

The Auditor-General

Restructuring of Meat and Livestock Statutory Organisations

Australian National Audit Office

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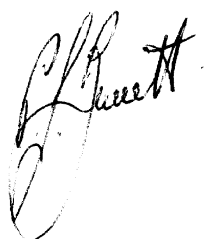
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Canberra ACT
25 June 1998

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Restructuring of Meat and Livestock Statutory Organisations*.

Yours sincerely



P. J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Australian National Audit Office
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telephone (02) 6203 7505
fax (02) 6203 7798

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Audit Team

Medha Kelshiker

Sue Morton

Tony Pratt

Peter Parker

Alan Greenslade

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Abbreviations

ALFA	Australian Lot Feeders' Association
AMC	Australian Meat Council
AMLC	Australian Meat and Live-stock Corporation
AMPC	Australian Meat Processor Council Ltd
ANAO	Australian National Audit Office
APS	Australian Public Service
AUSMEAT	This is an organisation which will be responsible for maintaining a universal trading language for meat and livestock.
DOFA	Department of Finance and Administration
DPIE	Department of Primary Industries and Energy
DWRSB	Department of Workplace Relations and Small Business
MIC	Meat Industry Council
MISP	Meat Industry Strategic Plan
MLA	Meat and Livestock Australia Ltd
MoU	Memorandum of Understanding
MRC	Meat Research Corporation
R&D	Research and Development
RMAC	Red Meat Advisory Council Ltd
SCA	Sheepmeat Council of Australia

Part One

Summary and Recommendations

Audit Summary

Red meat industry reforms

1. The meat industry is one of Australia's major agricultural industries. The value of livestock production was estimated at \$12.1 billion in 1996-97 (forecast at \$12.9 billion for 1997-98), representing 43 per cent of all farm production. The red meat industry, which includes cattle, sheep, lamb and goats, constitutes the largest component of the livestock production - \$4.5 billion for 1996-97, some 37 per cent of all livestock production.
2. The red meat industry is a multi-sector industry represented by beef and sheepmeat producers, processors, lot feeders and live exporters. There is significant diversity of interest, size and structure within each component of the industry.
3. Many of the collective activities in the Australian meat industry, such as those concerned with marketing, safety, quality assurance, market access, and research are carried out by one or more of the three statutory meat industry bodies, that is, the Australian Meat and Live-stock Corporation (AMLC), the Meat Research Corporation (MRC) and the Meat Industry Council (MIC).
4. In March 1997, the Government announced the 'red meat reform package' with the purpose of increasing industry's role in self determination and self regulation and to minimise the involvement of Government while at the same time ensuring appropriate representation, governance and accountability of the industry. The key elements of the reforms are for:
 - AMLC, MRC and MIC to be replaced by a new producer-owned company, entitled Meat and Livestock Australia Ltd. (MLA). The new company will be funded by compulsory levies paid for by producers, together with contributions from processors and livestock exporters to support agreed collective and core activities;
 - meat processors and livestock exporters to establish separate voluntary funded companies (Australian Meat Processing Company Ltd. [AMPC] and Livecorp Ltd. respectively) with statutory levies reduced to zero, with the Government retaining the power to raise the statutory levies if industry fails to collect sufficient funds to finance agreed collective activities with producers;

- the peak councils to establish a new company, the Red Meat Advisory Council (RMAC), to advise the Government on whole of industry matters, including industry multi-sector policy and strategic matters; and
 - AUSMEAT to be established as a joint venture company, to be funded equally by MLA and AMPC. AUSMEAT is the organisation that is responsible for maintaining a universal trading language for meat and livestock.
5. The five new companies have been or are to be incorporated under the Corporations Law as companies limited by guarantee.
6. Under the new industry arrangements:
- there will be a Memorandum of Understanding (MoU) between industry sectors, industry established companies and Government designed to achieve cooperation in the overall interests of the red meat industry;
 - Commonwealth matching funds for research and development (R&D) will continue; and
 - the Department of Primary Industries and Energy (DPIE) will continue to collect and distribute statutory producer levies and will take over the issuing of export licences and quotas from the AMLC.
7. The policy framework for the new structural arrangements was defined by the Government. The new arrangements are designed to minimise Government involvement in industry affairs, empower industry in running its own affairs and encourage ownership and leadership by industry. The Government did not prescribe the operational details of the new structures. The latter were to be the responsibility of the industry. Remaining key linkages involving Government were to be established in the MoU and through Deeds of Agreement directing appropriate use and accountability for compulsory levies, industry reserves and Commonwealth matching funds for R&D with the new companies.
8. A Transition Team, comprising representatives from the six peak councils, the AMLC and the MRC, DPIE and a representative of the office of the Minister for Primary Industries and Energy (the Minister), was established as the primary mechanism to implement the reforms within the framework of the Government's policy. The Transition Team, which is chaired by a senior DPIE officer, reports directly to the Minister. DPIE advised that the Department's responsibility is to ensure the Government's announced policy is implemented, with the details to be developed and owned by the industry. DPIE facilitates the work of the Transition Team through a small support team.

Outcome of reforms

9. The new arrangements for the red meat industry will come into effect on 1 July 1998. Under the new regime, private sector companies will take over control of the red meat industry from existing statutory organisations giving effect to the Government's objective of increasing the industry's role in self determination and self regulation.

10. In undertaking the implementation, the Transition Team has had to negotiate a number of complex issues with a very diverse industry. The Department has contributed significantly to this process through its administrative support and facilitation.

Reasons for the audit

11. The ANAO recognises that the reforms are ground breaking and require considerable effort on the part of all parties involved to resolve sometimes quite complex implementation issues. As such, there have been many challenges for the Department in facilitating and supporting their implementation. Because of the significance of the reforms, the ANAO decided to review the Department's role in, and contribution to, their implementation and to draw out lessons for the future from this experience which could be applied to any future industry restructuring arrangements.

Audit objective and approach

12. The overall objective of the audit was to assess the effectiveness of the governance framework for the management of the transition from the current red meat industry structures to the proposed new structures with particular reference to the role and operations of DPIE. Matters considered included the effectiveness of:

- planning for the implementation of the new arrangements;
- management of the risks associated with the implementation of the new arrangements;
- management structures used in the transition arrangements; and
- accountability arrangements for ongoing Commonwealth involvement.

13. Audit criteria for the audit were drawn from what is recognised as good practice in managing significant change, and in particular project management and risk management principles promulgated as good practice. The ANAO undertook fieldwork at DPIE, and the relevant statutory organisations and offered to have meetings with all peak councils. During the course of the audit the ANAO had discussions with the Sheepmeat Council of Australia (SCA), Australian Livestock Feeders Association (ALFA) and Australian Meat Council (AMC).

Conclusion

14. The Transition Team was clearly an important element of the implementation structure. Its establishment and subsequent features have facilitated industry ownership of the decision-making process. The Team has successfully negotiated a number of complex issues involved in the process of implementation.

15. DPIE in providing advice to the Minister and support to the Transition Team, has sought to address the accountability arrangements that need to be put in place. The ANAO concluded that there is considerable scope for DPIE to adopt a more systematic and structured approach to its facilitation and support of such transition arrangements, thereby improving the effectiveness of the governance framework for such transitions and achieving outcomes more effectively. Such an approach would ensure the early identification of strategies to counter the risks associated with slippages in timetable and cost over-runs, and provide greater assurance regarding the achievement of effective implementation of the objectives. Important elements of the approach include:

- ensuring that roles and responsibilities of all parties involved in the transition are clearly articulated;
- a systematic approach to risk management;
- planning and project management which encompasses an overall strategic implementation plan supported by up-to-date individual project plans;
- greater oversight and coordination of human resource management issues in the statutory meat industry bodies consistent with Government policy;
- enhancing operational aspects of the implementation such as managing the size of the Transition Team, organisation of working groups and supporting administrative arrangements for the Transition Team; and
- developing timely mechanisms to monitor and report on the effectiveness of the new arrangements in order to provide assurance that the arrangements which are developed are part of a coherent governance framework to secure the agreed outcomes.

Departmental Response

16. DPIE accepts and agrees there is scope to improve the management and implementation processes for similar structural changes in the future by seeking to influence the development of more comprehensive, structured and timely plans and risk management strategies. The benefit of experience, coupled with the guidance provided by the ANAO in Chapter 6 will assist

this process. DPIE is in the process of developing a template for managing similar reforms in the future. Price Waterhouse has been commissioned to develop plans for the monitoring of, reporting on, and managing risks associated with, the new reform arrangements post June 1998.

17. DPIE wishes to record that the outcomes reached fully meet the requirements of Government policy. DPIE notes that an important component of the policy dimension was empowerment of industry and passing responsibility to industry to develop and implement the new structural arrangements. There has been a strong and favourable response from the Minister and all sectors of the red meat industry on the way DPIE has conducted its business in assisting the successful completion of what is regarded as a significant achievement. There is no quantifiable evidence of unnecessary cost overruns or time delays. DPIE considers that with the benefit of hindsight, planning should allow for at least 18 months for the development of new structures and transition, particularly in arrangements as complex as the meat reforms.

Key Findings

Roles and responsibilities

18. The Transition Team is the primary mechanism for implementing the red meat industry reforms. The Team reports to the Minister. The purpose of the Team is

‘to represent the varied interests of industry bodies and Government in implementing reforms to service delivery mechanisms for meat and livestock industries in Australia within the policy framework set out by the Government’.

It will achieve this by facilitating a smooth transition from the current statutory arrangements to the proposed industry controlled corporations, while concurrently addressing issues of concern to both industry representative bodies and Government.

19. DPIE advised that its responsibility is to ensure ownership and management by industry of the development of new arrangements and ensure they are developed within the limits of Government policy. The Department sought to facilitate the efforts of industry, where appropriate, to respond positively to the Government’s decision. For this purpose, the Department established a small secretariat to provide assistance to the Transition Team. The secretariat is also responsible, among other things, for ensuring proper process and due diligence in the handling of industry and Commonwealth assets and for preparing for the Minister’s consideration the enabling legislation underpinning the reforms.

20. In the ANAO’s view, clear definition of roles and responsibilities at the start of the implementation process was particularly important given the complexity of the issues involved and the wide range of tasks which had to be completed in the transition period. Such action would strengthen the accountability and effectiveness of the governance arrangements for managing the transition. It would also minimise risk exposure and the possibility of duplication and waste, as well as unnecessary frustration on the one hand and insufficient oversight and control on the other, thereby assisting with the effective and efficient implementation of reforms.

21. While terms of reference were provided for the Transition Team, they do not clearly spell out the Team’s role and reporting responsibilities or specify the collective responsibility and accountability for decisions and required action, other than a requirement to represent the interests of industry and Government. This lessens the effectiveness of the

accountability framework for the operations of a body such as the Transition Team. The role of the Chair is also not clearly defined. The Chair, who is an officer of DPIE, was appointed to the Transition Team to be independent of other interests. Thus, clear guidance would be useful for all parties.

22. The ANAO also found that the Department's role and responsibility in the implementation of the reforms were not clearly documented at the start of the process. Nevertheless, it has undertaken a wide range of activities which went beyond simply providing support to the Transition Team. Greater clarity in defining DPIE's role in future such processes would enable it to maximise its contribution within the policy parameters set.

23. DPIE has acknowledged, that with the benefit of the experience of implementing the reforms, improvements can be made in the future in such transition arrangements to secure outcomes more effectively.

Implementation structures

24. Establishing the Transition Team was an effective strategy which ensured that industry had ownership of the decision-making process. It has facilitated extensive industry negotiation and understanding of the policy framework. However, there were a number of operational aspects where improvement was possible. For example, documentation would have been improved if the records of the Transition Team included the list of attendees involved in decisions, given that Team's membership varied and broadened as the implementation progressed. The increasing size of the Transition Team inevitably raised challenges in managing effective discussions and decision-making. DPIE has indicated, that in future reforms, earlier consideration may be given to managing the size of the team consistent with the identified objectives and appropriate representation of those concerned.

25. Working groups which facilitated a more detailed discussion of issues, and statutory organisation teams which dealt with transitional arrangements applying to those organisations, also contributed effectively to implementation of the reforms. There were some inadequacies in relation to the documentation of the operations of the working groups. For example, the working groups did not keep separate records of their meetings which could have enhanced accountability and understanding of issues. The ANAO also considers that there would have been value in establishing some critical working groups earlier in the implementation process.

26. The Department has contributed significantly to the implementation of the reforms through its support and facilitation. This has placed a considerable burden on DPIE's human and financial resources, with some of the DPIE team members retaining their normal management

duties. The ANAO considers that a more systematic approach to some aspects of management, including giving more attention to accepted management practices such as identifying clear responsibilities and documentation of key decisions made by the DPIE team, would have helped DPIE better support the transition process and should be incorporated in similar future approaches. In addition, the ANAO found that more systematic records management procedures by DPIE are necessary to ensure an effective accountability trail. DPIE has indicated that lessons learned from this experience will be considered for the future, but is of the view that its human resource management practices are based on trust and professional respect which means they do not document meetings of staff or their outcomes (unless there is a substantive reason to do so). The ANAO does not consider this to be an issue of lack of trust, but relates to good administrative practice.

Planning and risk management

27. The Department did not wish to impose a management template on the Transition Team and therefore largely left project planning and risk management to the Transition Team and the statutory organisations being wound up. DPIE considers that comprehensive plans and risk management strategies, at an early stage, would have been viewed as unnecessary bureaucracy and could have been counter-productive in achieving outcomes. However, the ANAO considers that DPIE, as a representative on the Transition Team and facilitator, could have drawn to the attention of the Team the benefits of a more systematic and structured approach to these issues. Such an approach would ensure the early identification of strategies to counter the risks associated with slippages in timetable and cost overruns, and provide greater assurance regarding the achievement of effective implementation of the objectives. This approach to early systematic identification of risks would be consistent with principles outlined in *MAB/MIAC Guidelines for Managing Risk in the Australian Public Service*.

28. In particular the ANAO found that while there was consideration of the implementation issues in the initial stages of the transition in March 1997, there was no overall implementation plan prepared for the Transition Team including such aspects as assignment of roles and responsibilities, key implementation milestones, performance assessment mechanisms and monitoring/review arrangements. There were also limitations in the project planning and in its monitoring and review. The ANAO considers that a more formal and systematic approach to planning and project management would provide greater assurance regarding the achievement of implementation objectives including risk management, in a timely and cost effective manner.

29. DPIE advised that their approach to risk management was to identify problems and issues as they become apparent and then build risk management strategies around these. Thus, while DPIE undertook some actions to address these risks, there was no systematic identification, prioritisation and assessment of risks in accordance with acknowledged better practice. Further, there were no mechanisms put in place to identify, monitor and review the risks on an ongoing basis. Significant projects involving sensitive and complex issues in particular warrant such action.

Resource management — staffing and costs of implementation

30. The Transition Team has not formally addressed any human resource management issues relating to the statutory organisations being wound up. DPIE has advised that it was a deliberate strategy to not involve the Team in staff management issues given they were highly sensitive and principally a matter for the AMLC and MRC Boards and the new company, MLA. The AMLC and the MRC signed separate enterprise/cessation agreements with some staff in 1997, without consulting or informing DPIE or the Transition Team. The Department of Workplace Relations and Small Business (DWRSB) identified a number of concerns with these Agreements.

