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Date: 21 March 2016

Request: All documents that Dr Alex Wonhas prepared for the "internal documenting unit" in order to comply with any Senate order for the production of documents made in 2016. Any other documents prepared by CSIRO staff that were delivered to CSIRO's internal documenting unit in relation to any Senate Order for the production of documents made in 2016.

Document(s): Category G

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Memorandum to the CSIRO Executive Team

ET Meeting No: 66 27 January 2016 Agenda Item: 3.1

Subject: Investment Outcomes, 2016-17 Budget process and next steps

Author: Mark Bazzacco / Gregory Joannon

Sponsor: Craig Roy / Hazel Bennett

Date: 20 January 2016

Action for ET: Decision Discussion Information

1. Purpose

That ET:

- a. share and discuss updates from internal and external discussions on investment decisions following the December 2015 ET meeting;
- b. assess and confirm revised people, leadership and budget implications;
- c. review and endorse communications messages and communications plan;
- d. Revisit and confirm approach to addressing specific cross cutting themes; and
- e. discuss and confirm budget and change management next steps.

2. Background

At the December meeting the Executive Team (ET) discussed and synthesised the outcomes from the 'deep dives' sessions for each of the ten Business Units during late November and December which enabled BUs to provide advice on their implementation of the Strategy 2020 and the portfolio shifts required to achieve their objectives. It was clearly identified that most Business Units will need to make fundamental shifts in their portfolios in response to Strategy 2020 and/or evolving external conditions. The ET meeting synthesised and considered potential portfolio shifts, growth opportunities, revenue pipeline and other related matters to inform ET science investment decisions.

The ET agreed that further information was required from the BUs including specific detail on specific items and the current and future budget implications of potential future scenarios. A process was put in place to bring validated information into the ET meeting on 27 January 2016.

In order to finalise the 2016-17 budget and meet the requirements of the broader Government budget development, this paper also outlines the proposed timeline for endorsement of the 2016-17 four year budget for ET consideration.

3. Current Activity

To support the development of the 2016-17 four year budget, the Finance team has incorporated the strategy budget endorsed by ET to the approved refreshed cost parameters, reflected updated appropriation figures based on revised inflators provided by Government, and added the new 4th year budget (2019-20) based on a rollover of the previous year. This provided the baseline that was provided for budget validation during the deep dives in late November and early December.

Following the ET meeting in December, with the support of their ET member, BU leaders are reassessing the implications of the deep dive outcomes to bring forward reliable science narrative and staff/financial impacts.

The directions endorsed by the ET in December were as follows (full summary in **Attachment 2**):

1) Investment decisions:

- Group A: progress with the proposals provided at the Deep Dive which include a redirection of up to 20% of BU appropriation for reinvestment in strategic growth options. [REDACTED]

s 22 [REDACTED]

- Group B: review proposed and additional scenarios as advised by the ET member

- Oceans & Atmosphere s 22 [REDACTED]

2) Business Unit Leadership:

- 1-2 year contract extensions for specific leaders subject to specific 6, 12 and 18 month milestone performance
- Non-renewals

3) Cross cutting themes

Finance, HR and Strategy are working together to bring the following to the ET meeting, with a large part of Day 1 focused on discussing this new information (to be provided to ET at the time of the meeting):

- validated current year and four year budgets – particularly external revenue and labour/operating costs
- staff numbers and plans to achieve any significant shift in capability - FTE impacts and costs
- science implications and timing

The broad approach and timing for the ET meeting is as follows:

Time	Discussion item
1.30 - 2.00pm	Recap and objectives
2.00 – 3.30pm	O&A, s 22 [REDACTED] Directors to join meeting (separately)
3.30 - 4.30pm	People and budget consequences/phasing and leadership updates (Gregory to attend)
4.30 - 5.00pm	Communications message (Dona to attend)
5.00 – 5.30pm	Approach to change – roles and responsibilities
5.30 – 6.00pm	Break
6.00 – 7.30pm	Cross cutting themes

Trevor Heldt and Mark Bazzacco will also be in attendance for this paper.

4. Next Steps

Communications and Change Management

A draft key messages document and communications plan has been prepared (**Attachment 1**) for ET feedback and endorsement. This narrative will be used as the guiding message for internal and external purposes.

2016-17 budget timeline

In the November ET budget paper, Finance proposed a high level budget timetable for the development of the 2016-17 Budget.

Given progress on the deep dive scenarios and the ET's investment decision-making, the following timetable is proposed for the finalisation of the four year budget.

