



Minutes of the meeting of the Agri-Food and Biosciences Institute (AFBI) Board
held at
AFBI Newforge (Headquarters), Belfast
on Wednesday 15 August 2007 at 10.00 am

Present:

Board Members

Mr Sean Hogan, Chairperson
Professor David McDowell, Deputy Chairperson
Mr Kieran Campbell
Dr Michael Hollywood
Dr Christine Kennedy
Mr Nicholas Mack
Mr John McKinley
Professor Stewart McNulty
Professor Grace Mulcahy
Mr James Noble
Mr John Rankin
Mr Michael Walker

In Attendance:

Dr George McIlroy, Chief Executive Officer
Dr Robin Boyd, Head of Chief Executive's Office
Mr Stephen Dolan, Head of Business Support Unit
Mr Manus McGuinness (Secretary)

1. Minutes of the meeting held on 27 June 2007

The minutes of the meeting held on 27 June 2007 were agreed subject to the following changes:

- In 1, the heading should be completed to read "*Minutes of the meeting held on 15 May 2007*".
- In 2.3, first line, the phrase "*lack of*" should be entered before "*recognition*".
- In 6, the word "*land*" should be entered before "*disposal*" in the sixth line.

2. Matters Arising

2.1 Health and Safety Arrangements (2.1)

2.1.1 Mr Dolan updated members on the proposed new overarching Health and Safety (H&S) Advisory Group for AFBI. A Terms of Reference (TOR) for the group had been sent to TUS for comment. This will be brought to the Board for approval in September. It is proposed that SMT will report H&S issues to the monthly board meetings on an exception basis with twice-yearly reports from the proposed Advisory Group. Dr McIlroy confirmed AFBI's commitment to health and safety and saw the implementation of an overarching H&S advisory group as an additional assurance to the Board that they are acting as a responsible employer.

2.1.2 The main points made in discussion were:

- In response to a question about the state of readiness of the Lamont facility at VSD it was explained that the problems with the Lamont Building were being resolved with a view to becoming fully operational.
- AFBI does not have category 4 SAPO-compliant laboratory facilities and the raising of the risk status relevant to this area in the AFBI risk register is recognition of this fact.
- AFBI carries its own insurance risks and it is important therefore to have robust and effective H&S mechanisms in place.
- As an employer, AFBI is liable for personal injury. This is a difficult area, often dependent on the legal definition of "*negligence*" and it is important that AFBI can show that it is compliant with the relevant guidance to provide a safe and healthy working environment.
- As well as support from the H&S Executive, AFBI has its internal Risk Assessments, COSHH and H&S Advisers. There is a long-standing system of managing H&S in AFBI business areas, including a standing item on the monthly SMT meetings.
- The Board suggested that advice from the Health and Safety Executive might be supplemented occasionally, as appropriate, by obtaining specialist H&S advice from other sources. Dr McIlroy pointed out that in Northern Ireland the Health & Safety Executive has the statutory responsibility.

2.1.3 The Board, in welcoming the discussions on Health and Safety, gave its full support to the Executive in this area. They were content with the arrangements in place and those proposed and that management was alert to the dangers. It was agreed that the TOR for the proposed new

centralised group would be brought to the September meeting and that a presentation should be made to the Board at the appropriate time.

2.2 AFBI Accounts 2006-07 (2.2)

2.2.1 Mr Dolan advised the Board of a change to the Northern Ireland Audit Office (NIAO) timetable for auditing the AFBI accounts for 2006-07. The NIAO workplan had provided for clearance of the draft accounts by 7 September 2007 and issue of the Management letter by 14 September 2007. NIAO now expect to complete the audit by 15 October 2007. This will have implications for the timing of the Board Open Meeting.

2.2.2 In discussion, Management explained the circumstances in which the first accounts had to be prepared – no shadow period to prepare the ground, need to subsume an existing NDPB into the accounts, consolidation of fixed assets of the former ARINI and Science Service. This was compounded by the use of the DARD legacy systems being less than adequate and AFBI's reliance upon one full time accountant. These have created significant issues for the AFBI accountant in preparing the accounts. Most are one-offs and the planning and preparation of next year's and future accounts should be more straightforward.

2.2.3 The Board agreed that it would not want to hold an Open Meeting until audited accounts were available. It was agreed to wait until the Board meeting on 17 October 2007, when the accounts should be finalised, before deciding on a date for an Open Meeting of the Board.