31. The ANAO acknowledges there was no requirement at the time for the AMLC and MRC to consult or seek DPIE or DWRSB's advice on human resource management issues. However, the importance of the need to manage staffing issues effectively was highlighted early in 1997 by the Minister, to the statutory bodies and peak councils. Given such a priority, it would seem some degree of oversight was warranted in order to ensure the issue was addressed effectively by the AMLC, MRC and MIC and the Transition Team. It would follow that some coordination and oversight role would be necessary for DPIE as facilitator to the implementation process. DPIE did not consistently adopt this role, but has recognised the benefits of enhanced senior level oversight of human resource management issues in the future. A more strategic and coordinated approach within DPIE would assist in supporting current Government policy for an effective human resource management strategy for corporatisation and privatisation of public sector activities. Experience shows that this is one of the most difficult and time consuming elements involved in such reforms.

32. The full costs of implementing the reforms will not be known until the process is completed. However, the cost to be funded from the reserves of the statutory bodies to be transferred to industry is currently estimated at some \$10 million; approximately another \$30 million net of the reserves

of the statutory bodies will be required for initial capitalisation of the MLA, AMPC and Livecorp.

33. The ANAO considers that, in future industry restructuring, DPIE should estimate, budget for, and report on, the overall costs associated with the implementation including attributable indirect costs of the DPIE team and costs associated with the wind up of the statutory organisations as part of the accountability requirements. The ANAO also considers that specific guidelines for expenditure by Transition Team members of transition funds supplied by the statutory bodies should be established at the beginning of the process to ensure a consistent use of funds and provide better accountability for the use of the resources involved.

Accountability, monitoring and reporting

34. Accountability arrangements in relation to ongoing Commonwealth involvement include: *Australian Meat and Livestock Industry Act 1997* (the Act); regulations and decisions under the Act; the Memorandum of Understanding (MoU); Deeds of Agreement; and the Memorandum and Articles of Association of each of the new companies. The MoU is a key element of the reform implementation through which the diverse industry sectors and interests agree future working arrangements.

35. The audit was undertaken while these documents were being developed. The ANAO provided comments on accountability aspects of the arrangements and understands from DPIE that it has sought to address these matters. The ANAO considers that the nature of the MoU is such that DPIE should not rely on its enforceability, but should ensure that legally binding instruments are consistent with the principles contained in the MoU.

36. The Meat and Livestock legislation requires DPIE to monitor and report on the new arrangements. DPIE has yet to design appropriate mechanisms to achieve this. The ANAO considers that it would be beneficial for DPIE to consider suitable monitoring and reporting arrangements as soon as possible, in order to design and test appropriate systems and to provide assurance that the arrangements which are developed are part of a coherent governance framework necessary to secure the required outcomes. DPIE has advised that it has now commissioned work on this matter.

Better practice

37. The ANAO, with input from DPIE's experience in this reform process, has compiled a checklist which addresses better practice in the areas of identification of roles and responsibilities; planning and risk

management for the implementation of the new arrangements; the management structures in the transition arrangements; and appropriate accountability arrangements for ongoing Commonwealth involvement. The checklist included as Chapter 6, should be of assistance when implementing similar major or complex reforms in the future.

Recommendations

Set out below are the ANAO's recommendations with report paragraph reference and DPIE's abbreviated responses. More detailed responses and any ANAO comments are shown in the body of the report.

Recommendation No. 1
Para. 2.35

The ANAO recommends that, in advising on future restructuring arrangements which involve similar privatisation/commercialisation action, DPIE ensure that the roles and responsibilities of the parties involved are clearly articulated at an early stage in the transition process and regularly reviewed, thus ensuring appropriate accountability arrangements are in place for achievement of the specified objectives.

DPIE Response: Agreed

Recommendation No. 2
Para. 3.29

The ANAO recommends that DPIE's internal administrative support arrangements for future significant projects reflect sound administrative practice, including:

- early determination of measures of success and outcomes to be achieved;
- systematic planning of resources needed to support implementation;
- clear identification of internal responsibility, monitoring/reporting and accountability for various components of the project; and
- adequate documentation of key decisions.

DPIE Response: Agreed

Recommendation No. 3
Para. 3.31

The ANAO recommends that DPIE specify and systematically record key project documents to both facilitate effective management and provide assurance of an effective accountability trail to all stakeholders.

DPIE Response: Agreed

Recommendation No. 4
Para. 4.16

The ANAO recommends that DPIE, as part of its role in advising on, and facilitating similar future transition arrangements, actively promote a systematic approach by all parties to planning and project management which includes:

- agreement on the outputs to be addressed;
- identification of the key milestones to be achieved;
- allocating responsibilities and identifying coordination and integration mechanisms;
- determining performance assessment mechanisms to measure achievements at critical stages;
- developing project/task scheduling which prioritises tasks and identifies those on the critical path; and
- regularly reviewing progress against the planned outputs/outcomes.

DPIE Response: Agreed

Recommendation No. 5
Para. 4.28

The ANAO recommends that, in advising on future such reforms, DPIE promotes an approach to risk management which is systematic, including assessment and analysis of risks and early identification of strategies to deal with and monitor these risks.

DPIE Response: Agreed

Recommendation No. 6
Para. 4.47

The ANAO recommends that, in any future restructuring arrangements which involve corporatisation or privatisation, DPIE contributes to and encourages the development of a systematic and coordinated approach to the implementation of an appropriate human resource management strategy, in support of, and consistent with, relevant Government policy.

DPIE Response: Agreed

Recommendation No. 7
Para. 4.57

The ANAO recommends that, in any future similar restructuring as part of an effective financial management practice, DPIE:

- ensures the overall costs associated with the implementation including attributable indirect costs such as salaries and other expenses of DPIE staff and the costs associated with the wind up of statutory organisations are estimated/budgeted and reported on; and

- develop guidelines for expenditure of Commonwealth funds at an early stage of the transition process.

DPIE Response: Agreed

**Recommendation
No. 8
Para. 5.18**

The ANAO recommends that DPIE develop suitable arrangements to monitor and report, among other things, on the performance of the new companies regarding:

- their compliance with the terms of the Deeds of Agreement; and
- the effectiveness of the new industry structures.

DPIE Response: Agreed

Part Two

Audit Findings and Conclusions

1. Introduction

This chapter provides the context and an overview of the red meat industry reforms. The objective of the audit and the criteria employed are also discussed.

Background

Australian red meat industry

1.1 The meat industry is one of Australia's major agricultural industries. The value of livestock production¹ was estimated at \$12.1 billion in 1996-97 (forecast at \$12.9 billion for 1997-98), representing 43 per cent of all farm production.

1.2 The red meat industry which includes cattle, sheep, lamb and goats constitutes the largest component of the livestock production at \$4.5 billion for 1996-97, which is 37 per cent of all livestock production. The gross value of cattle slaughterings exceeds that of any other single agricultural commodity and was valued at approximately \$3 billion in 1996-97 representing almost 11 per cent of total farm production. However, there has been a decline in the value of cattle slaughterings since 1993-94 when approximately \$4.3 billion worth of cattle (18 per cent of total Australian farm production) were slaughtered. Live cattle exports have increased from \$128 million in 1993-94 to \$427 million in 1996-97.

1.3 The total value of sheep slaughtered in Australia together with our live exports has risen substantially in recent years exceeding \$1 billion in 1996-97 (\$797 million in 1993-94). Sheepmeat production is closely associated with the fortunes of the wool industry.

1.4 The red meat industry is a multi-sector industry represented by beef and sheepmeat producers, processors, lot feeders² and live exporters, as illustrated in Figure 1. There is significant diversity of interest and structure within each sector. Producers range from large extensive to small intensive systems and cover interests ranging from large corporate enterprises with foreign ownership involved to the small family farm.

¹ Livestock production includes all slaughterings and products such as wool, milk and other livestock products.

² Intensive livestock producers.

1.5 The processing sector's interests include large corporate structures (a number of which are foreign owned), and smaller enterprises. The AMC represents mainly large corporate structures focussed on processing for export while NMA represents the interests of processors (export and domestic), butchers, retailers and small goods manufacturers.

1.6 The lot feeders and live exporters also include categories of large and small operations and overseas and domestic ownership interests. In 1996-97, exports of beef and sheepmeat, together with the livestock trade, amounted to over \$3.5 billion.

Figure 1

Key components of the red meat industry

Beef Producers	Sheepmeat Producers	Processors	Lot Feeders	Exporters
17 400 specialist beef producers	16 300 prime lamb producers 72 000 sheep producers	387 processing establishments with 215 abattoirs nationwide with 172 involved in further processing 81 abattoirs have export licences	Feedlot capacity in Australia of 850 000 head of which 45% in large (>10 000 head) feedlots	Value: \$2.4b (beef) \$0.4b (live cattle) \$0.5b (sheepmeat) \$0.2b (live sheep) \$3.5b total Key destination of beef exports USA (24%) Asia (61%)

Source: DPIE

Current statutory framework for the meat and livestock industry

1.7 Many of the collective activities in the Australian meat industry, such as those concerned with marketing, safety, quality assurance, market access, and research have been carried out by one or more of the three statutory meat industry bodies the AMLC, the MRC and the MIC.

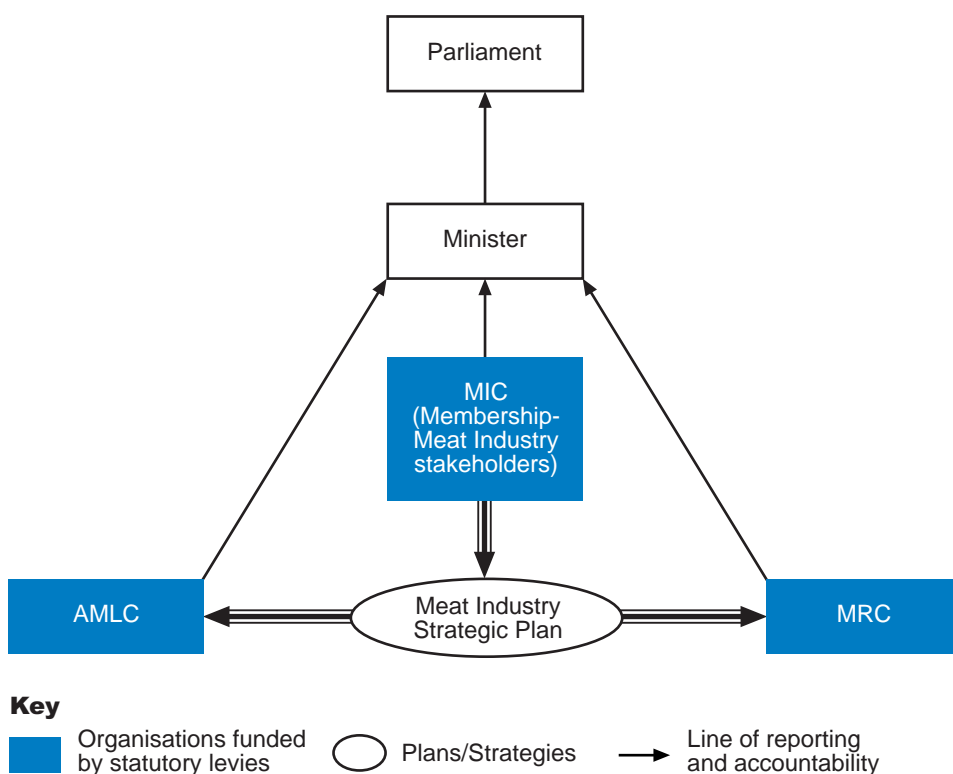
1.8 Under the current arrangements, the AMLC is broadly responsible for increasing and improving the production, sale and consumption of meat and live-stock in Australia. It does this through overseas and domestic marketing campaigns, facilitating access to overseas markets, market research, and supporting safety and quality standards. The AMLC has a head office in Sydney and four overseas offices. It employed 178 staff as at 30 June 1997. Total revenue amounted to \$76.3 million in 1996-97, almost all of which came from industry levies. Expenditure on marketing formed the largest portion of total AMLC expenditure.

1.9 The MRC is responsible for developing research and development plans for the meat industry. The MRC also promotes the commercialisation of research and spread of innovation in the Australian meat industry. As at 30 June 1997 the MRC employed 31 permanent full-time staff, all of whom are based in Sydney. In 1996-97 MRC revenue exceeded \$51 million, most of which came from income from levies and matching Commonwealth grants.

1.10 The MIC is the meat and livestock industry's collective peak policy body. The majority of its revenue comes from industry levies. MIC is charged with overseeing the implementation of the Meat Industry Strategic Plan (MISP). The MISP is the guiding plan for the statutory bodies which sets out six strategic imperatives that are required to realise the industry vision of achieving a 'sustainable and profitable customer-driven meat and livestock industry'.³ As at 30 June 1997, the Council employed three permanent full-time staff.

Figure 2

Current red meat industry statutory body framework



³ MISP brochure.

1.11 Under the current structure, industry's main input to this framework is through the MIC. Representatives from the six peak councils,⁴ the Supermarket Institute and the Australian Meat Employees' Union form the MIC. A representative from DPIE also serves as the Government Member on the Council. Figure 2 shows the current red meat industry statutory body framework.

Meat industry reforms

1.12 The above arrangements were achieved by the establishment of the *Meat and Livestock Industry Act 1995*. These arrangements were designed to provide industry with greater responsibility for its own affairs and to move towards a less government-regulated environment, with statutory structures that are appropriate to the future commercial and consumer challenges. The legislation provided a sunset clause to the statutory structures as 30 June 1998. It was the Government's announced intention that there be a further review of structures by government and industry to commence no later than 1 July 1997.

1.13 In May 1996 the Government established a Joint Government and Non-government Operational Task Force to address the issues facing the meat industry and develop options and recommendations for a future institutional structure. The report of the Meat and Livestock Industry Reform Steering Committee and Task Force, *Australian Meat and Livestock Reform for the Future*, was completed in October 1996. In the report the Task Force recognised that 'the beef industry faces unprecedented international competition, and is losing market share. Profitability at all levels of the industry is currently poor'.

1.14 Following consideration of the Steering Committee and Task Force report, and extensive consultation with industry, the Government announced its 'red meat reform package' in March 1997.⁵ The key elements of the reform package are described in Appendix 1. In summary they were:

- to replace the AMLC, MRC and MIC with a new producer-owned company, entitled Meat and Livestock Australia Ltd. (MLA). MLA will be concerned with research and development, food quality and safety,

⁴ The six peak councils are as follows: Australian Livestock Exporters' Council Ltd. (ALEC), Australian Lot Feeders' Association (ALFA), Australian Meat Council (AMC), Cattle Council of Australia (CCA), National Meat Association of Australia (NMA), and Sheepmeat Council of Australia (SCA).

⁵ The buffalo industry, which is part of the current arrangements, will not be contributing towards the proposed arrangements covering the red meat industry.

grading, maintenance of a universal trading language and related activities, as well as marketing services and promotion of beef and sheepmeat. The new company, to be funded by compulsory levies paid for by producers, together with contributions from processors and livestock exporters, will support agreed collective and core activities;

- for meat processors and livestock exporters to establish separate voluntary funded companies (Australian Meat Processor Council Ltd [AMPC] and Livecorp Ltd respectively) with statutory levies reduced to zero, with the Government retaining the power to raise the statutory levies if industry fails to collect sufficient funds to finance agreed collective activities with producers;
- for the peak councils to establish a new company, the Red Meat Advisory Council Ltd (RMAC), to advise the Government on whole of industry matters, including industry multi-sector policy and strategic matters; and
- establishing AUSMEAT as a joint venture company, to be funded equally by MLA and AMPC. AUSMEAT is the organisation that is responsible for maintaining a universal trading language for meat and livestock.

1.15 The five new companies have been or are to be incorporated under the Corporations Law as companies limited by guarantee.

