



Northern Ireland  
Assembly

Public Accounts Committee

# OFFICIAL REPORT (Hansard)

NIAO Report: 'The Agri-Food and  
Biosciences Institute (AFBI)'

27 November 2013

# NORTHERN IRELAND ASSEMBLY

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NIAO Report: 'The Agri-Food and Biosciences Institute (AFBI)'

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**Members present for all or part of the proceedings:**

Ms Michaela Boyle (Chairperson)  
Mr John Dallat (Deputy Chairperson)  
Mr Trevor Clarke  
Mr Alex Easton  
Mr Paul Girvan  
Mr Chris Hazzard  
Mr Daithí McKay  
Mr Adrian McQuillan  
Mr Sean Rogers

**Witnesses:**

Professor Seamus Kennedy	Agri-Food and Biosciences Institute
Mr Kieran Donnelly	Comptroller and Auditor General
Mr Norman Fulton	Department of Agriculture and Rural Development
Mr Noel Lavery	Department of Agriculture and Rural Development
Mr Gerry Lavery	Department of Agriculture and Rural Development
Ms Fiona Hamill	Treasury Officer of Accounts

**The Chairperson:** I welcome Mr Noel Lavery, Mr Gerry Lavery, Professor Seamus Kennedy and Mr Norman Fulton. Mr Lavery, I assume that you are unrelated.

**Mr Noel Lavery (Department of Agriculture and Rural Development):** Yes, unrelated.

**The Chairperson:** You are taking the lead, Noel. Do you want to formally introduce your team?

**Mr N Lavery:** Yes, thank you, Chair. Gerry Lavery is the senior finance director in the Department; Seamus Kennedy is the chief executive of the Agri-Food and Biosciences Institute (AFBI) and is responsible for AFBI's functions such as research, supporting innovation and response to emergencies and disease control; and Norman Fulton is head of policy and economics in the Department, the Department's head economist and head of the AFBI sponsor arrangements.

**The Chairperson:** Thank you. You are all very welcome to our meeting. Do you want to say anything now, Mr Lavery? Are you OK?

**Mr N Lavery:** I have a few opening remarks, if you are happy with that, or I am happy to go along with whatever you wish, Chair.

**The Chairperson:** I have a question, and then I will let you in again. The report made odd reading in the sense that the Department and AFBI put up very feeble arguments to the Audit Office's findings. The Committee Clerk will refer to the relevant paragraphs in the report.

**The Committee Clerk:** In paragraph 2.12, AFBI responded to the issue of potential lost income by stating that that represented 1.5% of total grant provided by the Department of Agriculture and Rural Development (DARD). On the issue of cost overruns for individual R&D projects, AFBI's response in paragraph 4.14 was that it had always lived within its overall budget. In paragraph 4.25, DARD pointed out that the longevity of the 57-year potato breeding programme was not unique in the context of the public sector.

**The Chairperson:** Thank you, Aoibhinn. Mr Lavery, how can you assure the Committee that you take the matter very seriously?

**Mr N Lavery:** I can give the Committee an absolute assurance that I take the governance and value-for-money responsibilities extremely seriously.

Chair, I would like to make a couple of points. The lost income point was referred to. The reference to the 1.5% was to put it into context. I absolutely recognise the point that lost income is not a good thing for the public sector. No doubt we will come on to that. It is absolutely regrettable that it happened; it should not have happened. We can come to the reasons for that, but it was to put it into context.

On the cost overruns, we were merely making the point that AFBI had lived within its overall budget. I commend Professor Kennedy for his out-turn last year, which was 99.7%.

What was the last point?

**The Committee Clerk:** It was about the longevity of the 57-year potato breeding project, as mentioned in paragraph 4.25.

**Mr N Lavery:** No doubt we will come to that during the proceedings.

I have a couple of points that relate to your question about giving you an assurance on governance. AFBI is an absolutely vital organisation. Its scientific work informs DARD's policies and supports innovation in the agrifood sector. It is absolutely key to our eradication of brucellosis and has a vital emergency response capability. It is also vital on the early recognition of threats and local access of scientific facilities. Going back to your point, the Audit Office concluded, in paragraph 24 of the report:

*"the development of a strong and comprehensive corporate governance framework for AFBI has been a prolonged process".*

I absolutely accept that; it has been too prolonged. The report highlights the specific concerns, and we will deal with those.

In paragraph 5.26, the Audit Office concludes:

*"it has taken a considerable time to develop and embed a strong and comprehensive performance management and corporate governance regime".*

I absolutely accept that; it did take a considerable time. I absolutely take it seriously, Chair. The Audit Office highlighted a few points about the use of a historical overhead rate, the cost not being part of AFBI's systematic review for R&D and the time taken to implement the fully functioning costing system. I absolutely accept those points, and the Department and AFBI hold up their hands on those.

It has been two years since the fieldwork was done. The Audit Office recognises that throughout the report and, in paragraph 5.11, acknowledges the further recent improvements in governance. Paragraph 5.12 states that we have provided more precise costings, and paragraph 5.20 mentions the procedures for commissioning and managing R&D. I welcome that.

To give you an assurance that you were looking for at the start, I can say that, since the Audit Office's work finished, AFBI has strengthened its finance team and has implemented a financial improvement plan, which has been monitored closely by the Department; DARD has carried out a risk assessment

on governance; we are moving to an enhanced regime of appraisal on scientific testing; there is enhanced DARD oversight; and I have placed a requirement on Professor Kennedy to provide me with a quarterly assurance on the management of R&D expenditure. Furthermore, there is quarterly reporting on our evidence and innovation R&D projects. I hope that that gives the Committee an assurance that we take these matters absolutely seriously and that we will be continually on top of them.

**The Chairperson:** Thank you, Mr Lavery. You have clearly seen the shortcomings from the 1995 report until now. We are facing, in this report, some of the shortcomings that were identified in the 1995 report. You mentioned a number of changes that have taken place. I thank you for the contribution that you have made thus far in acknowledging and identifying that there was work that needed to be done. You mentioned that AFBI had strengthened its finance team. What did you actually do?

**Mr N Lavery:** An additional resource has been brought into the finance team. Professor Kennedy, do you want to refer to that?

**Professor Seamus Kennedy (Agri-Food and Biosciences Institute):** That is correct. There have been a number of developments. In 2010, for example, we reviewed our overall business planning process and initiated plans to develop what we refer to as the strategic cost model. That model in particular is designed to break down the corporate overheads, which relates to one of the legitimate criticisms in the report. It stated that we were applying a single corporate overhead rate to all our business. The development of that model is well under way. We have applied it to last year's annual work programme from DARD as a trial exercise, and we are in the process of applying it to the work programme for next year. We revised the overhead rate in 2010 from 59% to 110%. As Mr Lavery said, we should have done that earlier, and we accept that. As indicated in the report, the overall magnitude of that increase is a 15% increase.

In 2010, we left Account NI because, having tried it for a period, we found that it was not suitable for the mixture of business that we carry out in AFBI: the mix of work that we carry out for government plus the commercial side. The commercial work in AFBI now accounts for approximately one third of our total income. We developed our own in-house accounting system, which took some time. We now have it well up and running and are using it as the basis for the next development, which is the strategic cost model.

In 2011, I expanded the finance function in AFBI. I recruited two additional deputy principal accountants and appointed an interim head of finance at grade 6 level. That, coupled with the introduction of a finance improvement plan, which we have been working on since then, has resulted in major improvements. The additional accountancy resource that we introduced has been used to adopt a business partner approach so that our finance branch interacts much more closely with the scientific divisions that are carrying out the scientific work. Those accountants now meet all our branch heads and the head of division on a monthly basis. At those meetings, every line of income and expenditure is reviewed so that we have very accurate monitoring of our income and expenditure.

In 2011, I also commissioned a strategic review of the organisation and, because of the importance of AFBI to the local economy, we received support from the Strategic Investment Board (SIB) for that work. That resulted in some changes to the organisational structure: an amalgamation of two of the existing science branches to one in order to help improve efficiency. We are in the process of delegating staff budgets to individual divisions and branches to ensure that there is more ownership of those budgets. We also introduced training for senior finance managers. That is a selection of some of the improvements that have taken place.

**The Chairperson:** I suppose that it is safe enough to say that, when AFBI was established, the financial mechanisms that should have been in place were not as robust as they should have been. Is it safe to say that?

**Professor S Kennedy:** Yes, I think that we accept that point. Since the formation of AFBI, we have spent a lot of effort on developing financial systems. We were originally using a system from DARD before AFBI became a non-departmental public body (NDPB). We continued to use the DARD system for a number of years, and that was in anticipation of Account NI coming on stream, which it did. We then tried Account NI, but it was not suitable for the particular business of AFBI, and then we developed our own in-house system.

**Mr N Lavery:** Chair, I will just come in on that point. Coming in and looking at this afresh, it seems to me that AFBI inherited a financial accounting system that the Department was using, and some of the criticisms in the report, which are fair criticisms, are around costing and the identification of costs for individual projects, which is fair. What AFBI did not have was a proper costing module. It has taken time to get that in place; that is now in place. It was a financial system geared up with individual cost centres that was designed more for a Department than an organisation such as AFBI.

**Mr Clarke:** That is a good point at which to come in. I listened to what Professor Kennedy said about the management of the organisation. How much has the Department of Agriculture and Rural Development been spending annually on AFBI since it started in 2006?