3. AFBI Board Away Day 26/27 June 2007

Mr Hogan referred members to the comprehensive report on the Away Day held at the Clandeboye Lodge on 26 and 27 June 2007. He felt that the Away Day had been a very useful and valuable event which had covered considerable ground in examining Board performance, strategic direction and indicators. Mr Hogan briefly reviewed the action points arising from the Board Performance Session. In relation to the point about a more formalised and structured relationship with DARD, he advised members that he and other Board and Senior Management Team (SMT) representatives would be meeting the DARD Permanent Secretary and Departmental Board in October. There would be a wide agenda for the meeting, to include relationship with DARD, changes to the form of Members' appraisal and ARINI pensions.

4. Report from the Business Support Unit

4.1 AFBI Risk Management

Mr Dolan reminded members of the arrangements for monthly reporting from Division Heads to SMT and the listing of the key risks to AFBI's business in a Corporate Risk Register. SMT have endorsed the current Corporate Register. This is being revised to take account of Divisional proposals and Internal Audit recommendations for submission to the Audit Committee meeting in September. At its June meeting the Audit Committee had asked that the Corporate Risk Map should be presented to the Board and this had been circulated to members prior to the meeting.

4.2. Pension Matters

4.2.1 Dr McIlroy referred to previously expressed Board concern at the delay in resolving the ARINI pension issue. He mentioned three aspects – hardship payment to a Hillsborough employee, the business case to DARD prepared on the basis of the information available and the handling of this in DARD. Mr Dolan explained that the Business Case had been through DARD Policy and Finance Branches and DFP Pensions and Finance Branches. The legal basis for DARD to make a payment to NILGOSC is the latest issue to arise. Another issue is that NILGOSC pension credits transferring to PCSPS would be “frozen” at 31 March 2006 salary and this would constitute a detriment to staff if their salaries increase prior to their retirement date. .

4.2.2 Recent correspondence between the Minister and Jeffrey Donaldson MP was tabled. This gave the expectation of early approval by DFP (by the end of July), to be followed by advice on reserved pension rights to individuals members of staff at Hillsborough. Dr McIlroy said that recent correspondence from DARD, however, did not offer the prospect of an early resolution. This places the Board in a difficult position and creates further difficulties for a visit by the CEO and Head of BSU to Hillsborough.

4.2.3 The main points made in discussion were:

- There are two separate strands to the pensions issue – clearing the way for advice to staff and the risk of qualification of AFBI accounts.
- The Board needs to be resolute on its position. AFBI has provided the Business Case with the options; AFBI can provide more information as required but does not believe that reopening the entire business case options or pursuing extensive legal advice is the way forward.

- The Minister has set out her position as similar to AFBI's in terms of the expectation of DFP approval leading to early engagement with staff. This exposes the Minister to a high level of risk if progress is not made as publicly stated.

4.2.4 The Board reiterated its concern at the continuing DARD delay in progressing this matter to a conclusion and at the effect on staff and the promise of fair treatment and no detriment in the move into AFBI. There is also concern at the amount of time and potentially nugatory work in dealing with the pensions issue by both the Board and AFBI management at the expense of other urgent work at this time, for example the AFBI accounts. It was agreed that Mr Hogan would write urgently to the Minister expressing the Board's concern and seeking action to resolve the impasse now reached.

4.3 **Business Plan 2006-07**

Mr Dolan advised that the AFBI 2007-08 Business Plan including a progress report on achievement of targets and objectives would be presented to the September Board meeting.

4.4 **Finance**

4.4.1 Mr Dolan tabled a revised Budget monitoring and forecast for 2007-08 which takes account of the outcome of the June monitoring round. He explained that the starting point for each annual budget is the baseline agreed in the previous PE settlement which sets the baselines for three years. AFBI does not receive any pay and prices increase, therefore the opening budget allocation for 2007-08 is in effect the same level as last year. Using this opening baseline Divisional budgets were set the same as the opening allocation given in the previous year. In line with SMT and Board agreement bids for VAT and clinical waste were submitted but unfortunately rejected in June monitoring. DARD also transferred £326k from AFBI to Queen's Institute of Agriculture Food & Land Use (IAFLU) as a result of the ending of AFBI's undergraduate teaching role in the School of Agriculture & Food Science (SAFS) in the June monitoring round. DARD also informed AFBI that a further transfer of £800k would be made in the September Monitoring round. However, this reduction failed to take account of the cost of extra work undertaken for DARD as staff resources were released from the SAFS run-down. A case for the funding to cover this work will have to be made to DARD. Taking account of the monitoring decisions and pay increases offset by forecast additional income, AFBI could be looking at an overall net deficit of £1.5m for the year. A number of Board members expressed dismay at the prospect of AFBI forecasting a deficit. Dr McIlroy emphasised that his main concern at this juncture was the lack of notice given by DARD for such in-year reductions.