1.16 Additional features of the new arrangements are that:

- there would be a MoU between industry sectors, industry established companies and Government designed to achieve cooperation in the overall interests of the red meat industry. The MoU outlines the roles and responsibilities within industry, future program funding arrangements, industry planning and service delivery arrangements;
- Commonwealth matching funds for R&D will continue; and
- DPIE will continue to collect and distribute statutory producer levies and will take over the issuing of export licences and quotas from the AMLC.

1.17 The Meat and Livestock legislation provides that the Minister for Primary Industries and Energy (the Minister) will be able to set the conditions for the flow of funds to the new bodies. These conditions will take the form of deeds to be negotiated with each relevant body. In the event of certain exceptional and urgent circumstances, the Minister will be able to intervene in particular matters if this is in the national interest.

1.18 Figure 3 summarises the structure of the proposed arrangements. Appendix 2 presents more detailed illustrations of the components of the new red meat industry structure.

Policy framework for the reforms and transition arrangements

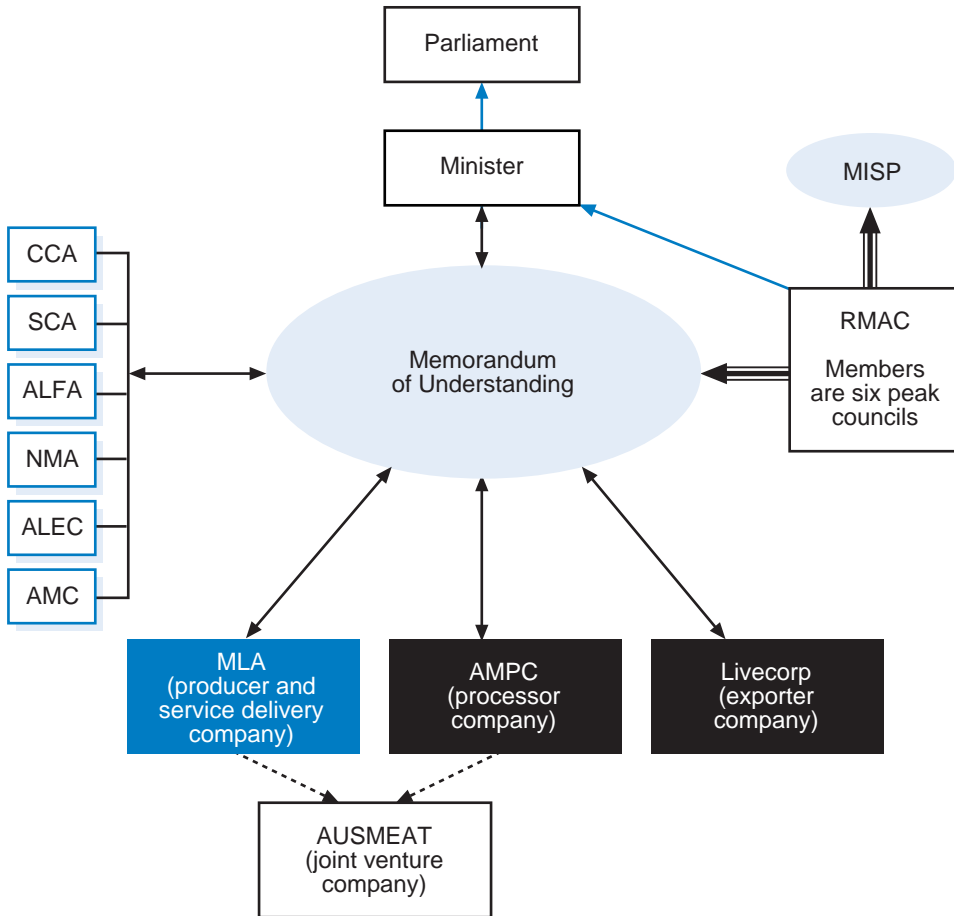
1.19 The Government's stated intention in introducing these reforms was to increase industry's role in self determination and self regulation and to minimise the involvement of Government while at the same time ensuring appropriate representation, governance and accountability arrangements of the industry. Through these reforms the Government is passing to industry responsibility for industry policy development, research, development, marketing and promotion activities, and in this way promoting leadership within industry. This policy aims to minimise Government involvement in industry affairs but recognises that Government will retain its role in national policy development and be accountable for the proper administration of public monies which are collected via levies and distributed to the new companies or otherwise provided as matching funding for R&D purposes.

1.20 The Government decided the framework and principles for the new industry structure but did not prescribe the operational details of the new structures. This was to be the responsibility of industry. That is, it was the Government's intention for industry to develop and implement the new arrangements to ensure industry leadership and ownership.

1.21 The Government has acknowledged that full industry consensus on the reforms has not been possible given the diverse nature of the red meat industry (for example, some elements of the industry did not wish to see beef and sheepmeat issues dealt with within a single organisation). However, there was broad agreement from industry on the major thrust of the reforms.

1.22 These reforms were therefore ground breaking and it was recognised by the Department that implementation would be difficult and complex given the structure and varied interests within industry.

Figure 3
Proposed red meat industry structure



Key

Organisations funded by statutory levies

Organisations funded by voluntary levies (statutory levels set to zero)

Plans/Strategies

Six Peak Councils

Line of Funding

Line of Reporting

Custodian of

Signatories to the MoU

Implementation of new arrangements

1.23 In response to a letter from the Minister announcing his reforms, an industry-based Transition Team was nominated in April 1997 by the peak councils, as the primary mechanism for implementing the reforms to the red meat industry. The Transition Team comprised representatives from the six peak councils, the AMLC, MRC, DPIE and a representative from the Minister's Office. Given the sensitivities involved, and at the formal request of the peak councils, a senior DPIE officer was also invited to chair the Transition Team. DPIE has advised that this officer was invited to act as an independent chair of the team rather than as a representative of the Department.

1.24 DPIE advised that the Department's responsibility is to ensure the Government's announced policy is implemented (ie. policy guidelines adhered to), to ensure proper process and due diligence in the handling of tax monies, and to take over responsibility of licensing and quota management. An important part of its policy directive was to ensure that the details were developed and owned by industry and not driven or directed by the Government or government officials.

1.25 To assist the Transition Team with the implementation of the changes, DPIE provided support through a small team of DPIE officers called the Meat Reform Task Force (the DPIE team). The AMLC and MRC also made arrangements to address transition matters.

1.26 Funding for the transition is provided by an appropriation of \$3.5 million as a working capital advance to meet the establishment costs to facilitate incorporation and establishment of the new companies, to pay board members, select CEOs, negotiate staffing contracts and arrange accommodation and systems support. Approximately \$1.7 million is being provided by the statutory bodies for payments via DPIE to peak councils and for legal costs. DPIE estimates the wind-up costs in relation to staffing to be in the order of \$4 million to \$5 million. These sums will be funded from the existing assets in the three statutory bodies which are currently being wound up, with the balance of assets transferred to the new companies. In addition some \$30 million net of reserves from the statutory bodies will be required for initial capitalisation of the MLA, AMPC and Livecorp.

Outcome of reforms

1.27 The legislation required to bring the new arrangements into effect was passed in December 1997. The legislation consists of the *Australian Meat and Live-stock Industry Act 1997*, the *Australian Meat and Live-stock*

Industry (Repeals and Consequential Provisions) Act 1997 and fifteen other acts dealing with levies.

1.28 The new arrangements for the red meat industry will come into effect on 1 July 1998. Under the new regime, private sector companies will take over control of the red meat industry from existing statutory organisations giving effect to the Government's objective of increasing the industry's role in self determination and self regulation.

1.29 In undertaking the implementation, the Transition Team have had to negotiate a number of complex issues with a very diverse industry. The Department has made a significant contribution to this process through its administrative support and facilitation.

Reasons for the audit

1.30 The reforms are breaking new ground. Their implementation needs to balance a reduction of Government regulatory involvement in the industry with the protection of the Commonwealth's interest. Effective corporate governance structures are critical to ensuring accountability during the transition period.

1.31 Because of the significance of the reforms the ANAO decided to review the Department's role in, and contribution to, their implementation and to draw out lessons for the future from this experience which could be applied to future industry restructuring arrangements.

Audit objective and criteria

1.32 The overall objective of the audit was to assess the effectiveness of the governance framework for the management of the transition from the current red meat industry structures to the proposed new structures with particular reference to the role and operations of DPIE. Matters considered included the effectiveness of:

- planning for the implementation of the new arrangements;
- management of the risks associated with the implementation of the new arrangements;
- management structures used in the transition arrangements; and
- accountability arrangements for ongoing Commonwealth involvement.

1.33 In assessing the effectiveness of the governance framework the criteria for the audit were drawn from what is recognised as good practice in managing significant change, and in particular project planning and risk

management principles promulgated as good practice.⁶ The detailed audit criteria are outlined at Appendix 3.

1.34 In undertaking this audit the ANAO had regard to DPIE's role, as described in its Annual Report 'to serve the Government by providing research, analytical, policy, program and management services', and how this role contributes to the implementation of the red meat industry reforms.

1.35 The audit examines the effectiveness of the management of the implementation of the Government's reforms for the red meat industry.

Audit approach

1.36 The audit was undertaken during implementation of the reforms. Regular feedback was provided to DPIE at weekly meetings of the ANAO's perspective on ways in which the management of the transition arrangements could be enhanced.

1.37 The ANAO conducted field work at DPIE in Canberra and at the offices of the AMLC, MRC and the MIC. Files, documents and other information relating to the transition were examined, and discussions were held with key management staff.

1.38 In order to seek the views of industry, input was invited from the six peak councils involved in the transition. Representatives from the AMC, SCA and the ALFA were interviewed. The ANAO engaged Blake Dawson Waldron to provide legal advice.

1.39 The audit was conducted in accordance with ANAO Auditing Standards. It cost \$210 000.

Report structure

1.40 The following chapters examine the roles and responsibilities of the various parties involved in the transition, the structures set up to implement the reforms, the planning and management of the implementation and the accountability, monitoring and reporting arrangements which will exist under the new structure.

1.41 The final chapter contains general principles of, and a checklist of better practice for, implementation of any future similar restructuring.

⁶ ANAO, Management of the Implementation of the Commonwealth Services Delivery Arrangements. Performance Audit Report No.18 1997-98, Canberra.
MAB/MIAC Guidelines for Managing Risk in the Australian Public Service. Report No.22, AGPS, Canberra 1996.

2. Roles and Responsibilities

This chapter examines the roles and responsibilities of the various parties involved in the transition. The ANAO has recommended that roles and responsibilities of all parties involved be clearly articulated at an early stage in the transition process, to ensure improved accountability arrangements.

Introduction

2.1 Effective corporate governance requires clear definitions of the roles and responsibilities of the bodies or committees established to manage an organisation, its resources activities and/or programs.⁷ Suitable linkages between particular roles and responsibilities will ensure that efforts are coordinated and that there is no unnecessary duplication or overlap of, or gaps in, activity.

2.2 In the ANAO's view, a clear definition of the roles and responsibilities in the transition was particularly important because of the sensitivities and complexities of the issues involved and the wide range of tasks which had to be completed in the transition period. There was also the potential for conflict of interest to arise between the needs/priorities of individual industry groups and the overall requirements of the industry and the Government.

2.3 The ANAO recognises that the reforms were ground breaking and have required considerable effort on the part of all parties involved to resolve implementation issues. DPIE had indicated that no prior template existed upon which to model the department's administrative approach in supporting this initiative. As such, there were many challenges for the Department in facilitating and supporting the implementation of these reforms. This reinforces the need to capture any lessons to be learnt from this experience to ensure cost effective implementation of similar reforms in the future.

2.4 From the Department's perspective these reforms have had to be facilitated with one very clear and simple principle - industry ownership of the new arrangements. It considers it would have been divisive and inappropriate for the Department to direct industry on the form and structure of its commercial arrangements. The Department has adopted the position that it should tell industry what it could not do rather than

⁷ ANAO, *Principles for Core Public Sector Corporate Governance*, 1997.

dictate what it should do within the Government's policy framework. The Department has acknowledged the need to follow 'proper governance' rules and that it understood good public administration practice requires clear definitions of the roles and responsibilities of newly formed bodies or committees in order to effectively manage an organisation, resources or a program.

2.5 In this context, the ANAO examined the degree of clarity and understanding of the roles and responsibilities of the main bodies involved in the implementation of the reforms to the red meat industry; in particular, in relation to the Transition Team, the DPIE team and the statutory bodies being wound up (the AMLC, MRC and MIC).

Transition Team

2.6 DPIE advised that the Transition Team is the primary mechanism for implementing the red meat industry reforms. The terms of reference provide that the Transition Team is 'to represent the varied interests of industry bodies and Government in implementing the reforms'. The Team sought to facilitate a smooth transition from the current statutory arrangements to the proposed industry controlled Corporations, while addressing issues of concern to both industry representative bodies and Government. The terms of reference are set out in Table 1 following.

2.7 As previously mentioned, the Transition Team was nominated by industry in April 1997. The Team was formed by representative sectors of industry, that is the peak councils and the AMLC and MRC. The Department and the Minister's Office are members of the Transition Team and representatives have attended each of the meetings. The Team's membership has changed over time. As the industry has embraced various initiatives and the boards of the new companies have become known, membership has broadened to reflect the interests of these bodies.

2.8 A senior DPIE officer was appointed as the independent Chair of the Transition Team. He was appointed at the formal request of the chairs/ presidents of the six peak councils. The ANAO understands that the reason for this request was to ensure both impartiality and maintenance of the peak councils' capacity to represent their sectoral interest. While DPIE had some reservations about this arrangement, the request was agreed to and approved by the Government on the basis that industry was requesting a facilitator for the process of negotiation and implementation.

2.9 In May 1997 the Transition Team adopted, with minor changes, terms of reference drafted by DPIE. DPIE has indicated that the Transition Team was charged with the role as set out in these terms of reference which were agreed by the Government. The Transition Team is considered the

forum through which industry has been able to test the boundaries of the Government decision to ensure all possible options were explored.

Scope for improvement

2.10 Given the central importance of the Transition Team in the implementation of the reforms, the ANAO considers it appropriate to clearly articulate its role and responsibilities and the accountability mechanisms necessary to achieve the Government's objectives. This was particularly important as the industry-based Team would be 'taking decisions' and developing the detailed operational arrangements to give effect to the Government's policy decision. As well, many of these arrangements would involve decisions about assets of the Commonwealth statutory organisations and other Commonwealth interests. Clarity of the roles and responsibilities of the Team would also help accommodate the increasing membership of the Team, facilitating any necessary and timely review of roles.

2.11 While the terms of reference indicate that peak councils are individually responsible for negotiating on behalf of their members (on an *ad referendum* basis), they do not specify the collective responsibility or accountability of the Transition Team for decisions or action, other than to represent the respective interests of industry and Government. There is no other document that further clarifies the role and responsibilities of the Team.

2.12 The ANAO expected that the Team would have a formal line of reporting and a reporting mechanism to keep the Government informed on its operations and progress. The lack of such a mechanism weakens the accountability framework for the operations of a body such as the Transition Team. The ANAO considers that there would have been benefit in clearly articulating the Transition Team's role and reporting responsibilities including accountability arrangements. This becomes important when the Transition Team enters into contractual arrangements with statutory organisations (see paragraph 4.21, last dot point).

2.13 The ANAO also found that the role of the Chair is not clearly defined, although the Chair was appointed to be independent of other interests on the Transition Team. The Chair of the Transition Team is a senior DPIE officer who had continuing line management responsibility for the red meat industry. The officer also advised the Minister on the progress of the implementation of the reforms, creating some difficulty in demonstrating independence from his DPIE responsibilities. The ANAO considers that it is particularly important to clarify the role and resultant accountability of the Chair in such circumstances. This would be to the benefit of all parties.