**Mr N Lavery:** The current budget is about £58 million.

**Mr Clarke:** You are on record as saying that the costing models were not right, but you have continued to annually fund it without any proper scrutiny or making sure that those models are correct.

**Mr N Lavery:** I have a couple of points to address that. AFBI has lived within its overall budget. Its accounts have never been qualified. It has received internal audit satisfactory assurance every year. The point that I was trying to make was about the costing system and the costing of individual projects. That is what needed to be developed. And —

**Mr Clarke:** Can I just stop you there? It has been living within its budget of £58 million, but Professor Kennedy admitted today that the systems have not been in place. What worries me, as a taxpayer, is that that arm's-length body gets substantial public money from the Department yet it is not satisfied that there are accountable mechanisms in place for how it manages the funds. Professor Kennedy said that it was reviewed in 2010, which was four years after the start. Was it AFBI's role to review that? Given that DARD was a large subscriber, would it not have been its role to make sure that the financial management was in place for an organisation that it is pumping millions of pounds into annually?

**Mr N Lavery:** Again, there are a couple of points. I want to go back to clarify: the £58 million that I referred to includes the commercial income, which is about £18 million. Our cost to DARD is currently about £40 million.

**Mr Clarke:** About £40 million or £50 million? OK.

**Mr N Lavery:** The point that I am trying —

**Mr Clarke:** What is £18 million between friends?

**Mr N Lavery:** It is the royalty and the commercial income that the organisation has earned. AFBI is primarily responsible for its financial systems, and the Department looks for an assurance on that. AFBI's systems were financial systems. As I said, its accounts were not qualified. The tenor of your question is absolutely right: the Department had a role. The Department set and agreed targets with AFBI to put those systems in place. Should the costing systems have been in place earlier? Yes, they should.

**Mr Clarke:** So, are you, as the permanent secretary of DARD, going to accept responsibility? I appreciate that you are relatively new to the post, so I am not going to shoot the messenger. Are you satisfied with what your predecessors were doing? You said that the proper costing model was not in place. Are you satisfied that the previous permanent secretaries got it right?

**Mr N Lavery:** It has been an evolving process. I will bring Gerry in to talk about the systems.

**Mr Clarke:** Gerry has been acting permanent secretary and head of finance, so I am interested to hear what he has to say about that.

**Mr N Lavery:** I have just a couple of points. As I said, there were financial accounting systems in place. The organisation has had satisfactory assurance from its internal audit. Its accounts have not been qualified. It has lived within its budget.

As the report rightly highlights, the costing systems take time to develop, and the overhead rate should have been used. The Audit Office identified that as lost income. That would be the primary governance concern. The organisation has increased its royalty income year on year, so it is reducing the grant-in-aid that DARD has had to fund it. That is a positive thing, and we should recognise that.

You asked me about the finance systems. The AFBI board put together a subcommittee in 2011 to address its finance systems, and the Department increased its monitoring of AFBI. I give you an assurance that it will continue to do so.

**Mr Clarke:** Professor Kennedy, or maybe it was you, referred to paragraph 5.26, which is the last part of the report. You picked one aspect of what was said, but let us look at the words of the last bullet point in the context of you saying that it lived within budget. It states:

*"strong and timely oversight is required to address the financial and operational risks associated with a new body, and ensure that measures are put in place to remedy inadequate performance."*

So, yes, it may have lived within its budget, but the very last paragraph of the report sums it for me. There are obviously huge risks in an organisation that DARD is pumping millions into, and the last words are, "inadequate performance". That is the end of the report.

**Mr N Lavery:** It states:

*"There are important lessons to be learnt"*.

**Mr Clarke:** I would assume that, if you are learning lessons, it is an indication that something has been going wrong.

**Mr N Lavery:** Absolutely. I was just making the point that we have now embedded a strong and comprehensive performance management and corporate governance regime in AFBI. The report is right: there are lessons to be learnt. This is a very large NDPB, and, in establishing that large NDPB, the Department concentrated on the financial side. As you said, I had a fresh look at this. The Department established it, put a board and an internal audit together, and ensured that it had finance systems and an internal audit function. The costing systems and a review of the overhead rate to pick up all the costs of individual R&D projects were not in place.

**Mr Clarke:** So, it took you eight years.

**Mr N Lavery:** The acceleration of the development of those has been from 2009-2010. I think that is correct.

Can I bring Gerry in?

**Mr Clarke:** Yes.

**Mr Gerry Lavery (Department of Agriculture and Rural Development):** The case is well put. On the one hand, in setting up a very large NDPB, you had a real risk that the organisation would not be able to account for its expenditure, and that was dealt with by transferring to that new NDPB the accounting system that it had formerly operated in the Department. So, that risk, which was the largest risk, was mitigated. There was a risk then around knowing the full cost of each project that is funded other than by DARD grant-in-aid. That risk was recognised and put in the business plan as something that AFBI wanted to tackle. It took a number of years to do that, partly for the reasons set out by Professor Kennedy. At the time, it went through a series of iterations and a series of changes in the accounting system and then dealt with that risk.

**Mr Clarke:** In your own words, "It took a number of years". We are talking about DARD funding to the tune of — Mr Lavery corrected me on this — £40 million, and, as you admitted, Gerry, it took a number of years to mitigate that risk. In your opening comments, you said — it is like any organisation — that there will be risks with any new organisation. Unfortunately, this report does not focus on, nor should it, the good work that AFBI does, but we are looking at the financial management of a new organisation. On one hand, we have a very good organisation that a lot in the agriculture sector look upon as doing good work, but the good work has been overshadowed by what is in this report about the financial management. I put a lot of the responsibility back on DARD because this is a new

organisation that is probably more interested in the scientific nature of what it wants to do, but I would have thought, Mr Lavery, given the two positions that you held, that you should have had more concern about the management of the finances of the organisation, and it should not have taken eight years to get to the situation of trying to turn that round.

**Mr G Lavery:** I suppose that I accept that it should not have taken eight years. The progress that we have made has been too long in coming, but, arguably, it is not too late to have an impact now. The mitigation or, if you like, the explanation for why it took so long was, as I said, in part because the accounting systems were changing. However, it was also in part because of something else. If you go back to when we created AFBI, the issues that surrounded it at the time were in the nature of separating out agriculture education. That was one of the key thrusts of the O'Hare report. Doing that meant splitting up the assets that were being used by the science service to separate out those that belonged to Queen's University and those that could be transferred to AFBI. We had the same issue when we abolished the Agricultural Research Institute of Northern Ireland (ARINI), a former non-departmental public body (NDPB) and brought its assets in. We had issues around staffing, setting up the new financial and human resources processes and all the associated policies. There was a raft of work that had to be done to get the organisation up and running. That is why, frankly, we took our eye off this particular ball for a time and lost the opportunity to make further progress on costing when it should have been made.

**Mr Clarke:** Mr Lavery, I suppose that the only parallel I could draw is that you remind me of the old banking sector. However, you are not very much like the new banking sector, because there is an awful lot more caution. It is a wee bit like the Royal Bank of Scotland (RBS) story in which public money had to be used to bail out its mistakes. Public money is still bailing out DARD and its mistakes in allowing AFBI and its financial controls to run out of its way.

Noel, with reference to part 2 of the report, how has AFBI gone about identifying the full cost of its operations since it was set up in 2006?

**Mr N Lavery:** Sorry, could you point me to a particular paragraph?

**Mr Clarke:** Part 2 of the report deals with the financial management of AFBI. I am sure that you briefed yourself on the report before you came here today. How have you identified the full cost of the operation since 2006?

**Mr N Lavery:** The full costs of the operation would have been reported to the Department through its financial reporting system on a monthly basis and scrutinised by the Department on a monthly basis. As I said before, those would be on the financial accounts system that AFBI inherited from the Department. The full costs would then have been reported to the Department through AFBI's annual accounts. The accounting officer in the Department would have received an assurance at the end of the year on the management of that money from AFBI's accounting officer.

**Mr Clarke:** I draw you to the report again. When the Audit Office was compiling its report, it found that AFBI was unable to allocate 55% of its spend, or £143 million, across its operational activities between 2006 and 2011. How did that come about if you had monthly monitoring?

**Mr N Lavery:** That goes back to the point about the costing system. This is about the allocation of overheads, and the point is that this was a general cost that was not allocated across AFBI's activities. Those costs are now being identified through AFBI's strategic cost model. I think that —

**Mr Clarke:** With the work that DARD did with ABFI on its annual accounts, how did it not identify that 55% of the funding was lost or unaccounted for?

**Mr N Lavery:** To clarify, it was not lost or unaccounted for—

**Mr Clarke:** It was not allocated.

**Mr N Lavery:** It was not allocated to specific R&D projects. Those financial costs were picked up in a financial accounting system.

**Mr Clarke:** So where were they?

**Mr N Lavery:** They were treated as overheads in the same way as they would have been in a Department or a non-commercial organisation.

**The Chairperson:** Mr McQuillan, did you want to come in earlier?

**Mr McQuillan:** I wanted to come in on a point that Mr Kennedy raised. Mr Kennedy, you said that Account NI was not suitable for your organisation. Will you explain why?

**Professor S Kennedy:** It was largely because of the mix of business that AFBI carries out. Unlike a Civil Service Department, which is mainly involved in expenditure, AFBI has quite a bit of income from several hundred different contracts. As was said earlier, we did not have a suitable job-costing system that could conveniently allow us to price a job or contract. That was one reason. AFBI —

**Mr McQuillan:** I will stop you there. Was it not the fault of AFBI that it had not put that in place? Was that not your fault?

