Audit Reports Summaries

Audit Report No. 21 1995-96

Summary

The Meat Research Corporation

MANAGEMENT OF PROJECT FUTUTECH

Performance Audit

Background

MRC was one of the first of a number of rural research and development (R&D) corporations established within the primary industries and energy portfolio under the R&D corporation model for the administration of research programs. The Corporation is funded by the Commonwealth and the cattle and sheep meat industries on a 50/50 basis. MRC's role is to plan and coordinate the conduct of research and development for the benefit of the Australian meat and livestock industry. MRC spreads the cost of R&D among the industry beneficiaries of that R&D and the Australian economy at large. The Government provides matching funding to MRC in recognition of the flow-on effects to the general community of improvements to the meat and livestock industry.

MRC has a number of research programs of which the Fututech project, a computer-controlled, semi-automated slaughtering system, has been the largest. Fututech has accounted for over $40 million, or around 12 per cent, of the Corporation's total expenditure since its formation in 1985.

Fututech was envisioned as a means of addressing inefficiencies in the Australian meat processing sector. MRC's predecessor body, the Australian Meat Research Council, commenced research into automated slaughter technology in the late 1970s. A research prototype was built at Cannon Hill in Brisbane during 1986 and construction of a commercial prototype was begun at Kilcoy, Queensland, in June 1992. MRC contracted to supply the Kilcoy Pastoral Company (KPC) with a fully operational slaughter line. MRC then contracted BHP Engineering Pty Ltd (BHPE) to construct this commercial prototype. Costs quickly increased, milestones were not attained and the technology did not perform to specification. The project was finally abandoned in August 1994 after expenditure of more than $40 million, including amounts on research, removal of the modules from the Kilcoy location and $4 million compensation to KPC. MRC and its wholly-owned subsidiary, Fututech Pty Ltd (FPL), litigated a claim with BHPE for $57 million and BHPE lodged a cross-claim for $12 million. The ANAO has been advised that this dispute was settled in December 1995.

Audit Objective

The ANAO selected the Fututech project for audit as it is one of the largest R&D projects conducted by any of the rural R&D corporations to date. The ANAO planned to identify possible improvements in management practices which would assist not only MRC but also other R&D corporations.

Key Points

MRC's decision to commercialise Fututech

In deciding to construct the commercial prototype at Kilcoy, MRC entered into contractual obligations to supply KPC with a fully operational, commercial slaughter line, based on commercial criteria, notwithstanding the project's:

- lack of research rigour;
- unresolved technical problems;
- unquantified costs and benefits; and
- ill-defined market potential.

Tendering procedures used by MRC and Fututech

The ANAO considers that the procedures adopted by MRC and FPL when awarding Fututech contracts, appointing Fututech's Chief Executive Officer (CEO), and hiring consultants did not encourage "open and effective competition". The absence of competitive tenders meant that, in some cases, only a single candidate was considered, thereby allowing that candidate considerable negotiating power.

Fututech's contractual arrangements

The ANAO concluded that the negotiated arrangements as reflected in the Fututech contracts, resulted in MRC's (and ultimately the Commonwealth's) interests not being adequately protected.

Fututech's project management

The ANAO considers that the Fututech project was not properly managed in that proven project management practices which should ensure that projects are defined, planned, implemented, continually monitored, evaluated and adjusted, or discontinued, to reflect change in the operating environment were not effectively employed.

MRC's subsidiary structures

MRC sought innovative methods of encouraging industry to adopt the technology developed through its research. It established three wholly-owned subsidiaries, Fututech Pty Ltd (FPL), Australian Meat Technology Pty Ltd (AMT) and the Agribusiness Development Capital Pty Ltd as trustee for the Agribusiness Development Trust (ADT). These organisations were each intended to play a role in supporting the commercialisation of technology in the meat processing sector by encouraging private sector investment.

The ANAO observed that significant losses had been accrued by the tax-paying subsidiaries of MRC, which is a tax-exempt public sector body. The ANAO notes that such losses of a tax-exempt public sector body may be transferable to tax-paying commercial entities if the subsidiaries are sold. While the transfer of tax losses would enhance the attractiveness of any sale, presuming any conditions imposed under Australian taxation rules could be met, it could be at the cost of Commonwealth taxation revenue. This raises a policy issue in the context of the Government's framework for the oversight of statutory authorities which it would be appropriate for MRC to pursue with the Departments of Primary Industries and Energy, Treasury and Finance.

Predicted returns from research and development projects

To date, the predicted returns from the Fututech project have not been realised. The ANAO considers that, while there may be some financial returns resulting from the general concepts involved in automated meat processing, these returns would most likely eventuate only after considerable further research, design and re-engineering.

Recommendations

The ANAO made ten recommendations aimed at improving the administration of research corporations and research projects. The Meat Research Corporation agreed with all ten recommendations but mentions that they generally reflect the way MRC is already operating. MRC has acknowledged, however, that the Fututech project was not subject to some of the controls it advised were part of its operating policy.

Conclusion

Because research and development projects are high-risk undertakings in terms of payback and achievement of objectives, the ANAO considers that their control requires rigorous application of risk management techniques. This report identifies several instances of poor management practice in the decision-making processes, contractual and tendering arrangements, and project management. These resulted from failure to identify and evaluate the possible risks and to apply appropriate techniques to manage them effectively.