Table 1
Transition Team terms of reference

Transition Team Forum — Terms of Reference
<p>Purpose</p> <p>The purpose of the Transition Team is to represent the varied interests of Industry bodies and Government in implementing reforms to service delivery mechanisms for meat and livestock industries in Australia within the policy framework set out by the Government.</p> <p>Role</p> <p>The Transition Team is an important cross linking mechanism which will facilitate a smooth transition from the current statutory arrangements to the proposed Industry controlled Corporations, while addressing issues of concern to both Industry representative bodies and Government</p> <p>Ultimately industry is responsible for grasping the opportunities provided in the meat reform package through development of the most appropriate corporate structure to operate within the boundaries established. This forum will act as a vehicle for ensuring that industry takes full opportunity of this initiative. It provides a mechanism for linking Government needs through DPIE and ensuring minimum standards of accountability required by Parliament for Commonwealth Appropriations are met.</p> <p>Industry has given the Transition Team members the responsibility and the authority to negotiate on behalf of their respective body/members and to deal with the details associated with the implementation of the meat reforms. This may need to be achieved on an ad referendum basis. That is, Industry and where necessary Government representatives, have been given the authority to negotiate on behalf of their respective bodies/members, but with (sic) the final position may need to be approved by the respective body/members.</p> <p>Principles</p> <p>Important principles for the operation of this Forum are as follows:</p> <ul style="list-style-type: none"> • it is the responsibility of all members of this Forum to work constructively and collaboratively in achieving a coordinated approach to implementing meat and livestock reforms; • the Forum will recognise that there are substantial differences between Industry representatives and Government in relation to the diversity and complexity of management issues which need to be taken into account in the decision making processes; • this Forum will consult on decisions and their implementation in a full and timely manner; and • decisions will be made in an open and transparent manner.

2.14 The ANAO notes further that the terms of reference do not set a time frame for the duration of the Transition Team and its work. In this context the ANAO notes that the Minister’s announcement allowed for a possible start up date of 1 January 1998. In the ANAO’s view it is desirable to establish specific time frames for group deliberations of such nature to ensure appropriate focus on timely and effective implementation.

2.15 DPIE has acknowledged that, with the benefit of the experience of implementing the reforms, improvements may be made in the future. In particular, it has commented that the role and responsibilities of the Transition Team continually changed with the inclusion of new members and with progress in the resolution of issues. It considers it would have been useful to reflect upon the terms of reference to ensure that it maintained its contemporary position with the practices of the Transition Team. This would have also assisted in clarifying roles and responsibilities of new members. The ANAO notes that such changes emphasise the need for an accountability framework which ensures that changes in roles and responsibilities are approved and understood by all parties involved.

2.16 In the ANAO's view, there would have been benefit in the Department seeking to have the role and responsibilities of the Transition Team more clearly articulated, either in its terms of reference or related papers. Such action strengthens the accountability and effectiveness of the governance arrangements for managing the transition. It also minimises risk exposure and the possibility of duplication and waste, as well as unnecessary frustration on the one hand and insufficient oversight and control on the other. This issue is relevant to the ANAO findings in later chapters of this report.

The DPIE Team

2.17 DPIE advised that its responsibility is to ensure implementation of Government's policy through facilitating the efforts of industry, where practicable, to respond to the Government's decision. For this purpose the Department established a small secretariat to provide assistance to the Transition Team.

2.18 The Department has also been responsible for preparing for the Minister's consideration: enabling legislation underpinning the reform; regulations and explicit directions; orders; options for the transfer of the licensing and quota management functions to the Department; and deeds of grant which represent the interests of the Commonwealth in the provision of those funds and reserves which are considered to have been raised as taxes, to the industry and industry companies.

2.19 The Department advised that its other roles and responsibilities have included but are not limited to:

- the due diligence process associated with the winding up of the three statutory organisations (AMLC, MRC and MIC) and transferring assets and liabilities initially to the Commonwealth and then to the prescribed industry bodies;

- when requested by industry, assisting industry with resources and knowledge in such areas as the establishment of the Red Meat Advisory Council where the structural options of trusts and conditions of grants are being carefully considered by public and private sector legal advisers to ensure the interests of both industry and Government are addressed; and
- furnishing advice to the boards of the three statutory corporations to ensure that their statutory liabilities under the restructure are fully acquitted.

2.20 Notwithstanding this advice, the ANAO notes that DPIE has undertaken a number of other functions as part of the implementation process. These included:

- providing secretariat support for the selection of the MLA Board members;
- drafting the terms of reference and *modus operandi* of the Transition Team;
- chairing the Transition Team (at the request of the peak councils);
- preparing the agendas for the Transition Team meetings and deciding which issues would be raised, following consultation with industry;
- liaising with AMLC, MRC, DWRSB and DoFA on human resource management issues;
- preparing a basic project plan for the implementation;
- participating through a representative (separate from the Chair) on the Transition Team; and
- initiating the establishment of a number of the Transition Team working groups.

2.21 The Department has not seen its role as being the preparation of comprehensive and detailed transition plans at the beginning of the process. It considers many elements of this process to be the responsibility of industry and believed

it would have been inappropriate to have placed before industry plans and directions which could have been interpreted as the Government driving the process.

Scope for improvement

2.22 As the administrative arm of the Government and the policy and advising Department for the Primary Industries and Energy portfolio, DPIE has an important role in enabling and facilitating the implementation of the red meat reforms.

2.23 The ANAO found that the Department's role and responsibility in the implementation of the reforms were not clearly documented at the start of the process. In November 1996 DPIE identified the need to establish a small departmental team to 'support the Transition Team' in its consideration of the major issues of the implementation. However, the nature of this 'support' was not outlined.

2.24 In March 1998 the Department provided the ANAO with a statement on its role and responsibilities in the implementation of the reforms. The ANAO also noted that the DPIE team's role, perhaps understandably, appears to have evolved and broadened as the implementation progressed.

2.25 The ANAO considers that, whilst DPIE has seen its role as a facilitator, it nevertheless undertook a wide range of activities which went beyond simply providing support to the Transition Team. As part of this broader role, the DPIE team could be expected to bring to the transition process a wide range of public sector management expertise and experience in implementing Government policy. The ANAO considers, as discussed later, that there were in fact opportunities to provide more advice and expertise than was exercised, for example, in support of transition management, implementation planning and risk management, which would have contributed to greater stakeholder confidence in achievement of cost effective and timely outcomes.

2.26 DPIE has indeed acknowledged that early in the process it would have been useful to challenge the Transition Team with developing a forward planning framework in which it was prepared to operate.

2.27 Greater clarity in articulating DPIE's role in future such processes would contribute to maximising its contributions as facilitator within the policy parameters set.

AMLC, MRC and MIC

2.28 The three statutory organisations which are being wound up also had a role in the implementation of the new arrangements, for example;

- in correspondence with the AMLC, MRC and MIC, the Minister charged these organisations with the responsibility to work with the Transition Team to ensure that the work of those organisations was not disrupted and that staff resources were managed effectively;
- the MRC and the AMLC have obligations to maintain programs without any loss of momentum and to develop the 1998-99 work programs with the various industry sectors; and

- the MIC understood that it would maintain a monitoring role for a number of programs while overseeing the handover of the custodianship of the Meat Industry Strategic Plan to the RMAC.

2.29 DPIE advised that the role of the MRC and AMLC is ‘to provide back-up support and information and to participate fully in transition arrangements as respondents and communicators rather than decision-makers’. The statutory bodies also provided to DPIE funds from their reserves, for payment to six peak councils to meet their costs associated with the transition and legal expenses.

2.30 The MIC was not included in the membership of the Transition Team as nominated by industry. The AMLC and MRC have had responsibilities to continue to deliver service and meet their statutory responsibilities, while at the same time informing the Transition Team about any key decisions they were making. However, the AMLC and MRC made important decisions relating to staffing matters without consulting the Transition Team suggesting that clearer articulation of some aspects of their role would have been beneficial.

The new companies

2.31 The new companies have also had a role in implementation of the new arrangements. With the exception of Livecorp Limited, the directors designate of the boards of the new companies have participated in the deliberations of the Transition Team from September 1997. They have liaised separately with the peak councils. Involving the new companies was seen to be important because they will be markedly affected by any decisions taken by the Transition Team.

Conclusion

2.32 In our view clear definition of roles and responsibilities at the start of the process was particularly important given the sensitivity and complexity of the issues involved and the wide range of tasks which had to be completed in the transition period.

2.33 In future, there would be benefit in more clearly defining the roles and responsibilities of all parties involved in the transition at the start of the process. This would strengthen the accountability and effectiveness of the governance arrangements for managing the transition. It also minimises risk exposure and possibility of duplication and waste, as well as unnecessary frustration on the one hand and insufficient oversight and control on the other, thereby assisting with the effective and efficient implementation of reforms.

2.34 DPIE has acknowledged, with the benefit of the experience of implementing the reforms, that improvements can be made in the future in such transition arrangements to secure outcomes more effectively.

Recommendation No. 1

2.35 The ANAO recommends that, in advising on future restructuring arrangements which involve similar privatisation/ commercialisation action, DPIE ensure that the roles and responsibilities of the parties involved are clearly articulated at an early stage in the transition process and regularly reviewed, thus ensuring appropriate accountability arrangements are in place for achievement of the specified objectives.

DPIE Response

2.36 DPIE agrees, and is developing appropriate guidelines.

3. Implementation Structures

This chapter examines the implementation structures for the reforms to the red meat industry. In general the structures have contributed positively to implementation of the red meat reforms. The ANAO has identified scope for improvement in the operational aspects of the structures established and has made two recommendations that are aimed at improving the Department's administrative involvement in future such reforms.

Introduction

3.1 A cornerstone of good corporate governance is the establishment of effective structures to facilitate the achievement of required outcomes. Effective implementation structures are particularly important when the outcomes are as sensitive and complex as those involving the winding up of three statutory bodies and replacing them with five companies established under Corporations Law.

3.2 This chapter examines the implementation structures for the reforms to the red meat industry. Figure 4 provides an overview of the structures established to facilitate and implement the red meat reforms, which comprise a Transition Team; working groups that dealt with specific transition issues; a DPIE team to support the transition process; and the statutory bodies being wound up. These are discussed separately below.

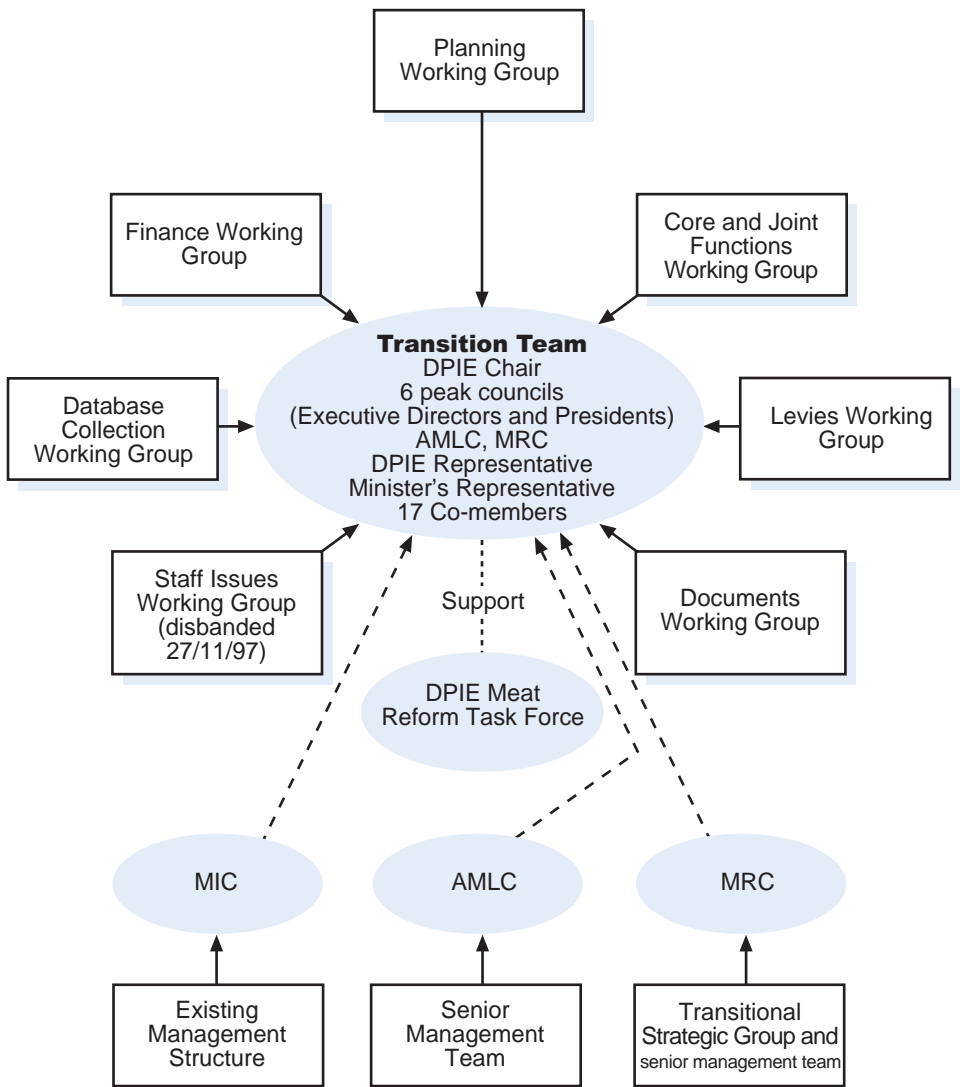
Transition Team

3.3 As described in Chapter 2, an industry based Transition Team was established as the primary mechanism for implementing the red meat industry reforms. The Transition Team has formed a number of working groups to address specific implementation issues in detail. The Transition Team and its working groups are the most important structures in the implementation of the reforms.

3.4 The Transition Team had its first meeting on 6 May 1997. Meetings were held on a monthly basis for the rest of 1997. Since February 1998 the Transition Team has met weekly in order to meet the proposed 1 July 1998 change over date to the new arrangements.

3.5 In addition to its terms of reference (see Table 1 earlier), the Transition Team adopted a formal *modus operandi* which provides an operational framework for chairing of meetings, Team membership, attendance, agenda papers and summary of outcomes.

Figure 4
Transition arrangements



3.6 Initially the membership of the Transition Team was 17 (including the Chair). However, it has increased to a total of 26 members as the implementation progressed. DPIE advised that, as the industry embraced various commercial initiatives and the constitution of boards of the new companies became known, it was necessary for membership to be broadened to reflect the interests of those bodies. Additional members include a legal adviser to assist the Transition Team with legal advice and to prepare legal material and the chairmen (designate) of two of the new companies following their appointment.

3.7 One of the primary objectives of the Transition Team has been ‘consensus building and inclusiveness’. DPIE advised that, due to the size of the Transition Team and in pursuing effective negotiations, the Team found it necessary to divide into sectoral negotiation groups on specific issues where outcomes could be delivered in a bilateral or a unilateral manner. DPIE considered the strength of this approach greatly outweighed any inconvenience that the size of the Team created.

3.8 On two occasions the Chair of the Transition Team decided, as a mechanism to achieve progress on difficult issues, to split the meetings into two sessions. The first session involved only the Transition Team Chair and the chairmen of the six peak councils seeking to resolve the more complex issues. Outcomes of the first session were then reported to the full Transition Team in the second session.

3.9 A ‘summary of outcomes’ of each Transition Team meeting was made, which recorded actions and outcomes. DPIE has also produced a task list of actions for the Transition Team comprising decisions taken at the Transition Team meetings with the action officer identified and due date for completion of the action. The list has been updated regularly and the ANAO considers that this document contributed positively to the work of the team, enabling monitoring of progress and identifying those accountable for particular action.