**Professor S Kennedy:** We went through several iterations of attempting to put an accounting system in place that would provide those points. In the early years of AFBI, the expectation was that Account NI, because it was being implemented in the Civil Service, would also provide AFBI's needs. It was only when we tested it that we found that it did not. Not only did it not have a job-costing module, which AFBI needed —

**Mr McQuillan:** From what you are saying, it seems that those in AFBI did not bother to do anything until they saw that Account NI was not going to do what they required. They only decided to put something in place after that.

**Professor S Kennedy:** After Account NI did not work for us we put an in-house solution —

**Mr McQuillan:** Before you found that Account NI did not work, I believe that you more or less sat on your hands and did not bother to do anything.

**Professor S Kennedy:** No. Quite a lot of work was being done in the background. As well as the job-costing module that Account NI did not have, there were special issues that applied to AFBI such as irrecoverable VAT. We have a partial VAT exemption because of the mixture of our business. We pay VAT when we make purchases or carry out work that is funded by grant-in-aid, but we cannot reclaim that VAT from HMRC. There is a particular mixture, and it took about two years to agree the appropriate treatment of VAT with HMRC as it was also new to it. Account NI does not have a module that can deal with that, whereas our in-house system does.

There were other issues such as the timeliness of sales invoicing and the ability to manage our cash flow. Those were areas that Account NI did not perform for AFBI because of our particular type of business.

**Mr Dallat:** Chairperson, I only want to make a couple of comments at this time. I understand that I will come in later.

**The Chairperson:** Yes, you will.

**Mr Dallat:** Noel, I have listened very carefully to you and I am greatly heartened by your commitment to do things totally differently in the future. How long do you think this bad management of resources and money has been going on for?

**Mr N Lavery:** Well —

**Mr Dallat:** I will tell you how long it has been going on: 20 years. How long would you have lasted in the private sector?

**Mr Lavery:** I am sorry. I am not with you on the point about 20 years.

**Mr Dallat:** I have done a little bit of research. You have been to Westminster and you have been before the Public Accounts Committee here. There are records in the Library that indicate that there



have been serious concerns about this type of work for 20 years. That is fact. This is 2013 and you have given us an assurance that everything is going to be rosy in the garden. It has been Christmas every day with you for 20 years.

**Mr N Lavery:** I want to make a couple of points on that. You are obviously referring to the recommendations of the Westminster Public Accounts Committee in 1995. Having looked at this issue, it seems that internal audit looked at the implementation of those recommendations in 1997 and gave the Department an assurance on that. One of the major recommendations of the 1995 Westminster Public Accounts Committee report was the customer/contractor split. The creation of AFBI was the big change in that customer/contractor split. What the Department and AFBI underestimated was the changes that that would bring, with the need to look at the overhead rate and have a proper costing system. I have been through the main recommendations of the 1995 report and can go through them all if you wish.

**Mr Dallat:** Please do not.

**Mr N Lavery:** Sorry?

**Mr Dallat:** No, please do not. Just read them and implement them.

**Mr N Lavery:** OK, absolutely. You have my assurance on that. Most of them have been implemented or fully implemented, and I will ensure that they are.

**Mr Dallat:** Can I just ask one other little question? Professor Kennedy, did the scientists who worked in your department have a job sheet, or did they just do whatever they liked and whatever they wanted?

**Professor S Kennedy:** No, they did not do just whatever they wanted; they have a series of objectives.

**Mr Dallat:** Who decided?

**Professor S Kennedy:** It is line management, essentially.

**Mr Dallat:** Were they responding to the demands of the industry, or were the professors just doing what they wanted?

**Professor S Kennedy:** No. AFBI has a range of work. A large proportion of our work is the statutory TB, brucellosis and BSE testing that we carry out for the Department, which is maintained all the time. There is other statutory work such as veterinary drug residues and pesticides residue testing in food, all of which are statutory functions. There is also the animal disease post-mortem service, which is an examination of samples from farmers and private vets, etc. Staff do not decide what to do. They test the submissions from the Department or from private industry, as the case may be, and then develop tests to analyse that equipment.

**Mr Dallat:** In terms of those costings, how many people in the private sector do you think you have put out of business using public money by charging too low a rate?

**Mr N Lavery:** There are a couple of points with regard to, as you say, charging too low a rate. With the revision of the overhead rate it was about 15%. The Audit Office estimates that it may be up to £3.5 million, which I think is the wording in the report. I want to point out that one third of that external income is public sector. I do not know the answer to your question. All I can say is that we should have used the appropriate overhead rate. We are using it now.

Can I bring Norman Fulton in?

**Mr Norman Fulton (Department of Agriculture and Rural Development):** You talked about the work programme. For the work that AFBI does for DARD with regard to the grant-in-aid, we set out a comprehensive annual work programme in which we specify what we require for the statutory diagnostic analytical work and what we require from AFBI with regard to emergency response and the R&D programme. That is all carefully specified and reviewed annually, and there is regular reporting

against the progress of the work programme. AFBI has other customers apart from DARD, and they will specify their requirements. AFBI has a charging policy that is in keeping with the management of public money in Northern Ireland. When operating in competitive markets, AFBI is required to set a rate that generates a return to the business for the use of assets that it deploys.

**Mr Dallat:** Norman, that is all very convincing, but how did you get into this mess if you did all that correctly?

**Mr Fulton:** This has been an evolving and improving process. AFBI was not launched as an entirely new organisation in an entirely new work programme; it was a carry-forward of the existing programmes from the Department and from the amalgamation of ARINI. Those are well-established, long-standing programmes and, over time, we have documented the various work streams. We now have a very tight process for specifying what AFBI is required to deliver to us every year.

**Mr Dallat:** At this stage, Chairman, I think that the incubation period for this particular institute was rather long.

**The Chairperson:** Thank you, Deputy Chairperson.

Members and Mr Lavery, we will now go into the detail of the main areas of the report. Some members have asked supplementaries to other questions. However, we have the main area and the core areas of our report. We will go into the first area.

**Mr McQuillan:** My question is about financial management, which is part 2 of the report. Between 2006 and 2007, AFBI spent £96 million on corporate costs. How was that managed?

**Mr N Lavery:** I will bring in Professor Kennedy and Gerry. It is the responsibility of AFBI to manage its own costs. Again, the accounting officer would give me, as an accounting officer, an assurance on that. They are managed through the financial reporting system to senior management in AFBI. We would get reporting from AFBI into the Department, and we would report to the departmental board.

**Mr McQuillan:** At no stage did the Department think that it was a high cost per head? Did alarm bells never go off?

**Mr N Lavery:** The Audit Office report highlights that the costs of AFBI are very high, particularly for its estate. That is something that we are addressing. The report analyses the corporate costs; some relate to AFBI and some to the estate.

**Mr McQuillan:** I could see AFBI not catching on, but I would have thought that the Department would have caught on because it should have been benchmarking AFBI against some other organisation of similar size to see what its corporate cost was.

**Mr N Lavery:** I have a couple of points. First, when AFBI was set up, its costs were staff and overheads, including its estate. That was what was established; those were the original costs. AFBI has been set efficiency targets, which it has delivered and continues to deliver. It has absorbed inflationary increases, and all its procurement is subject to public procurement. Are we seeking to reduce the costs of AFBI? Absolutely. We will be setting efficiency targets on AFBI.

As I said, a large element of the overheads relates to estate. That is a big issue for us. I will bring in Gerry on that.

**Mr G Lavery:** I have two points. First, the corporate costs include the estate and staff. Staff is a big element, and they are on the same terms and conditions as civil servants. We have control over the number of staff and over how they are paid and remunerated. That gives us an assurance that they are not, by any means, being over-remunerated. The estate is —

**Mr McQuillan:** How do the royalties tie into that?

**Mr G Lavery:** The royalties come in as an income stream and basically offset funding that, otherwise, the taxpayer would have to give.

**Mr McQuillan:** Do individuals not get royalties as well?

**Mr G Lavery:** There is a standard intellectual property scheme in line with the arrangements in a number of public sector bodies. It is on a sliding scale, depending on how the intellectual property is exploited. For example, at the top level, the vast bulk of the income goes to the organisation. For a very small piece of intellectual property, the vast bulk goes to the individual. It is a standard scheme that is approved by the Department and the Department of Finance and Personnel (DFP).

**Mr McQuillan:** On the management of your estate, I understand that the property asset strategy in 2010 said that the Newforge site was insufficient and the Stormont site required a major refurbishment. What is the state of play today? Where are we at with that?

**Mr G Lavery:** We are working on having an estate strategy for AFBI within the estate framework for the Department as a whole. When AFBI was set up, it occupied the buildings and the property that was being used by the science service prior to its establishment.

Some of that property was there for a different purpose. I have mentioned that education was being hived off. The Newforge site contains lecture halls, and its atrium was built to accommodate a large number of students. That is clearly redundant. However, it would cost a significant capital amount to relocate from Newforge to another site. We need an invest-to-save initiative in that regard. Moreover, the AFBI estate has had a number of investments over the years, some of which have been significant, but some buildings are obsolescent. For example, the VSD main building at Stoney Road is reaching the end of its life and is not a good platform for the advanced technology applications that AFBI is required to do. Again, however, it would cost a significant sum to replace. Each of those initiatives would require between £25 million and £30 million, and we would be very grateful for any support that the Committee wishes to give to our bid, which will be an invest-to-save bid that will reduce running costs and increase efficiency.