- 4.4.2 Board members asked if AFBI had any options to influence or improve the budgetary management process. Dr McIlroy set out the difficulty for budget management when the budget allocation was subject to change by DARD in mid-year. This needed to be provided at the beginning of the financial year. He believed that AFBI could demonstrate the extra work undertaken for DARD, but the process of DARD cutting resources and AFBI then having to make a case for restitution added to the difficulties. Further discussion raised questions about the relationship with DARD and how they see their role with AFBI. A draft Service Level Agreement (SLA) with DARD covering the financial aspects is being finalised and it is hoped that this will lead to a clearer and more structured relationship. Dr McIlroy said that a key element in recouping the appropriate costs for DARD work, and indeed all our customers, was the development of the AFBI costing system. A project to implement the new time recording and costing system was initiated in May 2006. A business case was prepared and approved in agreement with Account NI that AFBI would develop its own project costing system. Through a procurement competition a consultant was commissioned to implement a new costing system. AFBI's in-house programmers wrote a bespoke Time Recording System and cost accounting software was also procured. AFBI IT also reconfigured the AFBI network with the procurement of additional servers and hardware to support the new system. In parallel a cost accounting project group redefined all the AFBI activity and cost codes, redefined the hierarchical overhead analysis and is currently matching all the activity codes to the agreed work programmes and sub-programmes that constitute AFBI's body of work. The agreed go live date of this system is March 2008.
- 4.4.3 In discussion, the importance of the forthcoming meeting with DARD Permanent Secretary and Departmental Board in addressing the relationship issue was raised. The point was made that decisions on the work we undertake for DARD could be affected if there is no improvement in the working relationship. A number of members made the point that this annual cycle of funding restrictions could continue. Recovery of the full economic costs of work undertaken for customers was essential in this scenario.
- 4.4.4 Concern was expressed about the whole financial process, the need to tighten this up and the support coming from DARD on this aspect. Dr McIlroy said that the Board needed to understand the reality of AFBI's management position. The AFBI Executive has in its care the employment of 800 staff and the simple expedient of ceasing to carry out work when DARD cuts our budget will not work. The staff are in post and the costs to AFBI remain. This position is made very difficult by having to manage late notification of budget and in-year reductions. The current process places enormous pressure on managing the AFBI business although the implementation of an accurate and informative costing system will assist this. One of the main factors in implementing

an accurate costing system is the requirement to have one year's data to eliminate seasonality effects.

4.4.5 Other points raised in discussion were:

- The financial process may lead to difficult times ahead and the Board will have to take decisions and stand over them. The CSR to be confirmed in October indicates that AFBI faces £722k, £1400k and £2100k cuts over the next three years. Whilst efficiencies would contribute a little they were one-off savings and the growth of additional non-DARD income is the best solution.
- AFBI is only in its second year and the transition from a public sector organisation to one that is now facing a need to increase its commercial income is very challenging. These additional cuts in AFBI's resources are very damaging. It should be noted that AFBI was created without any additional resources being allocated.
- It was proposed that the Board see a list of prioritised work areas that would cease due to budget cuts. A Board member also suggested that a more informed and appreciative role by DARD. Sponsor Branch would contribute to the budget management situation.
- A board member stated that whether AFBI is in a position of fighting for resources or managing reductions, information on full costing is essential. AFBI needs to be clear on benchmarking against competitors and to be in a strong position to sell its services and show that AFBI is the best place to do business. Dr McIlroy confirmed that costing information is valuable but that AFBI already had full cost information for many of its testing functions, projects and commercial contracts. AFBI's aim is not to sell its services on a unit cost basis but as a comprehensive service package as the knowledge of our scientists is our greatest asset, not the ability to run a production line.