Scope for improvement

3.10 Establishing the Transition Team was an effective strategy which ensured that industry had ownership of the decision-making process. It has facilitated extensive industry negotiation and understanding of the policy framework. There are, however a number of operational aspects where the ANAO considers improvement is possible. For example, the Team’s membership varied and broadened as the implementation progressed, although the changes were not formally recorded and documented. The ANAO considers that documentation would have been improved if the records of the Transition Team included the list of attendees involved in decisions rather than just apologies for absence.

3.11 Agenda for each Transition Team meeting were prepared by DPIE following consultation with industry. As a matter of detail, the agenda could have been improved by establishing clear links to actions arising from previous Transition Team meetings.

3.12 The increasing size of the Transition Team has created some difficulty in managing discussions effectively to an agreed decision. DPIE took a number of steps to address this (see paragraphs 3.6 and 3.7). As a result of this experience early consideration may be given to managing the

size of the team consistent with the objectives to be met and appropriate representation of those involved.

3.13 In this context, the Department has suggested that, with the benefit of hindsight, the size of the working forum needs to be maintained at between 10 and 15 members. Although the membership of the Transition Team had to expand as the arrangements evolved, a group in excess of 20 can be difficult to manage in achieving full discussion of topics and reaching consensus as to required outcomes. It considers that, if more than 15 members are involved, it becomes necessary to explore alternative techniques to ensure that the group works cohesively in a structured manner with all participants fully engaged and focused on the required outcomes.

3.14 It is also clear that the frequency of meetings has greatly increased during the course of transition. To some extent this is an inevitable consequence of complex negotiations; nonetheless it creates difficulties for both organising the meetings and commitment by all parties. DPIE considers that, on the basis of this experience, a useful approach to scheduling the meetings would have been to set 2 or 3 meetings at an interval of 3 weeks initially in the process and then later set meetings on a fortnightly basis. Monthly meetings were considered to be too far apart to maintain the required momentum and weekly meetings too short to enable an adequate response prior to the next meeting.

Working Groups

3.15 The Transition Team has formed a number of working groups to deal with specific issues (see Figure 4). These working groups have met separately from the Transition Team meetings, presenting their conclusions to the full Transition Team. The functions of the various working groups established during the transition period are outlined at Appendix 4.

3.16 The specific issues to be addressed by the working groups were discussed in detail at the Transition Team meetings and provided the framework for their operation. However, there were no separate terms of reference drafted for these groups.

3.17 Establishing working groups to assist the Transition Team in its management of the transition facilitated more detailed discussion of the issues. The working groups produced a number of reports and recommendations on key topics.

Scope for improvement

3.18 The ANAO found that there were some inadequacies in relation to the documentation of the operations of the working groups. For example,

the working groups did not keep separate records of their meetings which could have enhanced accountability and understanding of issues, although reports from most of the groups were documented in the minutes of the Transition Team. The exception was the Staffing Issues Working Group, which did record its meetings but did not report to the Transition Team (discussed later in Chapter 5).

3.19 The ANAO also considers that there would have been value in establishing some working groups earlier in the implementation process. The ANAO notes that the Staffing Issues Working Group was not established until August 1997 and met twice prior to a decision being made by DPIE in November 1997 to close the Group. This latter decision reflected the fact that, given the sensitive nature of many of the staff issues, senior management from DPIE, AMLC and MRC would themselves from then on address these issues.

3.20 The Planning Working Group was not established until nine months after the Transition Team was formed. This group was established to look at issues relating to the final three months of the implementation process. The desirability of establishing an overall planning framework to guide the Transition team in the implementation of the reforms earlier in the process is discussed in Chapter 4.

DPIE Team

3.21 Another key implementation structure is the small team of DPIE officers called the 'Meat Reform Task Force' (the DPIE team). The DPIE team provides essential support in facilitating the implementation process. The team has been extensively involved in supporting the transition arrangements (as discussed in Chapter 2).

3.22 In order to seek the views of industry on the arrangements, the ANAO invited input from the six peak councils involved in the transition. Input was provided by three bodies on the information available, the ANAO found that DPIE was considered to have consulted well on the transition process and its role generally was appreciated. Discussions also revealed that some industry representatives would have benefited from more information and greater awareness of administrative, drafting and legislative processes necessary to complete the reforms successfully.

Scope for improvement

3.23 The ANAO understands that providing support to the Transition Team has placed a considerable burden on DPIE's human and financial resources, with some of the DPIE team members retaining their normal management duties. The ANAO considers that giving more attention to

accepted management practices would have helped DPIE better support the transition process. In particular, the ANAO considers there were limitations with respect to:

- the determination of measures of success and outcomes to be achieved;
- systematic planning of resources needed to support the implementation;
- the clear identification of internal responsibility, monitoring/ reporting and accountability by team members for various components of the project; and
- the documentation of key decisions made by the team.

3.24 The merits of addressing these operational aspects are reflected in the fact that there were significant staff movements during the transition period. There were three branch heads responsible for the DPIE team in the space of 12 months, reinforcing the need for clear documentation of decisions and a clear accountability trail.

3.25 DPIE is of the view that its human resource management practices are based on trust and professional respect which means they do not document meetings of staff or their outcomes (unless there is a substantive reason to do so). The ANAO does not consider this to be an issue of lack of trust, but relates to good administrative practice.

3.26 The ANAO is of the view that consideration should be given to the above issues when undertaking similar administrative arrangements in the future. This should include adequately resourcing the departmental team to ensure appropriate skills and direction, and focusing on resourcing contingencies to address continuity of knowledge and understanding progress being made. It is also important that the team clearly understands their role, lines of communication and responsibilities so that they are clearly focussed on the task in hand.

3.27 While recognising the pressures on DPIE, the ANAO noted that there were substantial limitations in the records management practices of the DPIE team. For example, there were difficulties in identifying, locating and authenticating documents and establishing their appropriate distribution. Collection of documentary evidence was therefore at times difficult. The ANAO considers that more effective records management practices are necessary to ensure an effective accountability trail and to adequately inform all the stakeholders involved.

3.28 DPIE has undertaken to closely examine the requirements of records management and to implement appropriate systems for the future.

Recommendation No. 2

3.29 The ANAO recommends that DPIE's internal administrative support arrangements for future significant projects reflect sound administrative practice, including:

- early determination of measures of success and outcomes to be achieved;
- systematic planning of resources needed to support implementation;
- clear identification of internal responsibility, monitoring / reporting and accountability for various components of the project; and
- adequate documentation of key decisions.

DPIE Response

3.30 While DPIE agrees on the need for sound administrative practice, DPIE does not accept any intimation that the practices were less than effective or that less than optimal outcomes were achieved. DPIE will take steps to implement more systematic and comprehensive administrative practices in the future.

Recommendation No. 3

3.31 The ANAO recommends that DPIE specify and systematically record key project documents to both facilitate effective management and provide assurance of an effective accountability trail to all stakeholders.

DPIE response

3.32 DPIE accepts there is room for improvement and will address the factors identified in guidelines for the future.

MRC and AMLC Teams

3.33 The MRC and the AMLC established their own internal structures to deal with the transitional arrangements applying to their particular organisation. These are discussed below. The MIC, because of the size of its operations and the nature of its functions, found that it could manage its aspects of the transition arrangements through its existing management structure. For this reason, the MIC is not included in the discussion which follows.

MRC

3.34 MRC established two teams to internally manage the transition process. These were:

- a Transition Strategy Group, established in May 1997, to assist the Managing Director of the MRC in discussing, deciding and directing

implementation of strategies for the transition relating to the external and internal environment; and

- a four person senior management team to implement strategy, develop financial information relating to projections for research and development funding and develop a hand-over plan identifying all tasks to be performed and the responsibilities of staff in the transition period.

3.35 As part of the initiative to form the Transition Strategy Group a decision was made to issue a weekly newsletter 'Transition Matters' to all MRC staff on facts relating to the transition. In addition, a position was established to assist the Managing Director and the Transition Strategy Group to manage the transition to the new organisation.

AMLC

3.36 The AMLC adopted a 'whole team' approach to managing the transition which involved the Managing Director, four General Managers and a legal consultant. This team met three to four times a month and prepared relevant papers for the Transition Team meetings and identified functions and tasks to be undertaken in order to facilitate the transition process.

3.37 The AMLC also established a transition sub-committee in April 1997 to ensure staff were informed of developments concerning the transition and recommending ways for staff involvement. The sub-committee provided regular reports to the staff on the progress of transition.

Joint initiatives

3.38 In addition to establishing structures at the AMLC and MRC, the ANAO was informed that meetings have been held regularly between the MRC, AMLC and the Chairman of the MLA. These meetings have been important in involving the new company in the ongoing activities of the two authorities to improve coordination and ensure a smooth transfer of activities at change-over.

Conclusion

3.39 The Transition Team has been the key implementation structure and its establishment facilitated industry ownership of the decision-making process. It provides a vehicle for seeking input from industry and key stakeholders in the new arrangements.

3.40 The ANAO also noted a number of other valuable aspects of the implementation structures. These include the establishment of working groups to facilitate a more detailed discussion of issues. The statutory bodies also established internal structures to support the transition process.

3.41 The ANAO considers there was scope for improving the implementation structures in a number of operational aspects with respect to managing the size of the Transition Team, organisation of working groups, and supporting administrative arrangements for the Transition Team.

3.42 DPIE has indicated that the lessons learned from this experience will be considered for the future.

4. Planning and Management

This chapter examines the issues relating to planning, risk management and resource management. The ANAO has identified areas for improvement in the Department's facilitation role, for example through promulgating a more systematic and structured approach to planning, project management and risk management. The ANAO has made a number of recommendations aimed at facilitating similar transition arrangements in future.

Introduction

4.1 Cost effective achievement of implementation of the red meat industry reforms depends to a large extent on how well resources are utilised in support of implementation. Effective planning, management of risks and resource management are critical factors in ensuring the best use of resources and to contribute to good corporate governance.

4.2 In the context of the reforms to the red meat industry, the Government's intention was to give industry ownership of the new structure within the bounds of the policy decision. DPIE advised that it was required to empower the red meat industry to build a commercial structure within the confines of the Government policy. As such it was the Transition Team, not the Department, that was responsible for developing implementation plans and responding to risks and exposures, except in those areas where DPIE has direct responsibility such as protecting Commonwealth interests, management of public assets and taxes.

4.3 As well, DPIE did not want to impose any management template on the Transition Team and therefore largely left project planning and risk management to the Transition Team and the statutory organisations being wound up. DPIE considered that its responsibility was to facilitate effective planning and not necessarily undertake such planning in house.

4.4 Against this background the ANAO examined the management structures in place during the implementation of the red meat industry reforms, with particular reference to the effectiveness of planning, risk management and resource management (staffing and costs).

Planning

4.5 The ANAO found that implementation issues were identified in a number of DPIE internal and Ministerial briefing documents, which had been developed prior to the Government's announcement in March 1997 of the red meat reform package.

4.6 DPIE advised that it undertook some planning for the reforms based on the Task Force Report and the Government's decision. A draft Project Plan and check list of issues to be addressed was also developed. However, DPIE was of the view that many issues have emerged that would have been impossible to forecast at the start of the process in a comprehensive planning document.

4.7 The Project Plan developed by DPIE in April 1997 identified specific tasks to be completed and relevant milestones. These tasks included activities for which DPIE was primarily responsible (such as drafting the legislation), as well as joint activities (such as development of the deeds of grant and determining the transfer of reserves from the statutory organisations). The Plan was presented to the Transition Team on 4 July 1997.

4.8 In November 1997 the Transition Team made a decision to establish a working group to develop a detailed action plan which would identify all activities to be managed between notification by the Minister⁸ and final proclamation.⁹ This covers the final three months of the implementation and seeks to minimise the risk of failing to address a critical element that may undermine the transitional process. This Planning Working Group met for the first time in December 1997.

4.9 The ANAO noted that the AMLC and MRC developed individual operational plans for 1997-98 which covered the transition period.

Scope for improvement

4.10 Planning which identifies the key implementation issues assists in providing a strategic direction and ensures accountability for the achievement of performance targets. This is particularly important at the start of the process to provide assurance of adequate and timely coverage of all significant issues. An overall implementation plan would generally include:

- agreement on the outputs to be addressed;
- identification of key implementation milestones to be achieved;
- allocation of responsibilities and identifying coordination and integration mechanisms;

⁸ The AMLC and MRC have separately identified, and requested, a three month minimum advance notification to inform staff and make the necessary arrangements for the termination of employment or transfer.

⁹ Upon final proclamation the existing statutory organisations will automatically be abolished, all previous Acts will either be repealed or amended, all new levy Acts will become operational and all assets will revert to the Commonwealth (prior to distribution to industry).

- performance assessment mechanisms to measure achievements at critical stages; and
- resources required.

These would be supported by more detailed project planning which, *inter alia*, prioritises and schedules all tasks, identifying those which are critical.

4.11 While there was consideration by DPIE of implementation issues in the initial stages of the transition (March 1997), there was no such implementation plan prepared for the Transition Team. DPIE did undertake some project/task planning but this did not address most of the above features expected to be included in an implementation plan. Their planning also had some limitations at a more specific level, for example it did not identify some key issues/tasks, or prioritise tasks. The Project Plan was presented to the Transition Team in July 1997. However, there is no record of relevant discussion nor of the Team adopting it as a guide for activities. The agenda of subsequent Transition Team meetings do not refer to this plan.

4.12 Further, the Project Plan was not reviewed regularly (there were no updates to the plan between April and October 1997), limiting the effectiveness of the Plan as a management tool.

4.13 The ANAO also notes that the operational plans developed by the statutory organisations were not linked to any structured planning by the Transition Team or DPIE. The lack of an integrated approach to planning the implementation increases the risk that separate actions may not be integrated into overall implementation.

4.14 The ANAO considers that a more structured and systematic approach to planning and project management would ensure the early identification of strategies to counter the risks associated with slippages in timetable and cost over-runs, and provide greater assurance regarding the achievement of effective implementation of the objectives. The Department, as a representative on the Transition Team and facilitator, could have drawn to the attention of the Transition Team the benefits of a more structured approach to planning and project management. Alternatively, the earlier establishment of the Planning Working group may have been a means of establishing an overall planning framework at the start of the process to guide the Transition Team.

4.15 DPIE has acknowledged that it would have been useful to challenge the Transition Team early in the implementation process with developing a forward planning framework in which it was prepared to operate. DPIE has now also undertaken a number of initiatives to improve project management, including ongoing review of Project Plan tasks.

Responsibilities have been allocated to increase accountability of all parties involved in the implementation process and the DPIE Team is now responsible for monitoring progress against the Project Plan.

Recommendation No. 4

4.16 The ANAO recommends that DPIE, as part of its role in advising on, and facilitating similar future transition arrangements, actively promote a systematic approach by all parties to planning and project management which includes:

- agreement on the outputs to be addressed;
- identification of the key milestones to be achieved;
- allocating responsibilities and identifying coordination and integration mechanisms;
- determining performance assessment mechanisms to measure achievements at critical stages;
- developing project / task scheduling which prioritises tasks and identifies those on the critical path; and
- regularly reviewing progress against the planned outputs/outcomes.

DPIE response

4.17 DPIE accepts there is room for improvement and will address the factors identified in guidelines for the future.

Risk management

4.18 The need to manage risk systematically applies to all organisations and is of fundamental importance to all managers.¹⁰ The MAB/MIAC Guidelines suggest that a formal process be applied when planning and making decisions about significant issues such as, considering changes in policy, introducing new strategies and procedures, expending large amounts of money, or managing potentially sensitive issues. An integrated and systematic approach to risk management provides confidence that all material risks are considered. A less systematic approach tends towards reactively addressing risks, with less control over the likely outcomes.