**Mr McQuillan:** A few years ago, there was a great emphasis on invest to save. Did AFBI apply for any of that money?

**Mr G Lavery:** We applied for several initiatives and received some funding. However, we did not apply for those two particular initiatives because we were not absolutely ready. As you can tell, they are significant projects. For example, we are completing the business case for the replacement of the VSD main building. That business case will be available later this year.

**Mr McQuillan:** Are you talking about later this financial year or this calendar year?

**Mr G Lavery:** Later this calendar year.

**Mr Fulton:** We are working on a draft of the business case; it is nearly final.

**Mr McQuillan:** Can you give me a breakdown of the other places where you have estates or premises such as Crossnacreevy, Bushmills, Hillsborough, Loughgall and Omagh? How many staff members are on each of those premises and what are they used for?

**Mr N Lavery:** Professor Kennedy has those numbers.

**Professor S Kennedy:** The Omagh veterinary laboratory provides a service to vets and farmers in the area and receives various animal carcasses for post-mortem examination. There are about 17 or 18 staff at that site. At Hillsborough, we have — these are approximate numbers off the top of my head — approximately 100 staff. We have approximately 270 at the veterinary sciences division at Stoney Road. We have a very small number of staff at Bushmills, where they do work for the Department of Culture, Arts and Leisure (DCAL) on the population of salmon. That is DCAL, not DARD, property. The other estate is leased by AFBI from the Department. Crossnacreevy is essentially a plant-testing station where they conduct trials mainly on grass and cereal varieties. Loughgall is essentially a plant-breeding station. There is research on mushrooms, apples and other soft fruit, and research on potatoes and grass breeding; there is also a beef facility there. It is an overflow from the Hillsborough site, which is mainly involved in sustainable agricultural research. There is a big emphasis on the environment at the minute, such as the production of greenhouse gases from livestock and soils and investigating ways of reducing greenhouse gas emissions. There is also a big slant on the

environment and looking at the efficiency of nutrient utilisation and animal production, the effects on the environment and how to reduce those.

**Mr McQuillan:** Maybe you can give that to the Committee in writing for us to get a better look at it. It would be better for us all that way. Could you give us the sizes of those plants in the square footage of the building or the acreage of the whole site just to see the size compared to the amount of people working on it? That is what I want to try to get at.

Did the Department never think that there would be more value for money in buying this service in from a private company rather than going down this route? It costs £40 million for this service. Would it be cheaper to go to the market and see what we can buy out there rather than do it this way?

**Mr N Lavery:** That goes to the heart of whether AFBI is delivering value for money. To be clear, Ministers have decided to set up an arm's-length body, an NDPB. You asked whether we should outsource that capacity, and Mr Clarke referred earlier to AFBI's good work. This is absolutely vital to our research —

**Mr McQuillan:** I am not saying that it is not; I am just saying that there is a cost.

**Mr N Lavery:** Absolutely. If you bear with me, there are three sides to it: cost, benefits and risk. Page 53 gives a very small element of some of the excellent work that AFBI does. Let us not forget the emergency response capability that we have in AFBI; it is on our doorstep and we can call on it immediately. AFBI's work on dioxins, bluetongue and foot-and-mouth disease was vital; outsourcing it would be a major risk to our emergency response capability. The expertise in research capability, researchers, lab work and testings is all interlinked. I am sure that Seamus Kennedy could talk for a long time on that.

Going to your question about costs, in respect of our evidence and innovation strategy and the R&D projects that we commission from AFBI, everyone is now commissioned by the Department and has a proper appraisal. That gives us an assurance on value for money. There is a recommendation in the report about where feasible —

**Mr McQuillan:** You said that everybody now has an appraisal. When did that come into play?

**Mr N Lavery:** It came into play from our new evidence and innovation strategy in 2011. Those projects were appraised by AFBI. The Department now accepts submissions from AFBI. It does an economic appraisal, it commissions the work, and, every quarter, it monitors its own costs and those of AFBI. I can give the Committee an absolute assurance on that.

The Audit Office makes a recommendation on the benchmarking of unit costs, and that goes into the statutory and other testing. It talks about, where feasible, on high volume and high cost. I absolutely accept the recommendation that we should do that. Norman will be able to speak on this issue, but that will be part of our new appraisal system. Having the emergency response capability costs money, but that then goes to the risk. The Department has to accept that there is a cost in having that, and that has been of significant benefit to the Department and to the Northern Ireland industry.

**Mr Fulton:** It is also important to recognise the interaction between the statutory work, the R&D work and the emergency response capability. They all mesh very closely together, and one feeds off the other. The R&D informs the statutory work. It also ensures the scientific expertise that is there to be called upon when we are required to respond to emergency, and AFBI has been on the front line of responding to emergencies on a number of occasions. It all meshes together very well. If we were to split little elements off to market-test them and to put them out to other providers, we would start to lose that integration, and the sum of the parts would not add up to what we have from AFBI.

**Mr McQuillan:** I take your assurances on board, and, hopefully, they will come to fruition and we will not have you before us again, and there will not be another report such as this one.

**Mr N Lavery:** We accept the Audit Office's recommendation on that point.

**Mr Clarke:** You touched on some of what I wanted to ask, but, according to paragraph 3.5, the performance in generating non-DARD income has been good. Much of that has been from royalties. I

am trying to ascertain from Professor Kennedy whether AFBI research has generated any new royalty income.

**Professor S Kennedy:** We have had no new royalty income in recent years. To answer your first question, the total royalty income is about £6.5 million per year. Our total non-grant-in-aid income is about £18.8 million or thereabouts per year. So, the royalty income is about one third. The non-royalty income has grown from, I think, around £2 million in the year before AFBI was formed. It was around £6 million for the first year of AFBI, and it is now up at roughly £12 million.

**Mr Clarke:** I want to focus on the royalty as opposed to the non-royalty. Following on from what my colleague asked you about, the next question, Noel, is more for you. It is interesting when you read the report. Obviously, DARD assisted AFBI to get it off the ground. However, AFBI, the scientists or an individual in the science group had been working on a particular project, which public money assisted in getting off the ground. Was that project on the pig disease vaccine? Adrian was asking you about outsourcing work, but scientists were already working on projects before DARD pumped money into it. That says to me that, if DARD had not pumped that money in, vaccines such as that were going to be available anyway. Would it not have been cheaper to buy the vaccines off them, as opposed to sharing the royalties with them?

**Mr G Lavery:** Research was carried out in the 1990s on pig circovirus. The objective of that research was to assist the Northern Ireland pig industry. In the event, it identified a number of patent areas. The science service, as it then was, and Queen's University took out patents on those inventions. Those are the patents that a commercial company is now exploiting worldwide. That commercial company then remits a royalty every year. So, it was not that we or the scientists set out to create a commercial income stream.

**Mr Clarke:** Sorry, Gerry, let me stop you there. I do not know how you can say that, because you are not a scientist. They have to be congratulated on the field of work that they do, but I suggest that most people who come up with something innovative are trying to profit from it. So, if you are telling me today that that is not the case, I find that very difficult to accept. I will not accept that. The guys or ladies who are involved in that particular field of work are professional in what they do. They want to be world leaders or very innovative in what they do. However, they are going to do it as a cost, and you will not convince me otherwise, nor would I put them down for that. However, I do not accept from you that that was not the purpose of someone coming up with a particular invention. You may say something else, but I do not accept that.

**Mr G Lavery:** As I said, our objective is to serve the needs of the local industry.

**Mr Clarke:** That is different.

**Mr G Lavery:** That is the research that we are sponsoring. It may be that some of that research has, as a consequence, something that leads to a patent and an income stream. We believe that a scheme has been put in place to allow for a fair division of that intellectual property.

**Mr Clarke:** Let us look at the division. In the research that AFBI is involved in and the royalties that that generates, what percentage share does AFBI get, what percentage share does DARD take and what percentage share goes to the scientist who came up with it?

**Mr G Lavery:** I would have to come back to you in writing on some of the detail of the actual figure work. I can say that any income that AFBI receives goes to offset costs that would otherwise have to be borne by DARD and, therefore, the taxpayer.

**Mr Clarke:** I would like to see the breakdown in the royalties showing how much is received on an annual basis, what it is for, the distribution of that royalty and who gets what.

**Mr N Lavery:** We will write to you about that.

**Mr Clarke:** This question is maybe more for you, Noel, given that you have been round a few houses. What is the normal practice with royalties in the public sector?

**Mr N Lavery:** In the houses that I have been round, Mr Clarke, that is not something that arose in the Office of the First Minister and deputy First Minister.

**Mr Clarke:** Is that the only place you were at?

**Mr N Lavery:** I was also in the Department of Enterprise, Trade and Investment (DETI) and the private sector before that. I apologise, because I cannot give you any more detail, but as Gerry said, there is a scheme for this that the Department and DFP have approved. Norman, can you add anything?