4.4.6 The Board agreed that the issues of financial process and relationship should be on the agenda for the meeting with DARD in October.

5. Report from the Chief Executive's Office

5.1 Dr Boyd updated members on a number of activities and developments in the Chief Executive's Office.

(i) Business Development

His recent visit to Argentina arranged by AL-INVEST was aimed at generating business for AFBI in the wider sphere. AFBI had a stand at an agriculture show in Santa Fe and had the opportunity to speak with 10 enterprises with whom contact had been prearranged. Dr Boyd believed that there were business opportunities in the international market; the question was how AFBI can tap into these. The development of these opportunities and the need (highlighted above) to dramatically increase income indicates that AFBI needs to take action. One option being considered is to employ a commercially trained business development manager and to have a dedicated business management team. Funding for such a unit might be available from the PSRE4 fund managed through the Department of Trade and Industry (DTI). Marketing is an important aspect of business development and it is intended to tender for marketing consultancy.

(ii) Publicity

AFBI will be represented at the National Ploughing Championships at Tullamore in September where retinal scanning and the new Herd Health Scheme will be among the themes on the AFBI stand. The DARD Minister will be visiting VSD and she has asked to visit the research vessel Corystes. Work on drafting the Annual Report for 2006-07 is well advanced.

(iii) Business Contacts

The Memorandum of Understanding (MOU) with QUB is operating successfully and the MOU recently signed with the University of Ulster is at the stage of information exchange with AFBI scientists. A memorandum on renewable energy is being developed with North Carolina State University who are keen to exchange students. University College Dublin are currently considering a draft MOU from AFBI. Professor Mulcahy reported that the UCD "core" was currently considering the draft MOU AFBI has sent to the University. NI-CO are keen to revitalise the relationship they had with the Science Service and to develop collaboration with AFBI.

6. Audit Committee – Report on 26 June 2007 Meeting

- 6.1 Dr Hollywood referred members to the draft minutes of the Audit Committee meeting held on 26 June 2007 and his note to the Board. He highlighted the main points in his report.

- 6.1.1 The ARINI pensions issue remains a concern for the Audit Committee. NIAO have indicated that they will fully examine the issue in their audit of AFBI accounts for 2006-07.
- 6.1.2 The Internal Auditors (Deloitte) have completed their planned internal work for 2006-07 and their draft overall opinion on internal controls provides a “*partial*” level of assurance. This is what might be expected for a new organisation. Their audit reports included a Review of Corporate Governance Arrangements and the recommendations of most relevance to the Board had been appended to Dr Hollywood’s note. He suggested that the full Corporate Governance Report should be copied to members.
- 6.1.3 A revised Corporate Risk Register had been presented to the June Audit Committee meeting. The Committee viewed this as a much improved format which presented a clear picture of the risks and controls. The Corporate Risk Map which had been circulated to Board members showed 4 risks with high likelihood and significant impact. All the corporate risks in the map were backed up with a sheet giving details of risk indicators and potential causes, business implications and actions/controls to manage the risks. At its September meeting the Audit Committee will undertake an in-depth examination of risk No 7, “*Non-compliance with statutory, regulatory and audit requirements could undermine AFBI’s Corporate Governance*”.
- 6.2 In a brief discussion Dr McIlroy explained that risk management was a standing item at Board meetings. The monthly reports from SMT to the Board are on an exception basis; detailed reports are made after each Audit Committee meeting.
- 6.3 The Board welcomed the report from the Audit Committee and agreed the structure and format of the Corporate Risk Register.

7. Any Other Business

7.1 Rolling Database of issues raised at Board meetings

The Board considered the document headed “*Rolling Database of issues raised at AFBI Board*” which had been circulated to members prior to the meeting. While welcoming this as a useful document the Board asked the Secretariat to give further thought to the layout and content with a view to enhancing the document, as follows:

- A fuller/clearer record of the Board’s consideration of the issues and of the actions taken.
- The frequency at which an issue is discussed at Board meetings.
- To show where action is ongoing.

- Inclusion of the “*Asset Usage and Scoping Studies*” exercise at the appropriate time.

A revised document should be brought to the September Board meeting.

8. Date of the Next Meeting

The next meeting of the Board will be held on Wednesday, 19 September 2007.

Signed: _____
(Chairperson)

Date: _____