4.19 The sensitivities and complexities associated with the restructure of the red meat industry and the ground breaking nature of the reforms highlight the need for a structured and systematic approach to addressing the risks associated with the restructure.

¹⁰ MAB/MIAC, *Guidelines for Managing Risk in the Australian Public Service*, October 1996, p. 8.

4.20 In discussing its approach to risk management DPIE indicated that it was conscious of risks associated with the reform of the red meat industry and that risk management had been and was an essential part of the process. Its strategies were not based on prejudgments as to what might happen, but were built around issues as they arose and through regular reality checks. In addition, DPIE considered the Transition Team to be responsible for developing implementation plans and responding to risks and exposures.

4.21 The ANAO noted that DPIE undertook some actions to address risks. These included:

- *consultation with industry*: detailed consultations were held with industry representatives from October 1996 until the Government decision in March 1997;
- *consultation with government agencies*: DPIE had early consultation with other government agencies on issues of potential difficulty such as tax matters and the transfer of funds from the Commonwealth to the new companies;
- *extending the transition period*: the sunset clause of the *Meat and Live-stock Industry Act 1995* was extended by six months until December 1998 and the period of royal assent on the legislation was extended from six to nine months to ensure there was sufficient time to reach full agreement with industry on relevant matter; and
- *obtaining legal advice*: the Transition Team contracted, through the statutory organisations, a legal firm to provide ongoing advice to the Team and its participants. DPIE advised that it ensured the interests of the Commonwealth were protected at all times through validating legal propositions with the Attorney General's Department.

4.22 During the course of the audit, risk management issues were raised by the ANAO. The ANAO notes that since February 1998 DPIE have put in place other risk management strategies to address specific Commonwealth exposures. These include:

- engaging Price Waterhouse to undertake due diligence of AMLC, MRC and MIC which includes preparation of implementation and risk management plans;
- engaging Price Waterhouse to test the commercial reality of start-up capital requirements of MLA, AMPC, Livecorp and RMAC and examine the business plans for AUSMEAT;
- engaging the services of security experts to ensure that the locations of the quota and statistical reporting section in the MLA building in Sydney is secure and access appropriately restricted; and

- establishing a communications working group and employing the services of media experts to ensure that appropriate message is circulated within the red meat industry.

Scope for improvement

4.23 The ANAO acknowledges the actions DPIE took to address risks during the implementation process. The approach adopted, however, was not a systematic attempt to identify and prioritise the risks associated with the implementation. There were no mechanisms to identify, monitor and review risks on an ongoing basis.

4.24 Recognising the nature of the reforms, a structured approach assists in identifying potential material risks up-front. In contrast, dealing with risks as they arise exposes organisations to the increased possibility that desired outcomes will not be achieved. For example, there were a number of issues that might have been identified as risks to the implementation process and addressed effectively through a more structured and comprehensive approach to risk management. These could include:

- *human resource management*: there was a high risk that human resource management issues would become an issue once the decision was made to wind up the AMLC and the MRC, with potential significant implications - there was some experience with this development in the context of the sale of Government Business Enterprises where staffing was recognised to be an issue requiring strategic management;
- *industry experience*: the relevant industry bodies, with diverse membership, had limited experience in dealing with complex transition issues of this nature and they may have had some difficulty in responding quickly to all issues, including consultation with members;
- *delays in legislation*: the flow-on effects of possible delays in drafting and passing the complex set of legislation would be significant;
- *extra costs*: there were a number of factors that could cause delays in the implementation of the reform of the red meat industry and which were likely to result in extra costs, to be drawn from industry reserves; and
- *delayed appointment of the Chief Executive Officer of MLA*: while the ANAO acknowledges that it was not DPIE's responsibility, delay in the appointment of the CEO¹¹ by the MLA Board was likely to contribute to delays in finalising staffing and other related areas.

¹¹ The CEO was expected to be appointed in November 1997 but was not appointed until March 1998.

4.25 In its capacity as the policy advising Department and facilitator of the process, the ANAO considers that DPIE could in future bring to the process greater input on effective risk management approaches, drawing on the acknowledged better practice being promulgated within the APS and through industry standards and better practice. Significant projects involving sensitive and complex issues in particular warrants such action.

4.26 The Department accepts that, with hindsight and through the learning process, it will be able to set up an appropriate risk management and planning process for similar exercises in future. However, it also noted that care will need to be exercised as to the extent to which this is done based on hard pragmatic judgment because there is a prospect that over emphasis (in forcing excessive bureaucracy on private sector participants) could, in itself, be damaging and very costly.

4.27 The ANAO is advocating the application of sound risk management as an aid to achieving the Government's industry reforms consistent with accepted good practice.

Recommendation No. 5

4.28 The ANAO recommends that, in advising on future such reforms, DPIE promotes an approach to risk management which is systematic, including assessment and analysis of risks and early identification of strategies to deal with and monitor these risks.

DPIE response

4.29 DPIE accepts there is room for improvement and will actively promote a more systematic approach in the future. DPIE notes that, based on experience, all activities need to take into consideration practical realities and judgement to ensure measures implemented are not counter-productive to industry engagement and contribution.

Human resource management (staffing issues)

4.30 Resource management is another factor contributing to the efficiency and effectiveness of the implementation of the red meat reforms. Experience shows that human resource management is one of the more difficult and time consuming elements involved in such reforms. The restructuring arrangements affect in total 247 staff,¹² the majority of whom are employed by the AMLC and the MRC.

¹² AMLC 209; MRC 37; MIC 1.

4.31 The importance of the need to manage staffing issues effectively was highlighted by the Minister in correspondence with the AMLC, MRC and MIC in March 1997 regarding the Government's decision on future arrangements¹³ and correspondence with the peak councils April 1997.¹⁴

4.32 The AMLC and MRC had statutory responsibilities to manage staffing arrangements through transition to 30 June 1998. During the audit, DPIE advised that it did not consider it had a major role in relation to providing guidance and/or assistance to AMLC and MRC in handling staffing issues. DPIE was of the view that the statutory organisations had the expertise to handle their own staffing matters and were rightly aware of their responsibilities in the transition. Further, the new company, MLA was a potential employer of these staff and it was MLA's responsibility to employ staff suitable to its needs.

4.33 The ANAO understands that this view reflects the outcomes of a meeting in March 1997 between the two Corporations and senior departmental management which addressed, inter alia, staffing issues in a broad sense (there was no record or documentation of the discussion). DPIE advised that there was recognition between the parties of need for appropriate incentive arrangements to ensure staff remained with the statutory organisations to maintain programs and to minimise loss of key staff which MLA needed to employ.

4.34 The AMLC and the MRC signed separate enterprise/cessation agreements with some of their staff in June and September 1997 respectively. This was undertaken without consulting or informing DPIE or the Transition Team (some of whose members would be affected by this action as directors of the successor company).¹⁵

4.35 The Department of Workplace Relations and Small Business (DWRSB) identified a number of concerns about the AMLC and MRC agreements including, in its view, the effect of committing a private sector buyer to public sector terms and conditions of employment and the excessive nature of the redundancy provisions in the MRC cessation agreement.

¹³ The Minister indicated that the *'the next few months will need some very careful management and I look to your organisation to work with a transition team to ensure that the valuable work which your organisation conducts is not disrupted and that **staff resources** are managed carefully'*.

¹⁴ The Minister identified *'staffing to be one of the major issues to be resolved during the transition, given the valuable expertise built up over the years in the current organisations it was imperative that the transition takes place efficiently and equitably for the people involved'*.

¹⁵ MLA will be regarded as a successor company only in terms of any existing enterprise agreements.

4.36 DPIE and the statutory organisations do not agree with DWRSB's views. DPIE has indicated that the new company MLA had no obligation towards existing staff of the statutory bodies. However, to ensure efficient delivery of programs are to continue into the future, the MLA would no doubt employ appropriate staff from these organisations. The MRC has also expressed the belief that such transmission of existing condition would have taken place irrespective of the above Agreements because of the clear nexus between MRC/AMLC and the MLA. The AMLC advised that the 1997 Enterprise Agreement was in its view a continuation of the previous agreement in respect to the redundancy provisions. The AMLC also advised that the Agreement was heard by the Industrial Relations Commission on 1 May, but certification was delayed due to a technicality until a further hearing in June.

4.37 On becoming aware of the AMLC Enterprise Agreement, in July 1997 DPIE did begin to address matters in relation to staffing. It consulted the DWRSB and Department of Finance and Administration (DoFA). At the end of August 1997 DPIE undertook to address the staffing issues by proposing the establishment of a Staffing Issues Working Group (which included representatives from DPIE, AMLC, MRC, MIC, DWRSB and the MLA). The Group met in September 1997, and was closed in November 1997 after only two meetings. DPIE advised that due to the sensitivities involved a decision had been made to manage the issues at a senior management level.

4.38 The Transition Team has not formally addressed any staffing issues relating to the statutory organisations being wound up. DPIE advised that judgement was used in responding to issues as they arose and this was important in managing staffing issues which were particularly sensitive and which were not considered to be matters for discussion at the full Transition Team, in the interests of safeguarding staff interests and industry reserves.

Scope for improvement

4.39 The ANAO acknowledges that at the time there was no requirement under legislation for the AMLC and MRC to consult or seek DPIE or DWRSB's advice on the Agreements. As well, the ANAO recognises the need for appropriate incentive arrangements.

4.40 However, in view of the Minister's expressed interest in ensuring that staffing receive due attention and effective management, the ANAO expected to find some degree of formality such as a human resource management strategy or framework to ensure this matter was addressed effectively by the AMLC, MRC and MIC and the Transition Team and, that the Commonwealth's assets would be protected in the process, consulting

DWRSB as appropriate. It would follow that some coordination and oversight role would be necessary for DPIE as facilitator to the implementation process.

4.41 The staffing issues associated with the winding up of the three statutory bodies are part of the overall meat reform process. In this respect the ANAO considers that DPIE has a role to play, which includes overseeing the arrangements to ensure that the Commonwealth and industry reserves were accounted for and protected during the transition because:

- the assets and liabilities of the statutory organisations become the assets and liabilities of the Commonwealth on the commencement of new arrangements;
- any redundancy payments were to be made out of the reserves of the statutory organisations; and
- the directors of the MLA inherit the consequences of the decisions taken by the directors of the statutory organisations being wound up.

4.42 In addition to the DPIE role in management of staffing issues, the ANAO expected that the Transition Team would have addressed the staffing issue at an early stage in its deliberations, in order to provide assurance to the Minister that his objectives in relation to staffing were being met. As DPIE prepared the agendas for the Transition Team, the ANAO expected that this matter would have been drawn to its attention by DPIE, even if the outcome of the Team's decision was that it were appropriate for the matter to be handled through other fora.

4.43 In short there was no framework or clearly enunciated human resource management strategy to provide assurance on how staffing and employment issues were being addressed.

4.44 The ANAO considers that enhanced oversight by DPIE of such issues relating to the transfer of staff specifically, and to human resource management generally, would provide greater assurance that the Commonwealth's interests are protected.

4.45 The ANAO notes that the Government has recently sought to improve strategic coordination for corporatisation, privatisation and divestments of public sector bodies. In this context a human resource strategy should be incorporated in each corporatisation, privatisation or divestment proposal, and that development and implementation is the joint responsibility of the portfolio Minister and the Minister for Workplace Relations and Small Business. A more strategic and coordinated approach within the Department would assist in supporting this policy.

4.46 DPIE has agreed that experience through this process has demonstrated that the best approach to ensuring that a strong relationship is developed between the Department and statutory organisations is for liaison to be conducted at a senior management level. This approach was applied by the Department and the statutory organisations since December 1997, with immediate benefits recognised.

Recommendation No. 6

4.47 The ANAO recommends that, in any future restructuring arrangements which involve corporatisation or privatisation, DPIE contributes to and encourages the development of a systematic and coordinated approach to the development and implementation of an appropriate human resource management strategy, in support of, and consistent with, relevant Government policy.

DPIE response

4.48 DPIE accepts there is room for improvement and will address the factors identified in guidelines for the future. DPIE notes that staff issues are extremely sensitive and need to be managed carefully at a high level. Some information regarding staff, both specific and general, is confidential and distribution of the information needs to be limited.

Costs of implementation

4.49 Direct costs relating to implementation of the red meat industry reforms largely fall into three categories transition costs, wind-up costs and company establishment costs:

- approximately \$1.7 million is being provided by the statutory bodies for payments via DPIE primarily to the six peak councils to meet costs associated with the transition and legal expenses;
- DPIE estimates that the wind-up costs relating to staffing could be in the order of \$4 million to \$5 million. Early estimates were approximately \$800 000; this predates amendments to the legislation which impact on costs; and
- an appropriation of \$3.5 million was provided as a working capital advance to meet the establishment costs to facilitate incorporation and establishment of the new companies, to pay board members, select CEOs, negotiate staffing contracts and arrange accommodation and systems support.

4.50 The above costs are currently estimated to total some \$10 million and have been or, are to be, funded from the reserves of the statutory bodies. Effective management of these resources provides assurance that the funds are used effectively and efficiently.

4.51 Other costs such as DPIE salary and overhead costs which can be attributed to the implementation of the reforms have not been estimated by DPIE.

4.52 In addition approximately \$30 million net of the reserves of the statutory bodies will be required for initial capitalisation of the MLA, AMPC and Livecorp.

Scope for improvement

4.53 The ANAO found that while a budget had been approved to meet some direct costs associated with transition and establishment of the companies, there was no budget for costs associated with the wind-up of the statutory organisations, particularly relating to staffing. (DPIE has advised that Price Waterhouse will be preparing a full set of accounts for the three statutory bodies as at 30 April 1998 which will include a provision for staff redundancies). The ANAO notes that DPIE's estimates of staff redundancy costs have varied considerably, and have been affected by the Enterprise Agreements and legislative amendments.

4.54 In addition, as mentioned in paragraph 4.53 there was no budget for indirect costs such as, salary costs and overheads of the DPIE team. As such, there was no budget or estimate of the overall costs of implementing the reforms.

4.55 DPIE has indicated that it was difficult to estimate the overall transition costs given that predatory costs have a large element of speculation and could have had adverse consequences. However, the ANAO considers that as part of an effective management process for planning such transitions, it would be appropriate for the benefit of all stakeholders to budget for all direct and indirect costs attributable to the transition. This would reflect more accurately the total cost of the implementation and improve the transparency of reporting.

4.56 Whilst DPIE had arrangements in place to monitor ongoing costs for start-up and transition, it did not develop specific guidelines relating to the expenditure of transition funds by the Transition Team until December 1997, after some of the funds had already been spent. The ANAO considers that it is better practice to establish guidelines for expenditure of transition funds at the beginning of the process. This would provide assurance regarding appropriate use of funds and better accountability for the use of resources.

Recommendation No. 7

4.57 The ANAO recommends that, in any future similar restructuring as part of an effective financial management practice, DPIE:

- ensures the overall costs associated with the implementation including attributable indirect costs such as salaries and other expenses of DPIE staff and the costs associated with the wind up of statutory organisations are estimated / budgeted and reported on; and
- develop guidelines for expenditure of Commonwealth funds at an early stage of the transition process.

DPIE response

4.58 DPIE accepts there is room for improvement and will develop a more systematic and comprehensive approach in guidelines for the future.

Conclusion

4.59 The ANAO acknowledges DPIE's views that it did not want to impose any management template on the Transition Team and therefore largely left project planning and risk management to the Transition Team and the statutory organisations being wound up. However, the ANAO considers that DPIE, as a representative on the Transition Team and facilitator, could have drawn to the attention of the Team the benefits of a more systematic and structured approach to these issues.