**Mr Fulton:** Yes. A Baker report in 1987 talked about trying to ensure that intellectual property and research findings could make their way into the economy so that benefit could be derived from research findings from public sector research organisations. So, there has been government policy on that to ensure that those benefits are captured. In AFBI, we now have a rewards scheme —

**Mr Clarke:** Sorry to cut you off there, Norman. I do not want you to take from me that I disagree that this should be an income generator. When something is an income generator, the issue is how that income is dispersed afterwards. The way that AFBI works reminds me of the very good health service that we have. We have some very good qualified doctors whom the public helped to qualify; public money helped to put them into their positions. However, they set up their own enterprises, and they then decide that, if you want a little operation, you will have to wait two years, but if you ring their private secretary, they will do that wee job for you privately and could fit you in next week. On top of that, they use public hospitals, public nurses and public beds. There is a conflict in how the public sector creates those wee empires within itself. So, if somebody wants to do something and wants to educate themselves without the assistance of public money, that is fair enough, but once public money comes into it, it is different. That is why I want to see the figures. Noel, I want you to give us the figures and the breakdown of how it works in AFBI and, given that you were not in one of those other houses, how it would work anywhere else in the public sector. I do not want to see that we are very generous in this field but not equally generous in others. Norman, do you want to finish your point?

**Mr Fulton:** It might be helpful if we provided a copy of AFBI's rewards-to-inventors scheme, which has been approved through the Department and which is our way of implementing the Baker recommendations. We operate a deficit funding model for AFBI, and, therefore, intellectual property and the returns from it are effectively a return on investment to the Department.

**Mr Clarke:** That is provided that it comes to the Department.

**Mr Fulton:** It does, and it is very significant. It is about £6 million per annum at the minute, and that offsets the cost of the work programme that AFBI conducts by the Department. So, the Department benefits from that.

The third point concerns the direction of R&D and its undertaking in AFBI. The Department specifies the R&D, and it is largely for public good. It is not a case of scientists deciding what they will research; they are responding to a research agenda that the Department sets. If there is a spin-off or a by-product of intellectual property, we certainly encourage AFBI to make sure that the benefits of that intellectual property are captured. That then comes back to the Department as, effectively, a return on investment. However, it is not the purpose of the research.

**Mr Clarke:** So, when you say that you are saying to AFBI that you hope that it is captured, what percentage are you suggesting that it is captured at?

**Mr Fulton:** We can provide you with a copy of the rewards scheme that now exists in AFBI. If you are talking about very significant intellectual property, I can tell you that the vast majority will come back to the Department. However, if you are talking about very small amounts, I can say that it will largely go to the inventor. We can provide a copy of the scheme to the Committee so that you can see the detail.

**Mr Clarke:** So, you could see how someone like me would have a criticism of that, because, basically, they are getting paid twice for doing the same job. Public money is funding them in their position, and they are working on the innovative ideas that they are coming up with. However, they then get royalties on the back of that.

**Mr Fulton:** It comes back to the Baker report and the recommendation that there needs to be a connection between the research organisations and the private sector to ensure that the benefits of it flow out into the economy. That is the purpose of this.

**Mr Clarke:** I asked Noel a question about getting a comparison with the public sector. Chair, we could maybe get our research people to see what royalties are paid to someone who is employed in the private sector and who works in the same field as some of our larger employers in Northern Ireland. Do they get royalties for scientific work and, if so, at what proportion? We want to see that comparison.

**Mr N Lavery:** We might be able to provide you with comparators of research organisations elsewhere in GB and of what their schemes were, if that would be helpful.

**Mr Clarke:** In the public sector?

**Mr N Lavery:** Yes; organisations such as AFBI.

**Mr Clarke:** I suppose that our research people could get the figure for how much Northern Ireland plc — the private sector — pays. I am glad, Noel, that you recognised that I value the work that AFBI has done. I was on the Agriculture Committee for a period of time. I have had various meetings with the farming sector, which also values its work. People were very nervous about some of the changes that were proposed in the past because of the work that is done in specific areas. That is one side, but financial management and public money are involved. We have to be very careful in how we do it.

**Mr N Lavery:** I appreciate those positive comments.

**Mr Dallat:** I am trying to get my head round some of the figures. I am finding it increasingly difficult to understand how you get so much money to spend. It was money bags all over the place, was it not?

**Mr N Lavery:** I am not sure what point you are making, Mr Dallat.

**Mr Dallat:** The table on page 20 of the report shows that the total cost went up from £38.58 million in 2006-07 to £54.46 million in 2010-11. Over the five years, the total was £258.28 million, and you did not even have a basic costing system for the work that you were doing. Is that not a bit hard to take?

**Mr N Lavery:** There are a couple of points to make. Obviously, the Department bid for its budgets and was allocated those budgets. Secondly, as I said, we had a financial accounting system. The costs would have been approved by the chief executive and the Department.

**Mr Dallat:** Who was the chief executive?

**Mr N Lavery:** George McIlroy.

On a point that is related to Mr Clarke's earlier one, I think that AFBI stands as a very strong comparator with other public bodies in the third-party income that it has generated. The percentage of its costs that are funded directly by the public sector has gone down significantly since 2006.

**Mr Dallat:** I can see that the advice and teaching has definitely gone down, but the other consumables have rocketed.

**Mr N Lavery:** I am not sure about the 2006-07 costs. Staff and consumables went from £22.24 million in 2007-08 to £24.48 million in 2010-11. We increased our third-party income, we achieved our efficiency targets and we absorbed inflationary increases.

**Mr Dallat:** I do not know; I would have thought that, during a period in which the private sector was collapsing all over the place, you did pretty well.

**Mr N Lavery:** I think that AFBI has done well to increase its third-party income —

**Mr Dallat:** I am sorry; I mean that you did well getting money.

**Mr N Lavery:** I will bring Gerry in. I think that AFBI, like all parts of DARD, and DARD, like all parts of the public sector, has had to bid for its money. As I said, I think that AFBI's increase in third-party income stands well in comparison with the rest of the public sector.

**Mr G Lavery:** It is a relevant point that, rather than the private sector collapsing, the agrifood sector has performed very well in the teeth of this recession. The sector contributes £1 billion a year in value added to our economy. It supports 50,000 jobs. The strength of the case to support that sector is what sustains AFBI. AFBI, in turn, is the major provider of innovative R&D to assist the competitiveness of that sector. In one sense, I am not surprised that successive Governments, including this Executive, have decided that that is a worthwhile investment.

**Mr N Lavery:** Can I just make a couple of other points? Mr McQuillan asked us about the cost of the estate. That is a significant cost. I absolutely take your point on that. We would seek to reduce that cost through investment, Mr Dallat.

**Mr Dallat:** I am just looking at the corporate costs for the same period. The cost for casual staff was £3.7 million. For lease of land, it was £33.6 million. For rates and water, it was £5.2 million. For electricity, it was £9.6 million. For repairs and maintenance, it was £2.8 million. They seem to me to be highly significant figures at a time when you were still charging the same rate as your predecessor for the scientific exercises in which you were involved. I am sure that that is something that you would want to tell me about, Professor Kennedy.

**Professor S Kennedy:** There are a number of issues there. The first is that AFBI's budget is under continuous and increasing pressure as funding from the Department reduces. That means that, basically, we have had to work harder and harder each year to generate the additional income to maintain the scientific capacity in the institute. That, in itself, drives considerable efficiencies, because it means that there is less money internally in AFBI to spend, basically.

**Mr Dallat:** Gerry, can you tell us how much money was lost through antiquated costing systems that had no basic foundation?

**Mr G Lavery:** This is an agreed report. In the report, the Audit Office estimate is that, at a maximum, £3.5 million was lost. The accounting officer already pointed out that that maximum includes services to the rest of the public sector. It is about one third. So, it would probably be an overstatement to talk about £3.5 million. As the report indicates, that was a lost opportunity to further reduce our grant to AFBI by about 1.5%, which we would dearly have liked to do. I think that your point about the estate, Mr Dallat, is very well made, if I may say so. It is what is driving us at the moment in trying to come up with invest-to-save projects for both VSD and the Newforge Lane site. The fact is that those obsolescent buildings lead to very high utility costs. They lead to rates bills for space that AFBI cannot use profitably or productively. They also lead to issues about the leasing costs between AFBI and the Department, which owns those buildings. Those costs are too high, and we want to reduce them recurrently.

**Mr Dallat:** I think that your points are very valid, and I agree with them. Is it true that there are very substantial buildings in which only two or three people work?

**Mr G Lavery:** I think that that would be an exaggeration. There is, certainly, space that is not productive, particularly, for instance, in the main building at Newforge Lane. When you walk into it, you see that it has a very large atrium, which was built for a large number of students to come through. We do not need that, and AFBI does not need it. We would like to get out of it. However, it requires a significant capital investment to put AFBI on a different site and to release that space at Newforge Lane.

**Mr Dallat:** Obviously, I will not be about in 20 years' time. Gerry, what will emerge from this report that will ensure that those issues that you and Professor Kennedy addressed will not be hovering over and haunting some future PAC?

**Mr N Lavery:** I gave you an assurance about the points that PAC had raised in 1995.

**Mr Dallat:** I was convinced.



**Mr N Lavery:** As I said, the Department has increased its oversight of AFBI. We have a strong quarterly reporting system. We have quarterly assurance and liaison meetings with AFBI reporting to the board. We now have R&D projects commissioned by DARD, and we are developing a strong costing system. Systems do evolve. Norman referenced a revolving system on testing. I can give you an assurance that, as the Audit Office said, we will benchmark where appropriate and feasible.

Can I just make one further point, Mr Dallat, because we talked about costs?

**Mr Dallat:** Yes.

**Mr N Lavery:** Very significant benefits come from AFBI in its research and supporting innovations, its support of the Department's policies and its emergency response. I do not think that we should lose that. It comes at a cost, but those costs are very high because of the corporate structure of AFBI's estate.

