



# **Australian Wine Industry**

## **Task Force Review of National Organisational Structures**

**Briefing Note**

**February 2008**

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## **1. REVIEW STATUS**

*Directions to 2025* stated an immediate need for an additional \$20 million to be raised for market promotion and associated initiatives over the next four years.

*Taking Stock and Setting Directions* raised concerns regarding a number of grower-related priorities that also require national management, on a sustainable basis.

Meanwhile, several essential NOS functions are currently funded by voluntary contributions, and R&D funds continue to fluctuate with the crush.

The NOS Review Task Force now makes the following Structural Recommendations as a basis for *returning to* consideration of future funding for national industry services.

These Recommendations take into account submissions to the Review in response to the October 2007 Consultation Paper, and responses from the national boards and the Department of Agriculture, Fisheries and Forestry to a subsequent Progress Report.

They are intended for further consideration by industry, and as a basis for further Consultation and action in 2008.

## 2. GUIDING PRINCIPLES

The Task Force acknowledges the following industry views in presenting its findings:

- Support for one national industry association and for unified policy development between WFA and WGGA where there is a common interest; provision for circumstances where there is not
- An on-going requirement for separation of agri-political activities from any structure that collects *or* receives statutory levies
- Support for continued evaluation of ‘an industry-owned services body’ that aligns WFA’s project and program delivery roles with AWBC’s market promotion and market information activities
- Industry-wide recognition that trade relations rely heavily on government-to-government interaction, including in emerging export markets
- With few exceptions, support for the compliance function of AWBC; strong support for continuing operation under industry’s AWBC Act rather than via another entity
- Strong support for the current GWRDC framework; desire to see the GWRDC play a broader role in leveraging other research activity on behalf of industry under the PIERD Act
- Support for better national-State-regional alignment; concern regarding continued proliferation of industry bodies and associated costs
- Recognition that no responsibilities should be re-assigned *between* organisations without an appropriate level of assigned resources, and
- Recognition that there is scope to raise additional *Directions* funding through purpose-specific voluntary contributions as well as via an increase in statutory levies.

### **3. REVIEW RECOMMENDATIONS**

The following changes to the Australian Wine Industry National Organisational Structures are recommended:

#### **3.1 Governance, Strategy and Coordination**

- 3.1.1 *That the NOS Review Task Force be formally established as a 'Council of Chairs' with the responsibility to drive Directions and associated structural reform, drawing on Board and executive capability from within the national bodies and enabling 'joint authorisation' of industry direction in a manner that reconciles the views of decision-making bodies and levy payers*
- 3.1.2 *That the national CEO Forum continues, with interim responsibility for strategy and policy, pending the formal establishment of an industry-wide Strategic Planning function (see Rec. 3.6, below)*
- 3.1.3 *That the Directions Matrix (the matrix of responsibilities arising from the detailed recommendations of Directions to 2025 & Taking Stock and Setting Directions) be systematically integrated with the existing Corporate Plans of the four national entities in order to identify un-funded priorities within each entity ('the Directions shortfall'), and*
- 3.1.4 *That these Recommendations be referred to the NOS Selection Committees for consideration in relation to any changes to Board composition that might occur during 2008.*

#### **3.2 Advocacy**

- 3.2.1 *That WFA and WGGA immediately establish a joint Peak Council to enable whole-of-industry representation on issues of common concern. Meanwhile, that advocacy mechanisms in relation to grower- and winemaker-specific needs are preserved.*

#### **3.3 Compliance and Trade Relations**

- 3.3.1 *That the functions of Compliance and Trade Relations continue to be delivered by the AWBC, and*
- 3.3.2 *That regulatory impact assessment protocols continue to be applied to all new regulatory procedures, based on the principles arising from the Banks Review and COAG/FSANZ guidelines.*