27 January	ET meeting to review the BU validation of potential investment decisions based on deep dive proposals and ET's discussion in December
w/c 1 st February	Further refinement of the 4 year budgets based on the ET discussion
w/c 15 th February	Finalise Board paper noting progress and direction, including: <ul style="list-style-type: none"> - 4 year budget - Usual parameter movements - Impact of deep dives - Capital budget <p>Board meeting to be held on 3 March seeking approval to progress with Budget submission to government, subject to ET approval and any major changes</p>
w/c 22 nd February	Finalise BUs and CSIRO parent budgets, as well as the 4 year budgets of all subsidiaries
16 March	ET approve internal budget for inclusion in the 2016-17 Portfolio Budget Statements
1 April	PBS input to Department of Finance due (available for final changes through most of April)

Cross cutting themes

During the course of BU presentations to SICOM and deep dives several key cross cutting BU themes emerged requiring broader organisational support and coordination. At the December meeting ET agreed to the relevant EMC leads for each item. These included:

- Culture and capability profile (Trevor Heldt): need for renewal of research teams in specific areas, reshaping CSOF profiles (ie. addressing inverted pyramid), cohort of senior research leaders as cultural change resistors etc.
- Business models and the "long tail" (Laurence Street to lead with Hazel Bennett): Transition towards the application of new/standard business and revenue models which support both customer value and a sustainable financial model for CSIRO, including addressing differentiated approach to both high value/low volume and low value/high volume customer segments.
- Calibre & accountability of Business Development (Laurence to lead): Approach to BD support within BUs namely the calibre and external revenue accountabilities of BD leaders etc.
- Revenue recognition for deployed capability (Hazel to lead with Dave Williams and Alex Wonhas through SROM): Approach to identifying and reporting revenue generation by "home BU" capability without transferring/splitting revenue for cost centre recognition.
- International (New GM to lead): Approach to entering/developing work in new international markets including establishing physical presence aligned, or otherwise, with existing and new CSIRO Offices.
- Future Science Platforms (Jack Steele to lead): requests for central support for new FSPs and approach to identifying and funding requests.
- Role of Deputy BU Leaders (Trevor to lead): In light of emerging roles and responsibilities and changes in staffing following the IRP creation of the position, what is the appropriate purpose of deputy directors moving forward to ensure they remain valuable and challenging positions.
- Capability consolidation (Anita to lead with Alex and Dave): With the support the BU Directors, assesses and implement opportunities to consolidate fragmented/duplicate capability across BUs. Eg. social sciences into health

5. Key Issues and Risks

- The revised Investment Decision-making Framework is being used for the first time. Ongoing communication with BUs is required as the process endeavours to mitigate concerns and articulate

how each of the proposed strategic plans will be compared for ET to decide on final budget allocations.

- Ambitious growth targets over the four year forward estimates require BUs to continually think laterally about their business models and financial investments. BU's will need to monitor their strategic plans regularly to give reassurance they can meet these targets.
- Careful consideration to capability implications from shifts in investments across Business Units, including process for reconciling and managing subsequent capability impacts in imports/exports.
- Given the shortened timeframe between investment decisions and budget process, and the likely significant nature of some decisions it is expected specific Business Units will require support to execute outcomes of the investment decisions in a timely manner.

6. Recommendation

That the Executive Team note the planned scope and timeframe of the investment decision-making and budgeting session at ET on 27 January.

Craig Roy & Hazel Bennett

Attachments

- | | |
|--------------|---|
| Attachment 1 | Draft communications messages (for discussion and approval) |
| Attachment 2 | December 2015 ET agreed investment hypothesis
NB: document passwords as per Dec ET papers and investment documents |

Approach to Change

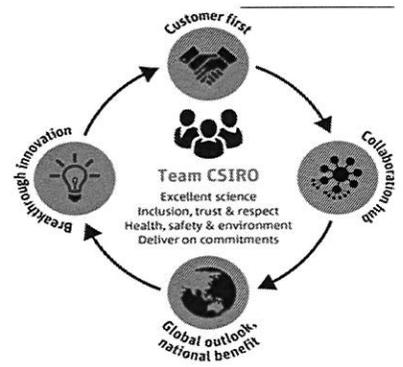
Design
 Anchored in Strategy – Innovation Catalyst
 Leader lead - clear rationale - strong engagement
 Tailored to meet local impacts
 Meet our consultation obligations

Timeframes			
Feb	Mar	Apr/May/Jun	Jul/Nov
Business Cases Wk3	Board/Min Wk1 Announcements Wk3	BU consultation & implementation	Continued implementation

Issues

- Understanding of Strategy is still developing and this action will be first major tangible impact for most staff and customers - may be interpreted as negative – BU have used different approaches
- Reputational risk nationally and globally
- ET/EMC/RD not devoting sufficient time internally with staff
- Will draw media and Government attention in an election period
- May increase potential for EA related industrial action
- May bring forward timing of site closures and consolidation through reduction in staff