4.60 In particular the ANAO found that there was no overall implementation plan early in the process, and that there were limitations in the project planning that was done. The ANAO considers that a more structured and systematic approach to planning and project management would ensure the early identification of strategies to counter the risks associated with slippages in timetable and cost over-runs, and provide greater assurance regarding the achievement of effective implementation of the objectives.

4.61 While DPIE has undertaken some actions to address risks, there was no systematic identification, prioritisation and assessment of risks in accordance with acknowledged better practice. In its capacity as the policy advising Department and facilitator of the process, the Department could in future bring to the process greater input on effective risk management approaches, drawing on better practice being promulgated within the APS and through industry standards and better practice. Significant projects involving sensitive and complex issues in particular warrants such action.

4.62 The ANAO acknowledges that at the time there was no requirement under legislation for the AMLC and MRC to consult or seek DPIE or

DWRSB's advice on human resource management issues. However, the ANAO considers that enhanced oversight of such issues would provide greater assurance that the Commonwealth's interests are protected and is consistent with recent Government policy.

4.63 DPIE has recognised the benefits of setting up an appropriate risk management and planning process for similar exercises in future, and of enhanced senior level oversight of staffing issues.

5. Accountability, Monitoring and Reporting

This chapter examines the accountability, monitoring and reporting arrangements for ongoing Commonwealth involvement. The ANAO found that DPIE had sought to address appropriately accountability arrangements for ongoing Commonwealth involvement. The ANAO has suggested that the Department address monitoring and reporting arrangements as soon as possible.

Introduction

5.1 The reforms to the red meat industry represent a significant shift in responsibility from government to industry. This chapter examines the accountability, monitoring and reporting structures to be put in place to protect remaining Commonwealth involvement.

Commonwealth's ongoing responsibility

5.2 As mentioned in Chapter 1, the Commonwealth's ongoing responsibilities in the red meat industry will include:

- collection and distribution of statutory producer levies;
- management of export licensing and export quota functions previously undertaken by the AMLC; and
- payment of matching research and development funding to the MLA.

5.3 The new companies will initially be established from Commonwealth funding which will later be reimbursed from the reserves of the statutory organisations. The Commonwealth will not be a member of any of the new companies, nor will it have board representation nor, with the exception of workers compensation, will it carry any liability in relation to their operations.¹⁶ The Government has approved the appointment of the Boards of MLA and RMAC designate.

5.4 The Minister retains the power to intervene in the national interest or increase the processor and live exporter levy from zero to an appropriate operative rate.

¹⁶ The Commonwealth will assume potential liability in respect of the *Safety, Rehabilitation and Compensation Act 1988* (SRC Act). This obligation arises in the wind up of any authority and is offset to some extent by the pre-payment of premiums by authorities under SRC Act provisions. These commitments will be accounted for where appropriate in the distribution of industry reserves.

Accountability arrangements

5.5 DPIE advised its role in the accountability arrangements is to represent the interests of the Commonwealth in the provision of funds and reserves which are considered to be raised as taxes to the industry and industry companies. Accountability arrangements in relation to ongoing Commonwealth involvement include: the *Australian Meat and Livestock Act 1997*; regulations and decisions under the Act; the MoU; Deeds of Agreement and the Memorandum and Articles of Association of each of the new companies.

5.6 These are being developed by the Commonwealth in consultation with respective bodies, based on advice provided by Government and industry legal advisors. Specifically:

- the Deeds of Agreement are intended to meet accountability arrangements as specified by Part 4 and 8 of the *Financial Management and Accountability Act 1997* and this accountability extends to both levy payers and Parliament¹⁷;
- the MoU will establish the parameters of industry cooperation through willing partnerships.¹⁸ It sets out the framework under which industry will cooperate with the Government and with its own sectors; and
- the Memorandum of Association sets out the objectives and the powers of each company. Each company must carry out its objectives in a manner which is consistent with the policy framework contained in the MoU. The Articles of Association contain the regulations and constitution for the three new companies.

5.7 The MoU is a key element of the reform implementation through which the diverse industry sectors and interests agree working arrangements for furthering interests of the industry as a whole, enhancing industry ownership and leadership. The MoU records the outcome of protracted negotiation, requiring the agreement and signatures of ten separate parties.¹⁹

¹⁷ The Government will enter into Deeds of Agreement with the MLA, AMPC, Livecorp, AUSMEAT and RMAC.

¹⁸ The MoU will be established between the Government, the RMAC (with CCA, SCA, NMA, AMC, ALEC and ALFA as the signatories) and the MLA, the AMPC and Livecorp.

¹⁹ The MoU has seven attached schedules dealing with: RMAC and peak councils (leadership); joint and core functions (programs and projects to be dealt with in the interests of industry and agreed funding levels); AUSMEAT (a joint venture dealing with industry standards and services); Safemeat (a partnership dealing with whole of industry and government management and development of meat safety and hygienic benchmarks); funding flows; crisis and issues management; and intellectual property.

Due diligence

5.8 The *Australian Meat and Livestock Industry (Repeals and Consequential Provisions) Act 1997*²⁰ provides that the assets and liabilities of each statutory authority become the assets and liabilities of the Commonwealth at commencement. The transfer of intellectual property is encompassed in these sections of the Act. The Act requires the statutory organisations to assist in the establishment of the new arrangements including providing the Minister with full particulars of each authority's money and other assets.

5.9 A number of actions have been undertaken in respect of due diligence:

- DPIE sought advice in May 1997 from the Attorney General's Department on due diligence and transfer of assets and liabilities;
- the MRC had identified in its hand-over plan due diligence issues that needed to be addressed;
- the AMLC had undertaken a complete stocktake of its assets and prepared a due diligence check list; and
- DPIE advised that Price Waterhouse is undertaking a due diligence inquiry for the Government and the successor company.

5.10 As part of due diligence, the issue of intellectual property was considered by the Transition Team and an 'in principle' decision was made that all AMLC and MRC intellectual property would be transferred to the MLA and that existing rights of access remain. The Transition Team determined that the rules of access to intellectual property by the processor and exporter company to be incorporated in the MoU, to which the Commonwealth will be a signatory.

Comments on proposals

5.11 The audit was undertaken while the Deeds of Agreement, MoU and Memoranda and Articles of Association were being developed. These documents were therefore evolving during the course of the audit. The ANAO provided comments on accountability aspects of the arrangements based on its legal advice on the drafts. The ANAO also developed a due diligence check list which was provided to DPIE.

5.12 The ANAO's legal advice indicated that the Deeds of Agreement and the Memorandum and Articles of Association are the primary documents by which MLA will be made to account for its use of funds, while an MoU is generally considered to be a statement of principles and

²⁰ Schedule 5, Part 3 Items 11 and 13.

is not a contractual document. The ANAO's suggestions addressed various accountability mechanisms which included:

- providing for the budget and financial statement formats to be prepared in such a way that the Commonwealth could readily determine whether funds provided for research and development had been properly spent;
- providing for the companies to provide regular reports to the Commonwealth on the overall performance of the use of grant funds;
- providing for the Commonwealth to have the power to conduct audits of the companies' use of grant funds;
- providing for the MLA to provide the Minister with a copy of its operating plan; and
- considering the degree of flexibility given to directors in clause 4.5 (which deals with interested directors) of the articles of association, given that the MLA will be handling substantial Commonwealth grant funds.

5.13 The ANAO understands from DPIE that these matters are addressed in the final documents. *The Australian Meat and Livestock Industry (Repeals and Consequential Provisions) Act 1997* provides for the vesting of the assets (which include money, and in particular, intellectual property) and liabilities of the statutory organisations being abolished in the Commonwealth. The transmission of the intellectual property to the companies is to be effected by a determination under section 13 of that Act and the Deeds of Agreement will regulate its use by the companies as proposed in the MoU.

5.14 DPIE further advised the ANAO that it considers the MoU to be a legally enforceable document. (The ANAO notes reference to MoU as a legally binding document in advertisements in the press, see Appendix 2). The ANAO considers that while the MoU is a key element in the restructuring process, it is more in the nature of a strategic planning document and questionable regarding its legal enforceability. Therefore, the ANAO considers that DPIE should not rely on its enforceability, but should ensure that legally binding instruments are consistent with the principles contained in the MoU.

Monitoring and reporting arrangements

5.15 The legislation requires DPIE to monitor and report on the new arrangements. At the time of the audit DPIE had yet to design mechanisms to monitor and report on the effectiveness of the accountability arrangements or establish performance indicators by which the effectiveness of the new structure would be measured. The ANAO expects this would include reporting in its annual report to Parliament the

effectiveness of the new arrangements and compliance with the terms and conditions of the Deeds of Agreement.

Scope for improvement

5.16 The ANAO considers that an effective corporate governance framework suggests that monitoring and review arrangements are developed, at least at a high level, in conjunction with the accountability arrangements. This ensures that the arrangements can be reflected, as appropriate, in the MoU, and aids all parties in recognising their contribution to the reporting process.

5.17 The ANAO therefore considers that it would be beneficial for DPIE to consider suitable monitoring and reporting arrangements as soon as possible, in order to design and test appropriate systems and to provide assurance that the arrangements which are developed are part of a coherent governance framework necessary to secure the required outcomes.

Recommendation No. 8

5.18 The ANAO recommends that DPIE develop suitable arrangements to monitor and report, among other things, on the performance of the new companies regarding:

- their compliance with the terms of the Deeds of Agreement; and
- the effectiveness of the new industry structures.

DPIE response

5.19 While noting that the reform process and its implementation are not yet finalised, Price Waterhouse, currently involved in finalisation of due diligence processes, has been commissioned to develop suitable arrangements to monitor, assess and report upon the new arrangements and to assess performance and effectiveness.

Conclusion

5.20 Accountability arrangements in relation to ongoing Commonwealth involvement include: *Australian Meat and Livestock Industry Act 1997*; regulations and decisions under that Act; the MoU; Deeds of Agreement; and the Memorandum and Articles of Association of each of the three new companies.

5.21 The audit was undertaken while these documents were being developed. The ANAO provided comments on accountability aspects of the arrangements and understands from DPIE that it has sought to address these matters. The ANAO considers that the nature of MoU is such that DPIE should not rely on its enforceability, but should ensure that legal instruments are consistent with the principles contained in the MoU.

5.22 The ANAO considers that it would be beneficial for DPIE to consider suitable monitoring and reporting arrangements as soon as possible, in order to provide assurance that the arrangements which are developed are part of a coherent governance framework necessary to secure the required outcomes. DPIE has advised that it has now commissioned work on this matter.

6. Principles and Better Practice Checklist for Implementing Structural Reforms

This chapter outlines the key principles and presents a better practice checklist drawn from background research undertaken for the audit, the experience gained by DPIE and from other examples of implementation of structural reform.

Introduction

6.1 Corporate governance is concerned with structures and processes for decision making, with an environment and behaviour within organisations that support effective accountability for performance outcomes. Effective governance requires clear definitions of responsibility and a clear understanding of relationships between those entrusted to manage resources and deliver outcomes and the various stakeholders.

6.2 Effective governance is fundamental for the public sector as it undergoes changes to the way it delivers services. The reforms to the red meat industry, where the intention is to reduce the role of government in industry affairs and to give industry a greater participation in the development of new industry structures, are examples of these changes to service delivery. Good corporate governance in such reforms is important to provide assurance to Parliament and taxpayers that the reforms are being effectively implemented and performance targets met.

6.3 During this audit the ANAO identified a number of key principles to support such transitions and drew upon the experience of DPIE in red meat reforms. These included the identification of roles and responsibilities, effectiveness of planning and risk management for the implementation of the new arrangements, the management structures in the transition arrangements and the accountability arrangements for ongoing Commonwealth involvement.

6.4 The following check list addresses elements of better practice in these areas and is adapted from the key points made in this report. It is for consideration when implementing major or complex reforms.

Roles and Responsibilities

Clarity in the roles and responsibilities helps minimise overlap and duplication on the one hand as well as oversight and unnecessary risk exposure on the other, thereby assisting with the effective and efficient implementation of reforms.

- Are the roles and responsibilities of the bodies and/or committees involved in the implementation of a major reform clearly defined and documented at the start of the implementation process?
- In particular, are the terms of reference of the implementation team clear and spell out the deliverables and timeframes?
- Is it necessary to define the role of the chair of the implementation team?
- Are there suitable linkages between the roles and responsibilities of the parties so that efforts are coordinated and there is no duplication of activity?
- Is there a clear accountability trail for all decisions or actions taken?
- Are the reporting responsibilities of all parties involved in implementing the reform arrangements clearly identified, including to the government to keep it informed on the operations and progress of the reforms?

Implementation Structures

Organisational structures must be appropriate to support the implementation of any new program. It should be decided whether existing structures are suitable for this or if new structures need to be created. It might also be appropriate to have a senior departmental officer taken off-line to focus directly on the implementation of the new policy or program. Implementation structures may involve the use of an overall implementation team and/or a specific departmental team.

- Do the structures that are established to implement the new arrangements flow from the definition of roles and responsibilities?
- Do clear lines of communication exist between the various implementation structures?
- Do *modus operandi* provide an operational framework for all parties that comprise the implementation structures?
- Are the documentation/ recording practices for the teams consistent with the required accountability trails?
- Do the structures established facilitate day-to-day operation, in terms of the size of the teams and the organisation of working groups?
- Has the frequency of implementation team meetings been carefully considered, balancing the need to maintain momentum with enabling adequate preparation?
- Is a structured and systematic approach being adopted by the team/ group that is providing support to the transition processes? Does this include:
 - clear identification of resources required;
 - clear identification of responsibility, reporting and accountability for various components of the project;
 - key decisions made by the team being adequately documented;
 - performance measures identified where possible by which the team can measure the success of the tasks; and
 - project plans being regularly reviewed and updated to reflect the current status of the project.

Planning

Planning is an essential phase in the efficient and effective implementation of any major and complex reform process. Planning needs to be appropriate to the task and commenced at an early stage in the implementation of any new reform. A structured and systematic approach to planning assists in providing a strategic direction and ensures accountability for the achievement of performance targets.

- Is there an overall planning framework? Does this identify:
 - broad objectives relating to each of the major issue to be addressed;
 - key implementation milestones;
 - performance assessment mechanisms to measure the achievement of critical stages;
 - coordination and integration mechanisms and responsibilities, including mechanisms for communication and review to be used in assessing progress with the implementation and for problem solving; and
 - the financial resources required.
- Are there detailed project plans supporting the overall planning framework. Do they identify:
 - all tasks related to an implementation issue, their interaction and boundaries;
 - tasks that are critical to the project;
 - allocation of responsibilities;
 - priorities; and
 - the results required including timeframe and deadlines.
- Are project and implementation plans subject to regular monitoring and review to ensure their continuing relevance?
- Is there an integrated approach to planning which ensures all parties involved contribute to the overall implementation objective, whilst recognising their individual responsibilities?

Risk management

The establishment of policies and procedures to address risks minimises the impact of these risks and contributes to the efficient and effective delivery of program outcomes. Risks can be reduced by ensuring participants in the governance process are aware of their roles, responsibilities and accountabilities. Risk management can be defined as “the systematic application of management policies, procedures and practices to the tasks of identifying, analysing, assessing, treating and monitoring risk”.²¹

- Has risk management been addressed as part of an overall planning framework at an early stage of the implementation process?
- Is the approach to risk management in line with accepted better practice (as outlined in standards and the MAB/MIAC guidelines) incorporating steps of:
 - establishment of context;
 - identification;
 - analysis;
 - assessment and prioritisation;
 - treatment; and
 - monitor and review.