### 3.4 Research & Development

- 3.4.1 *That the GWRDC continues as a purpose-specific national industry body*
- 3.4.2 *That industry supports an immediate extension to the remit (Statement of Expectation) of the GWRDC to implement the strategy 'around' the Rural R&D Corporation funding core, with particular attention to increasing the flow of funds to grape and wine R&D from other sources under Object (a) of the PIERD Act.*

### 3.5 Other Functions

- 3.5.1 *That all other functions are delivered by an industry-owned services body. This could be derived from WFA, created de novo, or comprise a restructured AWBC*
- 3.5.2 *That an industry-wide Strategic Planning function be formally established within this body, linked to the current Knowledge Development capability of the AWBC and other sources of strategic advice to the Australian wine industry, including in relation to climate change, economic impact and regional planning. That this function takes responsibility for monitoring industry-wide performance (all functions), including performance relative to 'Directions'*
- 3.5.3 *That, jointly with GWRDC, an industry-wide R&D strategy be developed (all Types of Activity, all Sources of Funds) for implementation under Rec 3.4.2, above.*
- 3.5.4 *That the case for transferring R&D activities to this body is re-evaluated in three years*
- 3.5.5 *That the function of Market Promotion is included, with a focus on export market development*
- 3.5.6 *That the profile of services also includes Communication, Workforce Development, Health and Environment*
- 3.5.7 *That accepted economic principles be used to determine which of these are pre-competitive functions that should be funded by statutory levies, and*
- 3.5.8 *That functions are otherwise funded from voluntary subscriptions, user pays, program grants, etc.*

### 3.6 Funding Model

- 3.6.1 *That the Council of Chairs develop recommendations regarding future NOS funding arrangements, with particular attention to:*
- the need to ensure on-going funds for ‘newer’ programs and projects that are currently either inadequately funded or funded by ‘soft money’ such as one-off grants - typically health, wine tourism, workforce development and environment (refer Appendix 1)*
  - appropriate use of mechanisms to transfer statutory levies to industry associations (refer Appendix 2). For example, some national activities in relation to health and wine tourism could be funded under Objects (a), (b) and (e) of the AWBC Act. Services in relation to environment could be funded under Objects (d) and (e). In turn, workforce development could be funded under Objects (a), (b) and (c) of the PIERD Act, and*
  - optimal and equitable distribution across the NOS of both statutory levies and voluntary contributions.*
- 3.6.2 *That, in turn, the case for an increase in statutory levies for application across the NOS be presented by the Council to industry for consideration in 2008.*

### 3.7 States and Regions

- 3.7.1 *That mechanisms be developed to better integrate NOS planning and delivery with State and regional planning processes near-term, taking into account the model used in the Australian dairy industry, and*
- 3.7.2 *In parallel, that principles for strengthening the membership and simplifying the hierarchy of ‘wine industry associations’ be jointly developed, from an end-user perspective.*

## 4. EVALUATION CRITERIA

The adequacy of the Recommendations relative to the Review evaluation criteria is considered below:

Criterion	Consideration
Delivery of aligned industry strategic imperatives and goals	<ul style="list-style-type: none"> <li>• <i>Directions</i> linked to NOS legislative and constitutional objectives</li> <li>• National, industry-wide perspective at Council of Chairs</li> <li>• Alignment of associations via Peak Council</li> <li>• Establishment of a Strategic Planning function linked to Knowledge Development capability</li> </ul>
Equity regarding levy contributions	<ul style="list-style-type: none"> <li>• Continued application of levy principles as previously agreed</li> <li>• Framework for on-going balancing of voluntary and statutory contributions in relation to other national services</li> <li>• Framework for balancing national need and global dynamics</li> </ul>
Management efficiency in program delivery	<ul style="list-style-type: none"> <li>• Mechanism for on-going reform via Council of Chairs</li> <li>• Boards remain responsible for the efficiency of programs for which they are responsible</li> <li>• Planning function can include system-wide efficiency metrics</li> </ul>
Functional relationships between industry and government	<ul style="list-style-type: none"> <li>• Recognises the power and protection afforded by the AWBC Act</li> <li>• Promotes extension and application of the PIERD Act</li> <li>• Enables on-going use of the Statement of Expectation/Statement of Intent mechanism to update the industry service profile</li> <li>• Maintains a separation of agri-political activity</li> <li>• Complies with government guidelines in relation to the use of statutory levies</li> <li>• Promotes industry autonomy</li> </ul>
Sustainable industry funding	<ul style="list-style-type: none"> <li>• Framework for calculating '<i>Directions</i> shortfall' is established</li> <li>• Mechanism for agreeing the distribution of any new statutory funds is established</li> <li>• Potential for reliance on other funding mechanisms remains</li> </ul>
Genuine accountability to industry that meets government requirements	<ul style="list-style-type: none"> <li>• Council of Chairs is charged with reconciling levy-payer and decision-maker views, from a national perspective</li> <li>• Several functions remain under direct industry control</li> <li>• Potential for additional functions to be transferred in the future</li> </ul>
Communication and strategic alignment between the national body(s) and state and regional associations	<ul style="list-style-type: none"> <li>• Potential for the Strategic Planning function to systematically engage with States and regions</li> <li>• Potential for the National Association to align service delivery with State and regional counterparts in areas of mutual of benefit</li> </ul>
Securing the contribution of matching Australian Government funding against industry R&D levies up to the GVP cap	<ul style="list-style-type: none"> <li>• Current arrangements serve as a core to overall R&amp;D strategy</li> </ul>

## Appendix 1: Summary Financials

A summary of the allocation of 2005-06 funds is as follows:

Governing Body	WFA / WGGA		AWBC			GWRDC
	Advocacy	Projects	Market Development	Information	Compliance & Trade	Research, Development & Extension
NOS allocation (\$m)	2.4	0.6	14.3	1.6	3.1	24.6 (incl. 12.0 from Govt)

78% of NOS expenditure relates to Program-related suppliers:

	AWBC	GWRDC	WFA	WGGA	Combined
Program-related suppliers	11,923,374 'Suppliers'	22,412,544 R&D contracts	619,040 Committees, Special projects + Wine Australia	–	34,954,958 78% of total combined exp.
Employee-related	5,021,050 (incl. 7 international offices)	1,041,852	1,358,821 excluding \$300,380 in WFA-directed grants delivery (NRM, AWIS, Wine tourism)	122,000 est. 80% total exp.	7,844,103 17% of total combined exp.

A summary of the annual income and expenditure of the NOS over the past five years is as follows:

### Annual Income (\$)¹

	AWBC	GWRDC	WFA	WGGA	Combined
2000-01	10,755,637	11,478,363	1,920,336	NA	24,154,336
<i>Total Levies</i>	3,719,824	6,199,746	1,787,455		11,707,025
<i>Government Funding</i>	200,000	5,103,702	80,000		5,383,702
<i>Other Income</i>	6,835,813	147,915	52,881		7,036,609
2005-06	17,155,710	25,835,875	3,095,442	180,000	46,267,027
<i>Total Levies</i>	6,113,018	13,526,289	2,129,843	150,000	21,919,150
<i>Government Funding</i>	155,000	11,968,954	603,710	-	12,727,664
<i>Other Income</i>	10,887,692	20,552	361,889	30,000	11,300,133
2006-07 Unaudited	16,533,945	28,812,520	3,735,475	568,500	49,650,440
<i>Total Levies</i>	6,162,197	13,287,293	2,255,444	250,000	
<i>Government Funding</i>	165,000	14,535,438	875,179	317,000	
<i>Other Income</i>	10,206,748	989,789	604,852	1,500	
2007-08 Budgeted					41,510,905

### Annual Operating Expenditure (\$)

	AWBC	GWRDC	WFA	WGGA	Combined
2000-01	11,444,124	10,808,569	1,805,953	NA	24,058,646
2005-06	17,330,802	24,555,844	2,850,043	152,500	44,889,189
2006-07 Unaudited	16,180,560	28,141,000	3,356,500	298,500	47,976,560
2007-08 Budgeted					43,966,100 <sup>2</sup>

<sup>1</sup> Notes in preparation:

AWBC: Government income refers to Export Market Development Grants.

