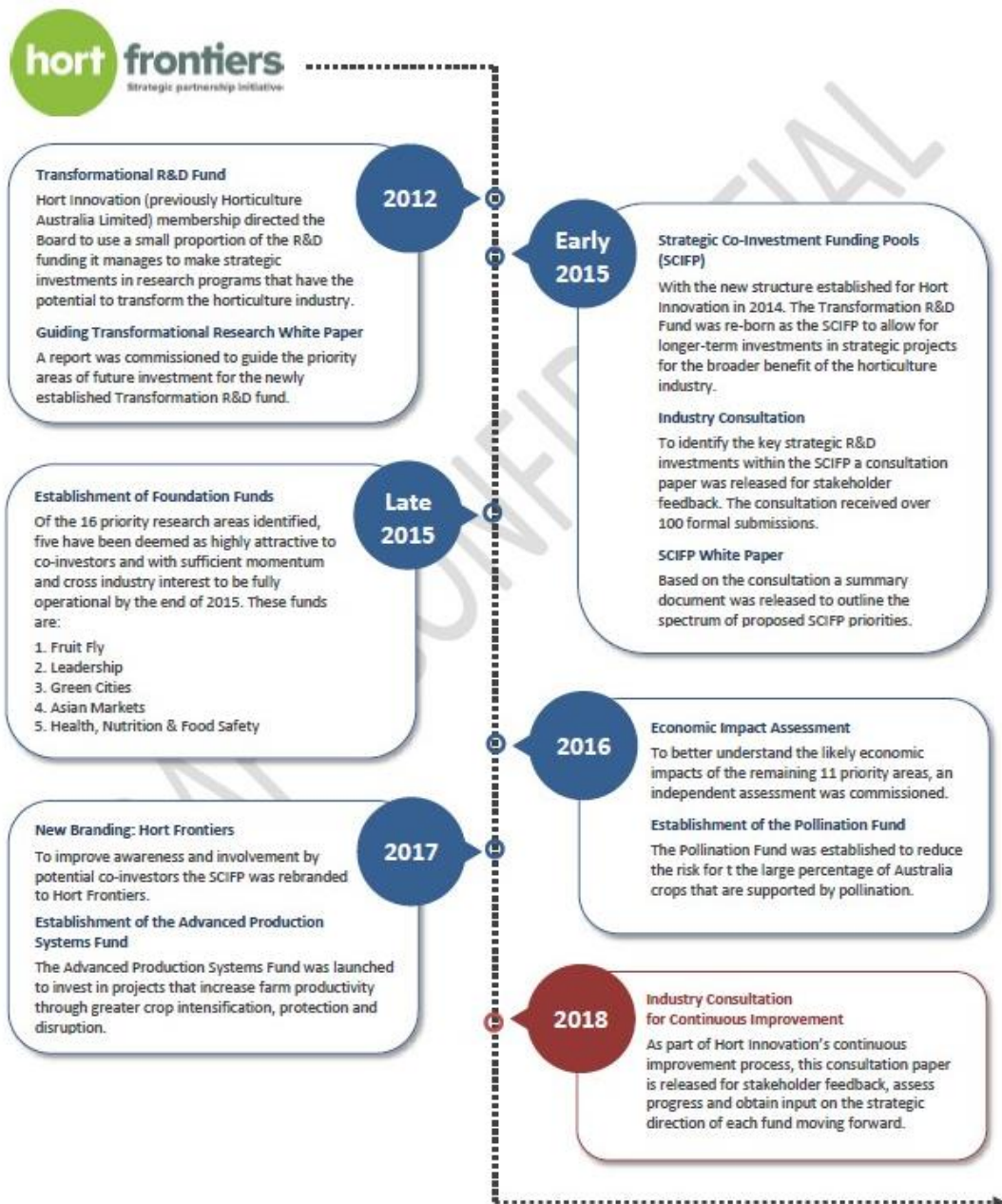
ASX Principle & recommendations	Assessment	Documents/Methods
<p>4.1 Audit committee</p> <p>- all non-executive members and chaired by an independent director who is not the chair of the Board</p> <p><i>and discloses</i></p> <ul style="list-style-type: none"> • Charter of the committee • Qualifications of members of committee • Number of times committee met 	<p>Yes</p> <p>No</p> <p>Yes</p> <p>Yes</p>	<p>Audit and Risk Committee Charter</p> <p>Annual Report</p> <p>Annual Report</p>
4.2 before board approves financial statements should receive from CEO and CFO a true and fair declaration and that opinion formed on the basis that a sound system of risk management and internal control which is operating effectively	Yes	
4.3 ensures that external auditor attends it's AGM	Yes	
5. Makes timely and balanced disclosure	Yes	<p>Annual Report</p> <p>SIAPs</p> <p>Website</p>
<p>6. Respect the rights of security holders</p> <p>6.1 provides information about itself and its governance via its website</p> <ul style="list-style-type: none"> • Information about directors and senior executives • Its constitution, board charter and charters 	<p>Yes</p> <p>Yes</p>	<p>Website</p>