Resource Management — staffing and costs

The success of reform implementation will also depend on how well resources (staffing and financial) are utilised. Staffing is likely to be one of the major issues to be addressed in restructuring arrangements.

- Have appropriate structures and mechanisms been established to ensure a strategic and coordinated approach to addressing staffing as an issue, with senior departmental oversight?
- Is there a budget to determine the overall costs associated with the implementation?
- Are there mechanisms in place to report on the full costs (direct and indirect) of implementing the reforms?

Are there appropriate guidelines developed for expenditure of transition funds by all parties involved in the process?

²¹ Standards Australia, *Australian and New Zealand Standard Risk Management AS/NZ 4360: 1995*, p. 5.

Accountability for ongoing Commonwealth involvement

Appropriate accountability, monitoring and reporting structures are needed to ensure that a coherent corporate governance framework is in place. The lines of, and mechanisms for, accountability should be clear and transparent. There must be assurance that public funds are being expended effectively and efficiently and in line with agreed purposes. Detailed accountability arrangements are not always included in the parameters of legislation and may need to be worked out by the implementation team or be included in supplementary legislation.

- Are the accountability mechanisms for ongoing Commonwealth involvement clear, transparent and enforceable?
- Are the mechanisms in line with accepted APS practice to create appropriate control environments?
- Have due diligence issues been appropriately considered and addressed?

Are there appropriate mechanisms to monitor and report on the effectiveness of the new arrangements?



Canberra ACT
25 June 1998

P.J. Barrett
Auditor-General

Part Three

Appendices

Appendix 1

Key elements of the red meat industry policy framework

In seeking to pass responsibility for implementing the industry reforms to industry, the Government established a policy framework for the new arrangements. The key elements of this policy framework are:

- 1 A single producer owned company to provide services to the industry, including research and development, marketing, food safety and quality and maintenance of the AUSMEAT language.
- 2 A statutory levy to remain on producers, reflecting the express wishes of these sectors. However, determination of the rate of the levy to be a matter for producers to decide.
- 3 A deed of grant between the producer owned company and the Government to govern the transmission of levy funds, setting out the purposes of funding together with audit and accountability requirements.
- 4 Within the new company, marketing and promotion functions to be split along the specific lines, with separate and independent management operations, to ensure accountability to levy payers.
- 5 Initial appointments to the board of the producer owned company to be selected by the industry, subject to the approval of the Minister. Future board selection processes to be determined by the owners of the company in consultation with the Minister.
- 6 There is to be full accountability to the companies Annual General Meeting through external performance audits and a 66 per cent majority of votes will be sufficient to dismiss the board (note that companies law require a 50 per cent plus majority and this has had to be adjusted).
- 7 The statutory levy on processors and livestock exporters to set at zero, but to be reactivated if the sectors failed to raise agreed sums for core operations through voluntary means. Agreement of the sectors to reimposition of the levy has to be spelt out in the Memorandum of Understanding (MoU).
- 8 The MoU covering all sectors of the industry to establish the basis for cooperation, including activities to be jointly funded under willing partnerships, adherence to the MISF, maintenance of R&D, food safety and quality programs, AUSMEAT and other related activities.
- 9 Legislation to provide for Ministerial intervention in industry affairs during times of crisis or when the national interest is involved. It will also

include audit, accountability and reporting requirements in respect of levies collected on behalf of the industry sector(s).

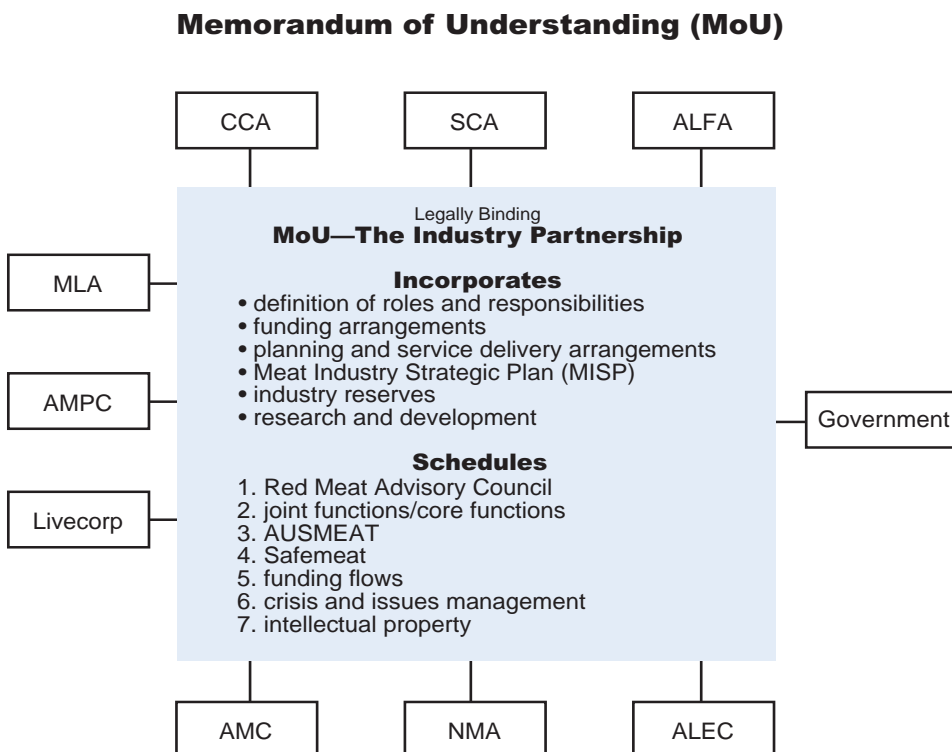
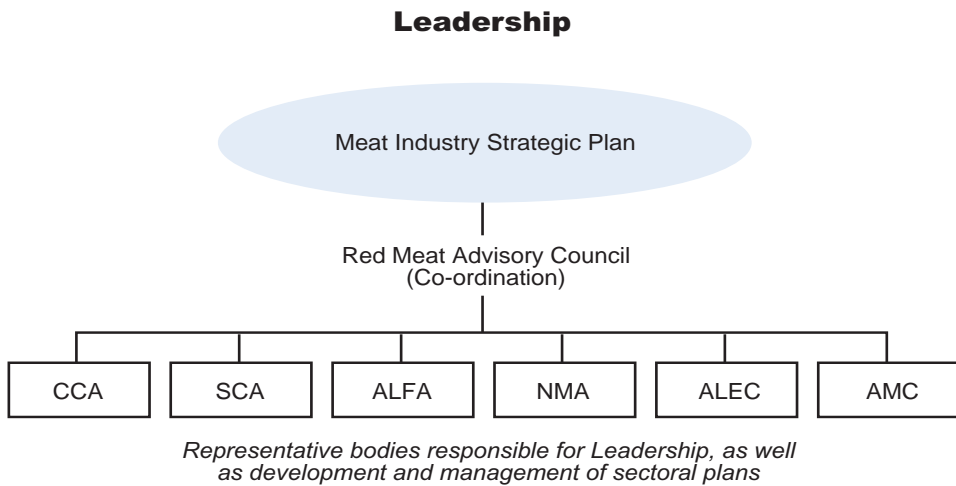
10 Administration of export licences and quotas to be moved to DPIE which, if legal issues can be resolved, will delegate these functions to the private sector.

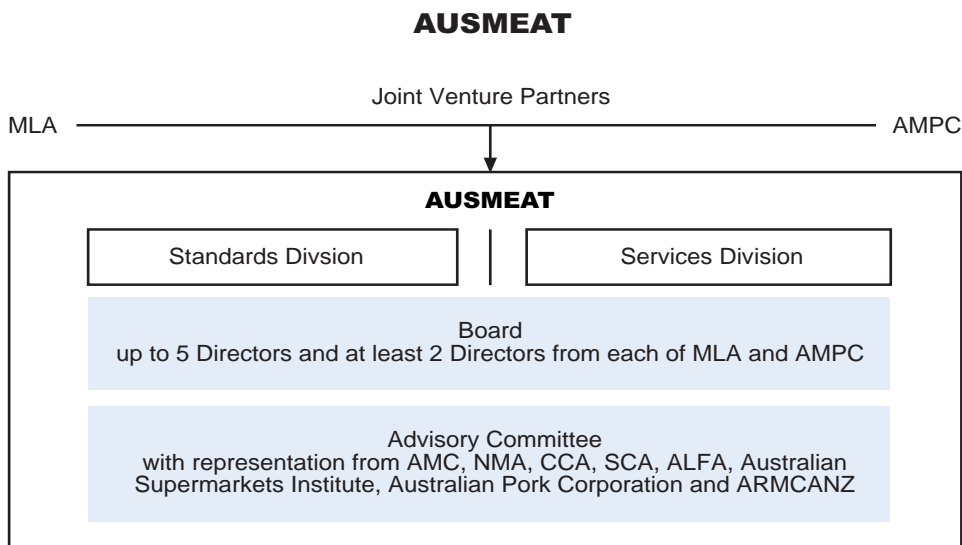
11 There is to be no change to present arrangements until legislation is passed by the Parliament and processors and livestock exporters have satisfied the Government that they are able to implement effective voluntary funding arrangements.

Appendix 2

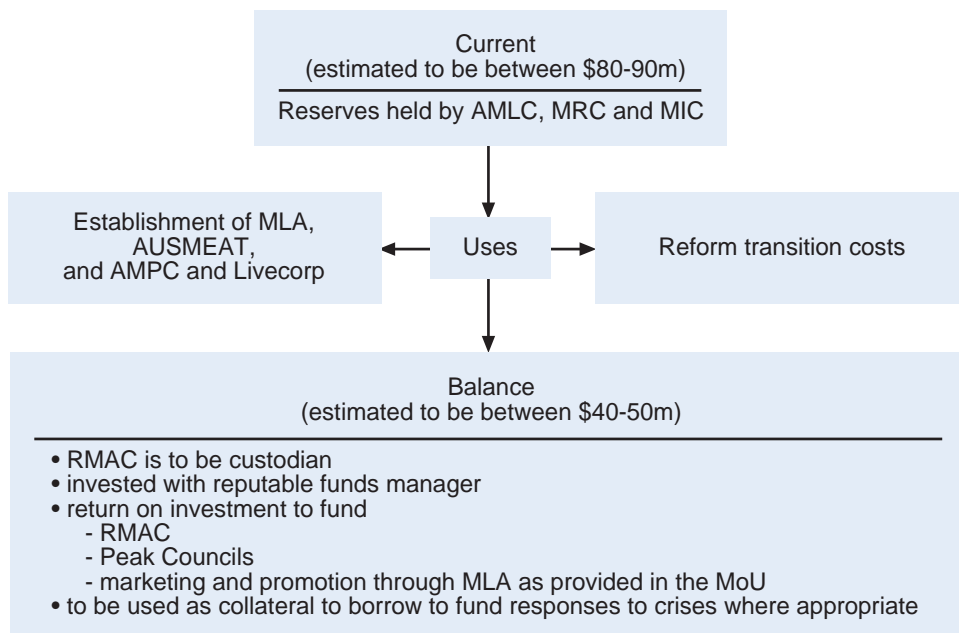
The new red meat industry structure

Source for all charts: DPIE Advertisement in the Rural Press.

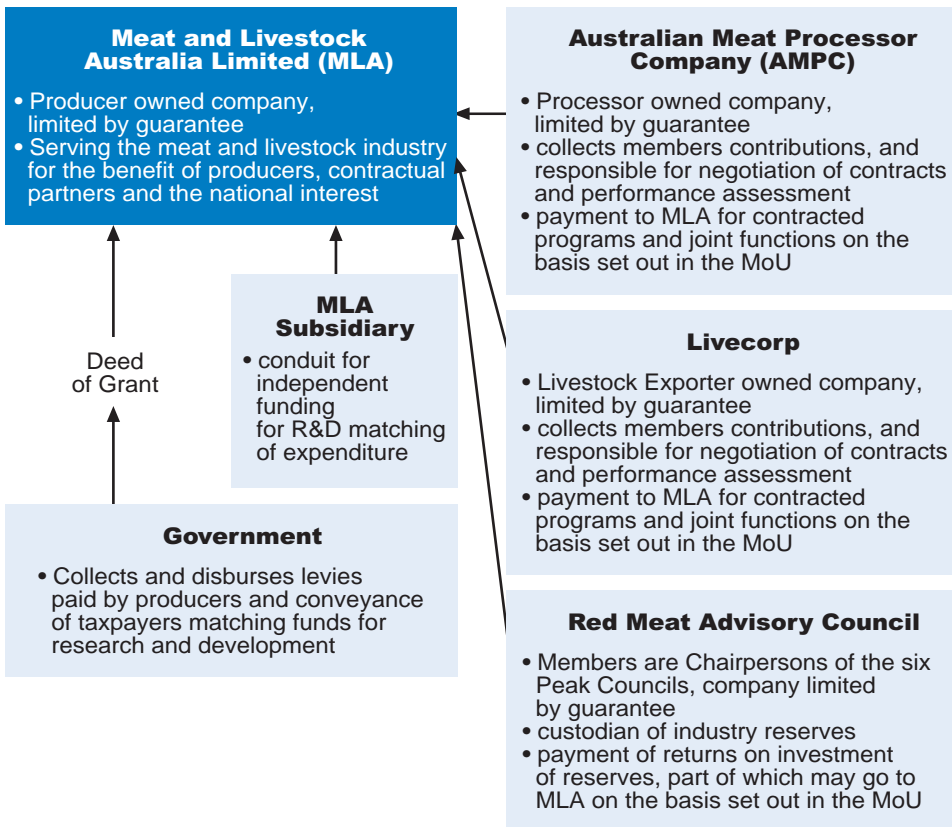




Industry Reserves



Funding Flows



Appendix 3

Audit Criteria

The ANAO established key criteria to assess the effectiveness of governance framework with particular reference to the role of DPIE. These included:

- establishing whether there has been an adequate level of planning to address implementation issues comprehensively and which includes realistic targets and milestones;
- establishing whether a risk management plan has been developed to identify and manage risks during the transition process;
- examining management structures in the transition arrangements to ensure that effective consultation and coordination between stakeholders is occurring;
- examining the accountability arrangements, which included:
 - ensuring that legal requirements (including due diligence) are complied with in the winding up of the MIC, AMLC and MRC (for example with regard to transfer and disposal of assets and liabilities, transfer of monies, transfer of intellectual property and trademarks, and staffing arrangements);
 - examining articles of association, agreements, contracts and the Memorandum of Understanding (MOU) to ensure that they are appropriate and address accountability and control issues, including appropriate performance measures against which the new service delivery company will report;
 - establishing that effective accountability arrangements for ongoing Commonwealth liabilities and responsibilities (including collection of levies, R&D funding and workers compensation) have been made; and
 - identifying the cost of the transition process.

Appendix 4

Transition Team Working Groups

Listed below are the working groups established during the transition period, the date of their establishment and issues that they addressed.

- *levies (May 1997)*: to examine levy collection options;
- *documents (July 1997)*: to consider the memorandum and articles of association of the new companies, the Memorandum of Understanding and the Deeds of Agreement;
- *core and joint functions (July 1997)*: to establish the core functions of the service delivery company;
- *staffing (August 1997)*: to ensure adequate dissemination of information and consistency in the management of staff in the AMLC and MRC during the transition period;
- *database collection (November 1997)*: to examine future collection and dissemination of information gathered using statutory powers;
- *finance (November 1997)*: to examine expenses associated with the Transition Team meetings, peak council expenditure on transition and the development of appropriate accountability mechanisms; and
- *planning (December 1997)*: to develop a detailed action plan which identifies all activities to be managed between notification by Minister of the three month wind-up period and final proclamation.

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