GWRDC: For 07/08, an amount of expenditure originally stated in the PBS is some 2.5 million higher than the operational amount of 21.5 million used in the 'Combined' calculation due to re-estimates of total 06/07 crop levels over the financial year. The largest change to revenue has been due to the increase in the winemaking part of the levy, from 3 to 5 dollars per tonne.

2006-07 Other income includes a one-off amount of \$444,000.

WGGA: The significant movements in Income and Expenditure for the last and current year reflects the Government funding and drawdown of those funds for the TSSD Implementation over the next 12 months.

<sup>2</sup> GWRDC will use \$2.5m from reserves to respond to current industry challenges.

## Appendix 2: Distribution of Statutory Levies

### AUSTRALIAN WINE AND BRANDY CORPORATION POLICIES AND PROCEDURES No. 3.4

#### CONSULTATION PAYMENTS TO INDUSTRY ORGANISATIONS

<b>This policy applies to</b>	The payment of monies to industry organisations for the provision of consultation services.
<b>Objective</b>	To ensure that payments made to industry organisations are made responsibly and with due accountability.
<b>Responsibility</b>	It is the responsibility of the Chief Executive to ensure that any payments to industry organisations are in accordance with this policy.
<b>Definitions</b>	<p><b>“consultation payment”</b> means a payment to an industry organisation for services rendered by the organisation.</p> <p><b>“industry organisation”</b> means an organisation, whether incorporated or not, whose membership comprises individuals, corporations, other entities or other industry organisations that are involved in the Australian wine industry.</p> <p><b>“Guidelines”</b> means the Guidelines on Funding of Consultation Costs by Primary Industry and Energy Portfolio Statutory Authorities – Minister for Primary Industries and Energy, July 1998</p>
<b>References</b>	Guidelines on Funding of Consultation Costs by Primary Industry and Energy Portfolio Statutory Authorities – Minister for Primary Industries and Energy, July 1998 (see attached)
<b>Policy</b>	<ol style="list-style-type: none"><li>1. Consultation payments may only be made where the outcomes are in accord with the Corporation’s legislated and strategic objectives.</li><li>2. Consultation payments may only be made in accordance with the Guidelines.</li></ol>
<b>Implementation</b>	Responsibility of Chief Executive
<b>Guidelines</b>	Guidance is available from the Corporation Secretary.
<b>Periodic Review</b>	Responsibility of Chief Executive – 3 Yearly.
<b>Recommended</b>	Chief Executive
<b>Approved</b>	4 December 2002
<b>Reviewed</b>	6 June 2007

## **GUIDELINES ON FUNDING OF CONSULTATION COSTS BY PRIMARY INDUSTRY AND ENERGY PORTFOLIO STATUTORY AUTHORITIES<sup>3</sup>**

### **Introduction**

Statutory authorities within the primary industry and energy portfolio may be authorised by their enabling legislation to make payments to industry organisations in relation to consultations undertaken in pursuit of the authorities' legislative objectives. Such payments are generally made at the discretion of the Board and are subject to the Ministerial guidelines that appear below.

These guidelines are issued by the Minister for Primary Industries and Energy under the relevant enabling legislation and in association with paragraph 16 (1) (b) of the *Commonwealth Authorities and Companies Act 1997* (CAC Act) which obliges directors of a Commonwealth authority to provide the responsible Minister with such reports, documents and information as he or she requires.