ASX Principle & recommendations	Assessment	Documents/Methods
<ul style="list-style-type: none"> of its board committees Corporate governance policies and other corporate governance materials referred to in these recommendations Copies of annual reports and financial statements Copies of notices of meetings and accompanying papers Material about its current business, how it is structured and a summary of its history 	<p>Yes</p> <p>No</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>	
6.2 have an investor relations program to facilitate effective two way communication with investors	Yes (for SIAP Members)	SIAPs
6.3 policies and procedures in place to facilitate and encourage participation at meetings of security holders 6.4 should give security holders the option to receive communications electronically	<p>Yes (for Members)</p> <p>Yes</p>	Industry Advisory Website
7. Establishes a sound risk management framework and periodically review the effectiveness of that framework 7.1 committee to oversee risk management <ul style="list-style-type: none"> 3 members -majority independent & independent Chair 	<p>Yes</p> <p>Yes</p> <p>Yes</p>	Audit and Risk Committee Charter Risk Management Plan and Policy and Fraud Control Plan

ASX Principle & recommendations	Assessment	Documents/Methods
<ul style="list-style-type: none"> Charter <p><i>And discloses</i></p> <ul style="list-style-type: none"> Charter Members Number of times it has met and individual attendance at meetings 	<p>Yes</p> <p>No</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>	Annual Report
<p>7.2 (a) review the risk management framework annually and</p> <p>(b) disclose that such review has taken place</p>	<p>Yes</p> <p>No</p>	<p>Audit and Risk Committee Charter</p> <p>Risk Management and Fraud Control Plan</p>
<p>7.3 disclose of whether have an internal audit function</p> <ul style="list-style-type: none"> If so how it functions and what role it plays 	No	
<p>7.4 should disclose whether it has any material exposure to economic, environmental and social sustainability risks and if so how does it manage them?</p>	No	
<p>8. Remunerate fairly and responsibly</p> <p>8.1 remuneration committee</p> <ul style="list-style-type: none"> At least 3 members, majority independent Independent Chair <p><i>and discloses</i></p> <ul style="list-style-type: none"> Charter Members Number of meetings Individual attendances 	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>No</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>	<p>Remunerations and Appointments Committee</p> <p>Annual Report</p>
<p>8.2 disclose policies and practices regarding the remuneration of non-</p>	Yes	Committee Compensation Guidelines

ASX Principle & recommendations	Assessment	Documents/Methods
executive and executive directors and other senior executives		
8.3 equity based remuneration scheme	N/A	