**Mr Dallat:** Mr Lavery, your point is valid, but I am sure that you are not suggesting to the Committee that, because you do excellent work that contributes to the industry, you can have a cavalier approach to how you spend public money.

**Mr N Lavery:** Absolutely not. Again, it goes to Mr Clarke's point. It is disappointing that we are here to discuss governance issues of an organisation that has been successful.

**Mr Dallat:** I assure you, Mr Lavery, that the Committee is not shy to give credit and praise where they are due, but, at the moment, we are discussing public money. That is our duty.

**Mr N Lavery:** Absolutely.

**Mr Dallat:** And the record has been very bad.

**Mr N Lavery:** I understand your point. I was seeking to give you an assurance about the enhanced systems and an assurance that I will make sure that there is proper oversight by the Department.

**Mr Dallat:** This could be the day for the Laverys.

**Mr McKay:** Paragraphs 3.10 and 3.11 of the report show that scientific testing is one of your more significant areas of business activity, with an estimated spend of £143 million between 2006-07 and 2010-11. I suppose that that is out of a budget, as John referred to, of £258 million. So, that is quite a sizeable chunk. However, it is clear from the Audit Office report that the calculation of unit costs for that work was very limited. Can you give us some background information on how that work is done and how frequently it is carried out?

**Mr N Lavery:** I will bring Professor Kennedy and Norman Fulton in on that. However, I will make this point again, Mr McKay: can we just make sure that we do not forget that, as well as having the unit costs and doing the tests that DARD requires, we have an emergency response capability that is part of AFBI's core cost? That is something that the Department wishes to retain, and there is a cost to that. It is linked to the scientific testing and having that expertise there. However, I just wanted to make the point that the emergency response capability is vital and has been vital to the industry where dioxins and foot-and-mouth disease are concerned.

**Mr Fulton:** The Audit Office report makes recommendations on benchmarking unit costs. We agree with those recommendations. Benchmarking is a very useful management tool, and we should be seeking to deploy it where we can. It is probably most appropriate to, and more likely to be possible with, high-volume, standardised tests. It is much more difficult, as the report recognises, with bespoke or low-volume tests where there might be short turnaround times. Benchmarking has its place, but it has to be used appropriately and wisely, so we will certainly be looking to respond to that positively. In AFBI, the development of the strategic cost model will take us along the path in driving down to a lower level when working out some of the detailed costs in the organisation.

**Mr McKay:** Have any specific benchmarking actions been taken, or are any planned?

**Mr Fulton:** There has been initial work in the Department, where branches looked at whether they can identify appropriate benchmarks against which to compare AFBI. It is pretty much as we expected. In some cases, benchmarks can be identified, and, in other cases, it is difficult to identify an organisation that could provide a benchmark for AFBI. In the limited comparison that we have done to date, AFBI has, broadly speaking, compared reasonably well, particularly when you take on board the overall package that it delivers. It does not just do the tests; it also provides the expert advice and interpretation that we, as a Department, require.

**Mr McKay:** Finally, would it be possible to get something in writing about the particular areas where there are problems with benchmarking and where things are progressing so that the Committee can have some oversight of that and the value of public money that it relates to? Has the Department considered subjecting any of the testing work to competitive tender?

**Mr Fulton:** We have not done so to date. Again, I think that that goes back to the earlier point that we get more from AFBI than simply the value of the test. The fact that capacity exists in AFBI that is then available for emergency response capability is very important. It is part of, if you like, our insurance policy. The integration of the work in AFBI and the fact that the testing regime is informed by R&D are also important. If you start to separate those, you start to lose some of the benefits that we currently have. So, that is a major consideration.

**Mr Easton:** Gerry, you were the senior finance director.

**Mr G Lavery:** Yes.

**Mr Easton:** For how long?

**Mr G Lavery:** I was the senior finance director from 2003 and acting permanent secretary from August 2010 to February 2013.

**Mr Easton:** Paragraph 4.9 states that there was no evidence that AFBI or DARD routinely generated information on the cost of individual R&D projects and that that had to be collated specifically for the C&AG's audit. How can you explain such a complete lack of monitoring and project management over a research programme that involved tens of millions of pounds?

**Mr G Lavery:** The point that we are trying to bring out is that costs were assessed on the basis of the direct costs of staff and consumables. An overhead rate was applied, but funding was not ring-fenced for each approved project, and we did not operate a hundred separate budgets. So, what happened was that the management system operated by division in AFBI to contain its costs and to put them in the context of the institute's overall costs. That kept the costs under control. The costs are now actively assessed and monitored against the original projection, so there is a much firmer grip today.

I think that it is harsh to say that there was no project management. I think that there was project management on the basis of the annual review process. There was a detailed review process that required each project to be submitted to the head of division. It was documented. They had to put forward their findings from the past year and detail the progress that they had made, as well as to put forward proposals for any work to be done in the forthcoming year. If there was going to be a delay or a change in objectives, they had to explain why. The head of division then put that evidence forward to a group that the chief executive chaired. So there was project management. Its critical weakness — we are not trying to excuse this in any way — is that it did not address the cost. When the time for a project was extended, people did not look at the cost. They, therefore, could not have looked at the additional benefits that they were getting compared with the additional costs that they were incurring. That is the weakness. It is not that there was no project management; the project management was not comprehensive and did not address the cost.

**Mr Easton:** Why was it not comprehensive?

**Mr G Lavery:** Because we did not have a firm grip on costs, and it was not an element of that review process. That was an oversight; it should not have happened, and we can only agree to apologise to the Committee for that.

**Mr Easton:** You said that there was not a firm grip and there was an oversight. Who was in charge?

**Mr G Lavery:** Project management was, as I have said, remitted to AFBI's internal management.

**Mr Easton:** Were you aware of that?

**Mr G Lavery:** In 2010, I was aware that we were looking for a further improvement in AFBI's financial management and, at that point, as Professor Kennedy outlined, we put in place a number of initiatives to improve it. Therefore, there was an improved position with regard to the number of staff in the finance area. Subsequently, we undertook a strategic review of AFBI that put in place a revised management structure and, for the first time, created a single corporate affairs and finance director post at the same level as the deputy chief scientist post. That post was filled in January 2013. We also improved the overhead rate at that time. A number of initiatives brought forward definite improvements in the management of R&D and finance generally in AFBI.

**Mr Easton:** I am delighted that you took measures to improve things, but you were in charge of finances from 2003 to 2010, and you did not know anything about it until 2010. Is that not very poor?

**Mr G Lavery:** It would have been, if —

**Mr Easton:** So you are admitting that it was very poor.

**Mr G Lavery:** No, I am not admitting that. Let me explain. In 2003-04, we did the preparatory work to set up AFBI, which came into being on 1 April 2006. One of the weaknesses that existed at that point was the need to further develop the costing system, and that was recognised in AFBI's business plans. In some ways, that shows the system working. It was recognised as a weakness; it was surfaced in the business plan; it was not addressed fully until 2010 with the strategic cost model.

**Mr Easton:** Why did you not address it until 2010?

**Mr G Lavery:** The very brief answer is that other issues took priority.

**Mr Easton:** So this was not important to you?

**Mr G Lavery:** This was important and, with the benefit of hindsight —

**Mr Easton:** It was not important enough, because there were other priorities.

**Mr G Lavery:** At the point when we established AFBI, as I mentioned earlier, the issues were multiple in trying to move around 800 staff. The largest NDPB in Northern Ireland since the 1970s was created in 2006, with no additional staff for corporate services in either AFBI or the Department. In 2006, we were operating under a policy, which people may recall, called Fit for Purpose, which put a cap on the number of civil servants. Therefore, we did not have the headroom simply to employ additional people to deal with the additional workload. That created a pressure in the Department and AFBI to address the numerous issues arising from setting up a new organisation. We had to absorb the staff from the Agricultural Research Institute, who had not been civil servants. Their pensions and their terms and conditions had to be sorted out, and all of that fell on the corporate service team and the finance team in AFBI, and the sponsor branch in DARD. I am certainly not trying to minimise the importance of the costing work, but that is the context in which people were working.

**Mr N Lavery:** May I come in, Mr Easton, having looked at this afresh? It is a point that I tried to make earlier. AFBI was set up with financial systems similar to the Department; it goes down to cost centres and individual branches. The chief executive of AFBI was assessing the projects, and the Audit Office quite rightly made the point about cost overruns on individual projects. That is because it was being managed by cost centre and by the budget area. If a budget area did not have the money, they could not have taken forward the project. That was not broken down to individual project level. That is the point that we are trying to get across.

AFBI lived within its overall budget. Individual budget areas within AFBI, on a functional basis, lived within their overall budget and would have had to justify any increase to Professor Kennedy and his predecessor. The Audit Office quite rightly made the point that it was not managed at individual project level. Was there a loss? I do not know, because that information was not there. Were there some benefits to projects that were continuing? Absolutely.

The report goes into the projects that were stopped. We now have a system whereby there is a commission by DARD, and costs are collected and managed appropriately by AFBI. As I have said, I have put an extra measure on Professor Kennedy to report to me on his stewardship of R&D expenditure. I think that the core problem was not managing at a project level on R&D but managing on a financial basis at cost centre level.