In issuing the guidelines the Government recognises that portfolio statutory authorities perform commercial, research and development (R&D), and related functions on behalf of specific industries using funds raised by statutory levies on members of those industries, in some cases (notably with the R&D Corporations) supplemented by Commonwealth matching funds and/or appropriation funds. Authority for the imposition of levies and the activities engaged in by statutory authorities resides in Commonwealth legislation.

Within the parameters of such legislation, responsibility and accountability for the proper conduct of the affairs of portfolio statutory authorities rests with their Boards. Accordingly each Board will ensure that the direction and overall performance of their particular statutory authority is consistent with its essential purpose and legislative charter.

These guidelines replace earlier guidelines issued by the Minister for Primary Industries and Energy in November 1991 and apply from the date of issue.

### **Guidelines**

- 1(a) The Board of a portfolio statutory authority in exercising its discretion to make payments relating to expenses incurred by industry organisations in formal consultations with the authority may only make payments to industry organisation(s), with which it has a formal relationship under its enabling legislation, and to meet the direct expenditure reasonably incurred by the industry organisation in consultations related to the pursuit of the authority's legislated objectives. The nature and extent of any consultation(s) and the associated payments are to be at the discretion of the Board.
  - (b) In some circumstances, where the statutory authority requires and authorises an industry organisation, with which it has a formal relationship under its enabling legislation, to undertake a discrete project or consultancy, then details of the overall nature, purpose and expected outcome of the project or consultancy should be outlined in the authority's annual operating plan, with further detail being provided in the annual report as per Section 5 (b) of these Guidelines.
- 2 Statutory authorities may not make payments to industry organisations for the specific purpose of, or as a contribution to:
    - agri-political activities;
    - sitting fees;
    - salaries and running costs of the industry organisation other than those directly involved in consultation with the statutory authority and by the industry organisation with its constituency on matters which it is progressing with the statutory authority; and
    - capital expenditure.

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<sup>3</sup> Issued by the Hon John Anderson MP, Minister for Primary Industries and Energy, July 1998

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- 3 (a) Industry organisations engaged in consultation with a portfolio statutory authority shall submit a proposed budget to the statutory authority for the following financial year, detailing both the reasons for the proposed consultations in terms of the authority's objectives and functions and their direct expenditure associated with such activities. The details of any proposed funding of industry organisations must be included in the statutory authority's annual operational plan (AOP).
- (b) Before approving any payments to industry organisations for consultations, the Board must be satisfied that the relevant industry organisation(s) maintain a separate account for receipt and expenditure of consultation expenses and are capable of explaining, in a fully transparent fashion, how they have complied with the conditions under which the monies were provided.
- 4 (a) Where additional consultations are of an ad hoc or urgent nature the Board shall review requests for payment of consultation costs as they are received and exercise its discretion within the broad framework provided by the guidelines.
- (b) Accordingly, the Board has the flexibility to vary its budget for funding for consultations to take account of changing circumstances provided that such changes are fully accounted for in the annual report as per Section 5(a) of these guidelines.
- (c) Within the limits of these guidelines, the level of funding to be provided to an eligible body and the type of costs which may be reimbursed will be at the discretion of the statutory authority Board.
- 5 (a) All consultation payments made to an industry organisation that has a formal relationship under its enabling legislation with the statutory authority, must be included in the authority's financial statements in its annual report and be accompanied, in the main body of the annual report, by a brief report that explains the purpose of the funding and the industry organisations to whom funds were paid, and describes how the authority and industry organisations conformed with these guidelines.
- (b) Where the statutory authority has authorised an industry organisation, with which it has a formal relationship under its enabling legislation, to undertake a discrete project or consultancy on its behalf as per Section 1(b) of these guidelines, then details of the nature, purpose and expected or final outcome of the project or consultancy should be provided concurrently, with details of any consultation funding, in the main body of the annual report.
- 6 Payments by a statutory authority to an industry organisation will be subject to audit to ensure compliance with these guidelines. It is the responsibility of each statutory authority to provide its auditor with a copy of the guidelines.