Appendix G – Hort Frontiers Funds timeline



Appendix H – Prioritisation and timing of Recommendations

Recommendation	Priority (H, M)*	Timing (S, M, ongoing)*
1. Hort Innovation to consolidate on the improvements achieved during the transition phase (first 18-24 months of the company) with further refinement and continuous improvement based on the lessons learned from stakeholder feedback and internal company assessments, with emphasis on the implementation of a refined communication and engagement plan and the role of IRBs to maximise the effectiveness of its communications activities.	H	Ongoing
2. Hort Innovation to continue to foster both formal and informal communication channels with the Commonwealth in the interests of ensuring the company's SFA obligations are discharged in a timely and effective manner, and better communicate its SFA obligations to stakeholders.	M	Ongoing
3. Hort Innovation to improve its reports to: <ul style="list-style-type: none"> ensure consistency in the presentation of information on financial forecasting in AOPs and subsequent financial reports in Annual Reports; and provide more description on the source of funds for Frontiers Funds and the rationale for the selection of Frontiers Fund projects. 	M	S
4. Hort Innovation to complete the development of an integrated financial and management accounting system that will provide more timely and accurate reports to guide investments	M	S
5. Hort Innovation to complete a review of the current organisational and internal reporting and approvals model to determine if it is the most effective and efficient structure for delivering its corporate activities, including responsiveness to levy payer requests, and adopt the recommendations from the review while being cognisant of any cost implications.	H	S
6. Hort Innovation to: <ul style="list-style-type: none"> complete its Diversity & Inclusion Policy including measurable objectives for achieving gender diversity; 	M	M

Recommendation	Priority (H, M)*	Timing (S, M, ongoing)*
<ul style="list-style-type: none"> include Delegations of Authority matters reserved for the Board in a policy document; and add a Governance section to its website thereby disclosing its good governance frameworks, documents and practices. 		
7. Hort Innovation to develop a generic agreement, or Statement of Intent, between Hort Innovation and IRBs that codifies the relationship and includes a complaints handling process, with the scope of the agreement to be jointly agreed between Hort Innovation and IRBs.	H	S
8. Hort Innovation, in consultation with IRBs and the Commonwealth, to put a resolution for member vote removing the exclusion of IRBs from being members of the company.	H	S
9. Hort Innovation to better communicate to stakeholders the improvements that are being progressed to address issues identified as potentially negatively impacting on its performance, including: <ul style="list-style-type: none"> Progression of the SIAP improvement process Improved communication of Frontiers Funds, especially the benefits of attracting co-investors for cross-industry outcomes with minimal use of levy funds Consideration of a hybrid model for project initiation (concept plus call) Consideration of how better to achieve collaboration between smaller industries that results in more efficient delivery of services and reduces the risk of a “siloed” approach Activities in support of food safety initiatives and crisis management. 	H	S
10. Hort Innovation to continue to seek cross-RDC collaboration opportunities that will benefit horticulture as well as the broader agricultural industries and community.	M	Ongoing
11. Hort Innovation to finalise its approach to transition the monitoring and evaluation focus from ex-ante impact assessment to ex-post impact assessments to test if expected benefits have been delivered and inform future investment decisions.	M	M

Recommendation	Priority (H, M)*	Timing (S, M, ongoing)*
12. Hort Innovation to ensure that risk is a consideration in allocating resources and establishing triggers for monitoring and evaluation, noting that at the moment the framework currently links the determination of monitoring and evaluation methods to size of project, availability of data and M&E capability. This is likely to be of particular importance to Frontiers Fund investments.	M	M
13. Hort Innovation to amend Section 6 of the Organisational Evaluation Framework to increase the frequency of reporting to growers and levy payers, and investors and co-investors from just end-of-investment cycle reporting. This update to the framework will also better reflect Hort Innovation's current practice, which is to provide more regular updates to these stakeholders.	M	M
14. Hort Innovation, if requested by an IRB whose industry has a marketing levy, review the marketing arrangements for that industry (including potential for collaboration with other industries) to determine if marketing projects can be delivered in a more efficient and effective manner with the aim of improving the return on investment from levy funds.	H	S

* **Priority:** H = high, M = medium (there are no low priority recommendations)

Timing: S = short term (within 12 months), M = medium term (1 – 3 years)

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