Key Stakeholders
 Staff (current & future)
 Board/Minister
 Customers



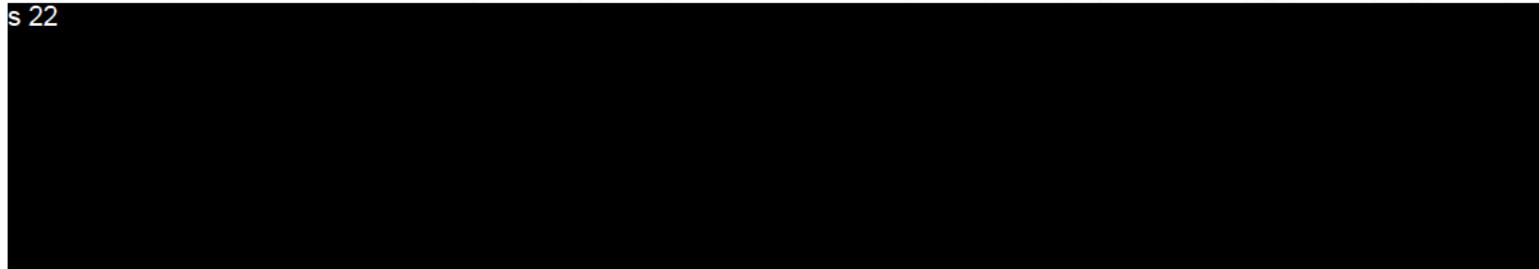
Roles	Key responsibilities
ET	<ul style="list-style-type: none"> • Engage with staff, customers and stakeholders on Strategy and what we aim to achieve • Actively and visibly support Directors • Lead key stakeholder engagement where major impacts • Key behaviour areas: Inclusive, trust and respect
EMC	<ul style="list-style-type: none"> • Engage with staff, customers and stakeholders on Strategy and what we aim to achieve • Lead the design, consultation and implementation of BU impacts – prepare business case - attention to minimising diversity impacts • Communicate the BU vision and plan and impact of changes • Actively and visibly support Research Directors – side by side • Articulate what’s been decided, the areas for consultation, process, timelines and decision points - create opportunities for staff to express their ideas, opinions and concerns and respond to feedback • Proactively address staffing issues as they arise and engage with the Staff Association and staff • Key behaviour areas: Inclusive, Trust and Respect
Support	HR, Communications,, MPLO – support for design of consultation and change process and co-ordination

Attachment 2: December 2015 ET Investment hypothesis

For further refinement ...

- Appropriation Growth:

s 22



- Shrink:

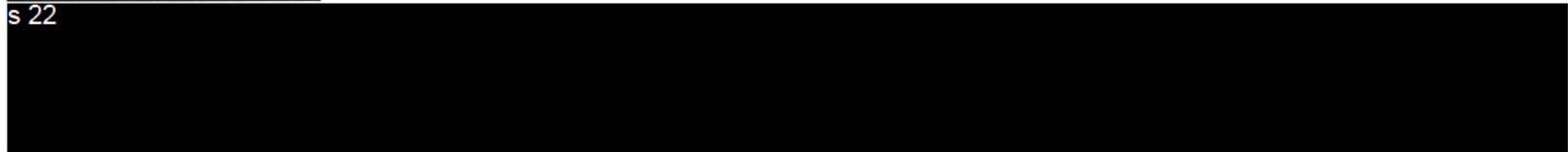
4) O&A – indicative 20-25% (savings from FTE reduction above plan to be returned to centre)

s 22



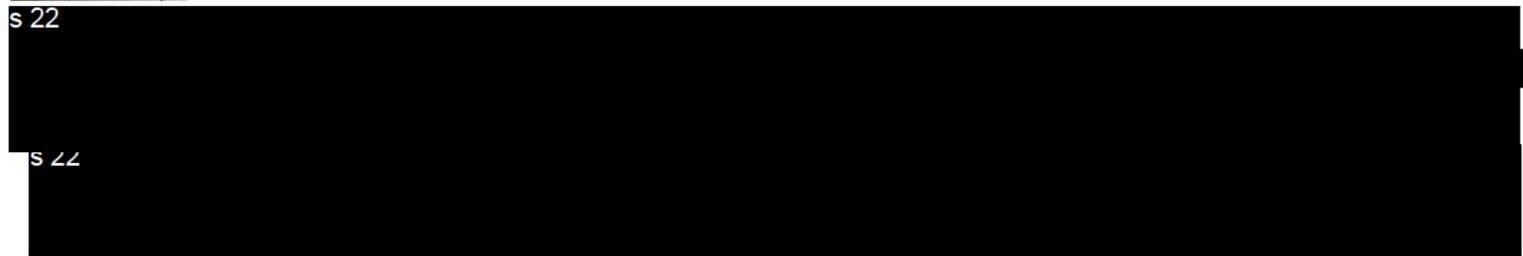
- Portfolio investment:

s 22



- Leadership:

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