**Mr Easton:** Why were projects not ring-fenced?

**Mr N Lavery:** I think that was because it was managed on a functional basis. Projects were ring-fenced. As I understand it, Professor Kennedy and his predecessor were getting information on individual projects and the benefits of those, along with recommendations on whether that project should continue. The financial information was at budget area level, but not at individual project level. You are quite right that it should have been at individual project level.

**Mr Easton:** Were your costs not spiralling out of control?

**Mr N Lavery:** No, because, having looked at it afresh, AFBI had to live and manage within an overall budget, which it did.

**Mr Easton:** OK. Back to you, Gerry. Why did your Department not request basic cost information on a regular basis for R&D projects that you were funding? It appears that you were writing AFBI a blank cheque and not carrying out any basic monitoring to ensure that that money was being managed effectively. You monitored it only once a year, according to what you have said. Why were you not doing it a lot more than that?

**Mr G Lavery:** We were monitoring the overall expenditure of AFBI —

**Mr Easton:** Once a year.

**Mr G Lavery:** No, we were monitoring it monthly. There was a monthly financial report to the DARD board, which showed the overall expenditure in that month and in the year to date, broken down by management categories. That showed us that AFBI was living within the budget that had been determined at the outset of the year. What we did not have was a long list of all of the separate research projects, their individual costs, and whether each was proceeding within its original budget and the budget for that year. That was a failure, but we were managing the overall expenditure of AFBI within budget. AFBI itself was doing that too.

**Mr Easton:** Right, so you were monitoring it once a month.

**Mr G Lavery:** Yes.

**Mr Easton:** So why were you not requesting basic cost information for the R&D projects?

**Mr G Lavery:** We had a commitment in the business plan that we would make progress on what we call in finance systems a costing module — a way of costing each separate project. What you have to understand is that it is a large and complex organisation. Putting a costing module in place is a matter of being able to attribute every transaction in the organisation to a specific code that will reflect down to that project level. Today, the basic unit of business for AFBI is the project, so everything goes down to one or other project throughout the organisation, as far as humanly possible.

**Mr N Lavery:** If it helps the Committee, I think that the premise upon the setting up of AFBI, which goes to the structure that Gerry has described, was that the management of R&D projects was AFBI's. It was AFBI's project, and it was managing it. We were getting an assurance from AFBI and we were monitoring the financial information on a monthly basis, with quarterly monitoring etc. We have now moved to a system where we are commissioning projects, and AFBI is reporting the cost to us on a project-by-project basis. That is a much better place. In the customer/contractor element, we gave all the management to AFBI. We have now taken part of that back.

**Mr Easton:** Things have improved, but you allowed it go on for quite a long time.

**Mr N Lavery:** It did, but whether there was any loss to public funds is another point. The issue that the Audit Office identified was about the overhead rate. Again, we should not forget that a lot of the projects have delivered significant benefits.

**Mr Easton:** Nobody is disputing that. You talked about a loss of funds. There could be a loss of funds that you do not know about, or maybe that Gerry did not know about.

**Mr N Lavery:** That goes back to the point that the Audit Office raised on using the incorrect overhead rate. You are right: I do not think that the Department was aware of that. That has now been rectified.

**Mr Easton:** Do you not know how much was lost?

**Mr N Lavery:** The Audit Office identified £3.5 million. That was not on R&D within DARD. As I said, we think that about a third of that related to public sector work.

**Mr Easton:** So more could have been lost than you are aware of?

**Mr N Lavery:** No, we do not believe that more was lost.

**Mr Easton:** Are you 100% sure?

**Mr N Lavery:** We estimate that we "may" — to use the word of the Audit Office — have lost up to £3.5 million. Our view is that it is lower. The point is that that is income that could have been used by DARD and AFBI.

**Mr Easton:** Gerry, paragraphs 4.26 and 4.28 tell us that, until 2011-12, there was an annual assessment by AFBI of the ongoing viability of DARD-funded R&D projects. However, that took no account of costs to date or likely future costs. How can you explain such poor standards of project management?

**Mr G Lavery:** As I said earlier, I accept absolutely that, had the assessment included explicit consideration of costs, it would have been a better, more rounded and more comprehensive assessment. That was not done. It was too late in coming into being. However, I do not want the Committee to conclude that that represented no programme or project management. The continuation of each project was subject to a rigorous annual assessment, which went beyond simply scientific merits and relevance to policy; it went into industry competitiveness and sustainability. As I said, they were also subject to the continuation of staff resource and time availability against other work priorities, which were all constrained by the overall budget. They were working with the overall budget available to the institute. Each divisional manager would have been looking at projects to consider whether they wanted to continue to invest in them, compared with the competing demands for staff time from elsewhere in their division. There was project management. As I said, it came to a head in a documented annual review.

**Mr Easton:** OK. You are saying that, because of all the work priorities, the changes that were going on and the staff time that had to be put in, things were not perhaps being done as effectively as they should. Did you never think to discuss that with anybody at a more level senior to you?

**Mr G Lavery:** I will not be able to give you dates, for which I apologise, but there was close engagement between the departmental board and the board of AFBI throughout 2010. That led to requests from the departmental board for additional financial information. It led to an engagement around the strategic review carried out by KPMG consultants. It led to our assisting AFBI with implementing the results of that strategic review. Therefore, we took action to improve the overall structure of and financial management within AFBI and to ensure that the issue was properly addressed by both boards. Of course, it also came up at the annual accountability meetings between the chairman and the Minister and the annual discussion between the chief executive and me.

**Mr Easton:** So the Minister was aware of this?

**Mr G Lavery:** The Minister would have been aware that there were areas that we wanted to improve.

**Mr Easton:** Who was the Minister at the time?

**Mr G Lavery:** The Minister of the day, in 2010, was Michelle Gildernew, and, since 2011, it has been Michelle O'Neill.

**Mr N Lavery:** On that point, a number of targets were set in AFBI's business plan. On the line of questioning that you are going down, I repeat my point: a lot of it is about AFBI's internal processes. From the viewpoint of sitting in the Department, it is absolutely our largest NDPB, but we take assurance from AFBI on its systems. I get a proactive assurance about the effectiveness of its systems. I just want to make the point that there is a shared responsibility.

**Mr Easton:** OK. In paragraph 4.26, we see that the final decision on whether a project should be extended rested with AFBI's chief executive. Do you accept that that arrangement was completely inappropriate in that AFBI, as the contractor, had the final say in approving extensions to work being funded by the Department?

**Mr N Lavery:** I will bring Norman in on how we have amended that process. I am not sure that I would go so far as to say that it was completely inappropriate. In the model that was operating then, the management of R&D had been devolved. There are lots of experiences and systems in the public sector where something that has been your responsibility is devolved to an arm's-length body. That is right and appropriate. The Department of Enterprise, Trade and Investment (DETI) devolves a lot of its work on industrial development to Invest NI. There are systems of delegations and assurances, and they were in place. We have moved to a model for the customer/contractor element that I think is better. AFBI makes proposals to the Department, which appraises those and then commissions the work. I think that that is a better system. Norman, do you want to add anything on that?

**Mr Fulton:** From 2006 to 2010, the initiation of projects came from AFBI to the Department. The Department considered those projects and whether they met our strategic objectives in respect of the benefits relating to innovation that they would generate for the industry, or policy benefits they would generate for the Department. Then a decision was taken on whether to allow AFBI to proceed with those projects. Once that permission was given, the responsibility for the conduct of the research came back to AFBI, and that is where it resided.

In 2011, we introduced a new system whereby the initiation of the project came from the Department, and AFBI was asked to respond to that call for research. It was a different approach. Under the system that we have currently, we have a number of policy leads within the Department. They own the research that they are commissioning, and they receive regular reports from the project lead in AFBI on the progress of that research and whether it is meeting milestones, keeping to budget and keeping to time. There is proactive management of those individual projects. So a different system has been put in place in the Department to manage its overall R&D portfolio.

**Mr Easton:** Gerry, in paragraph 4.12 we learn that, following completion of the C&AG audit, AFBI informed the NIAO that its estimate and expenditure figures for R&D projects had not included staff overheads. Does that not provide further evidence of the unreliability of management information and poor financial management in AFBI?

**Mr G Lavery:** The cost estimates in the table at figure 9 excludes overheads, and those in figure 10 include them. I do not want to get engaged in taking you through the detail of the tables, but I think that the key point is that those costs and variances should have been managed. We have moved on and we now have a change control process, which should result in any change to the duration of a project, its objectives or costs being clearly and transparently discussed between AFBI and the Department, and an objective decision reached.

**Mr Easton:** If I ran an office — I do — when I added all my bills together, I would include what I pay my staff, what they do and all the functions. Why did AFBI not do that?

**Mr G Lavery:** Without going too far into it, as you can see, the source for the tables is the Audit Office, based on AFBI records provided in the course of the audit. I believe that the Audit Office derived the tables from a number of sources. AFBI was not asked to provide the complete costs of R&D projects. Therefore, the table derived does not contain the overhead costs, hence the issue around figure 10 putting those overhead costs in. The costs were available, as I understand it, from AFBI and they were added to give a more complete picture in figure 10.

**Mr Easton:** Yes, but they were not added in at the time.

**Mr G Lavery:** The request was not made for information in that form, as I understand it.

**Mr Easton:** That should not have to be requested; that should automatically be done. Do you not agree?

**Mr G Lavery:** Unfortunately, the information was asked for in a particular format, as I understand it.

**Mr Easton:** I know but, if you are running a business, you always have all your costs. That is common sense. I am not a businessman, but that is common sense.

**Mr N Lavery:** To go back to the general premise behind your point, which is that the overheads should have been included in the project costs, you are absolutely right.

**Mr Easton:** Right. That is what I wanted to know.

**Mr N Lavery:** We have absolutely accepted that point, and the new costing model will do that in a much more sophisticated way, breaking it down into activity areas.

**Mr Easton:** So why was it not included?

**Mr N Lavery:** I think that that is really a question for Professor Kennedy.

**Professor S Kennedy:** First, I would like to apologise to the Audit Office and the Committee for any confusion caused by AFBI. The Audit Office asked for the figures used in figure 9, but we did not actually supply the compliance set of data that the Audit Office put into that figure. We informed the Audit Office that we believed that the figures used in figure 9 in the draft report were incorrect, and we formally communicated that to the Audit Office during the first round of clearing the first draft of the report. In the second draft, the Audit Office said that cost estimate figures did not include staff overheads, and AFBI again flagged the incorrect figures. At third draft, the Audit Office amended paragraph 4.12 to reflect the correct position, but did not amend figure 9 to be consistent with that corrected information. I am not trying to apportion blame or anything; I am simply giving the detail of the history of the communications. Again, I apologise if any of the confusion was caused by AFBI.

**Mr Easton:** Do you know how many of the projects fell under the full appraisal threshold under the initial estimates?

**Professor S Kennedy:** Which projects?

**Mr Easton:** All of them.

**Professor S Kennedy:** A number did, and post-project appraisals have now been completed for all the R&D projects. However, at the time of the audit, those had not been completed for all of them.

**Mr Easton:** You said "a number". Do you know how many?

**Professor S Kennedy:** I cannot give you the details of the number off the top of my head.

**Mr N Lavery:** We can write to the Committee with that. I think that what was missing was a proper change control process in the management of those projects. My understanding was that the appraisals were done at the proper threshold, then costs increased, but that there was not an addendum or that was not reflected in a proper change control process. That is how such projects should be managed and that is the process that we have in place now. Is there anything that you want to add to that to give assurance, Norman?

**Mr Fulton:** The appraisal is supposed to be a living document, so any changes to the project in costs, deliverables, etc should trigger a reconsideration of the appraisal and an addendum or a re-examination of the appraisal to confirm that the project continues to represent value for money. That is the process that we now have in place.

**Mr Easton:** OK. I am getting to my last question, you will be glad to hear. Gerry, paragraph 4.15 tells us that, before 2011-12, AFBI did not record specific estimated start and end dates for projects, which makes it difficult to quantify the expected duration of projects and whether they were delivered against set timescales. Why were your project management processes so clearly inadequate?

**Mr G Lavery:** I think that it is more appropriate for Professor Kennedy to answer that.

**Professor S Kennedy:** It is correct that, for the individual projects, an actual date was not specified; it was a beginning year and an end year. The end year was always taken as 31 March, the end of the financial year. From our time and task recording systems, we could have identified when work started on a project, but the actual date was not recorded in the individual project evaluation forms.

**Mr Easton:** Why?

**Professor S Kennedy:** It should have been recorded in more detail, but it was not. Essentially, we continued with the system that had been used before in those years. However, since 2011, the detail of start dates has been included in the projects, and there is a specific schedule for reporting each quarter on every individual project both on the scientific achievements or progress of the project and the financial aspects of it. We have corrected that.

**Mr Easton:** Do you accept that it was very poor practice?

**Professor S Kennedy:** It certainly was not best practice.

**Mr Easton:** Who knew about it when it was going on?

**Professor S Kennedy:** All the project leaders who completed their forms knew about it, their heads of branch knew about it, and the senior management team would have known about it. However, the actual start date was not formally recorded on the form.

**Mr Easton:** Gerry, did you know at the time?

**Mr G Lavery:** There would have been no reason for those forms to be submitted to the Department at that stage. I do not think that we would have focused on that.

**Mr Easton:** Would you not be concerned, as a Department, that there were no start dates and end dates?

**Mr G Lavery:** That is a different question.

**Mr Easton:** No, it is not.

**Mr G Lavery:** With respect, the issue is that, as Professor Kennedy pointed out, a large number of people completed the forms, but they did not attach importance to precisely recording the start date at that time. Sitting here today, with the benefit of hindsight and with a focus on how long projects are approved for, yes, you would want to have a precise start date and end date. As Mr Fulton pointed out, there is also a requirement for a proper change control process for moving either of those dates, particularly the end date. So, yes, we attach importance to that, and we should have attached importance to it before. I understand that it did not acquire that importance at the time.

**Mr N Lavery:** I just want to make a final point on that, Mr Easton. I have previously made the point that, for an NDPB within a large Department, you take assurance that the organisation has systems in place through quarterly and annual assurance statements. You would expect that sort of thing to be picked up through an internal audit system or an assurance. I just wanted to make that point. I am content with the system that we have now.

**Mr Easton:** According to paragraph 4.15, it was not possible to accurately identify the expected duration of the 125 projects examined by the C&AG. Can you provide us with more accurate figures?

**Professor S Kennedy:** Yes. We can look at each individual project and send you whatever information we can about them.



**Mr N Lavery:** Some of the projects will have been completed, so we will be able to give you the finalised date, and some will have had a post-project evaluation done. The new projects are commissioned by DARD.

**Mr Easton:** OK. You will be glad to hear that that is the end. Thank you.

**Mr Rogers:** Mr Lavery, I will look particularly at the seed potato aspect and at R&D in that area. First, I should acknowledge the great work done in the Loughgall breeding programme. I acknowledge that it takes over 15 years for a new seedling to get to market level and that, perhaps, 26 new varieties have been registered. It is important to put these things on record, because some people will take the comments and views expressed by the Committee as a lambasting of the project and its outcomes. It is important to acknowledge the good work that people are doing.

Having said that, I listened to what has been said today. Why, until fairly recently, have the recommendations of the Westminster PAC report, published in 1995, been largely ignored?

**Mr N Lavery:** I am not sure that I would accept that they have been largely ignored. Can I make a couple of points? Thank you for your comments about the work of AFBI in this area. I will bring Norman in later.

Following the 1995 report and the loss of a commercial partner, the Department commissioned an external review — the Quinn report — in 2005, which made a number of recommendations, including that the Department should continue to support but reduce its contribution progressively over time. The report also suggested that the Department should continue to promote research and plans for successful marketing. It also made the point that cessation of the project would have a traumatic effect on the sector.

The Department did its own economic review on the back of that report and put in place a new scheme with a new commercial partner. What we have now is a new scheme with a new commercial partner. Our objective is for full cost recovery; that is the key basis. I think that the premise of your question is about the success of the project and the costs. That is why we aim to get to a position of full cost recovery. Was that what you were getting at?

**Mr Rogers:** You can come in later, Mr Fulton. When I look at the two reports, I see that, in 1995, there was great concern that the Department had spent £45 million on R&D without a strategic plan. I listened to the answers to many of the questions today and I do not see great evidence of a strategic plan.

Another issue is that there was limited economic appraisal. Page 42 of the Northern Ireland Audit Office report gives an analysis of the appraisals and says that only 21% of full economic appraisals were completed. You also touched on the relationship between customers and contractors, but I am just not convinced that you have really taken the recommendations of the 1995 report on board. A lot of those things are coming back up again.

**Mr N Lavery:** I want to make sure that I give you a clear answer, Mr Rogers. Are you talking about the seed potato project or the other recommendations in the 1995 report?

**Mr Rogers:** I am talking about the potatoes. However, when you look at the broader picture of economic appraisal —

**Mr N Lavery:** OK. I am content that, in relation to economic appraisal, the Department's appraisal systems are now robust. I can give you that assurance. The report talks about pro-forma and full economic appraisal. The issue is that there should be a proper and proportionate appraisal. The Department undertakes those. I can give you that assurance.

On the seed potato project; Norman, do you want to talk about the work that has been done on appraisal and how we have got to where we are now?

**Mr Fulton:** Yes. The recommendation connected with this particular project in the 1995 Westminster PAC report urged the Department to put in place:

*"robust controls to prevent long-term research projects continuing indefinitely where they are not delivering results".*

What was put in place after that was the annual review process that we discussed earlier whereby each project would have been subject to an annual review that looked at the progress of work during that year, what was achieved and the programme for the coming year etc. Those systems were put in place.

On the issue of:

*"where they are not delivering results",*

you indicated that this project has been delivering results in producing varieties of potatoes. It stands up very well in international comparisons. Since 1999, on average one new variety has been registered per annum. From a research perspective, it has been delivering. The difficulty and challenge has been in taking the research and commercialising it. That is part of what the Quinn report was about. However, the Quinn report pointed out the importance of that programme. To quote from the report:

*"Without the benefits of new varieties from the breeding programme the seed, ware and processing sectors would continue to decline. Cessation of breeding activities would have a traumatic effect on the sector, including creating massive problems for packers and possibly processors in the future."*

Therefore, there was great support for this programme, and stakeholder support for the programme continues. It is the commercialisation that has been a challenge. That was put in place from 2010 and, hopefully, we will see the full fruits of that in due course.

**Mr Rogers:** I acknowledge that you put robust controls in place. Paragraph 4.20 of the NIAO report suggests that it took until 2004, nine year after the PAC report, to put those controls in place. Why was that?

**Mr Fulton:** The controls were put in place very soon after the 1995 PAC report. I think that our internal audit recorded that it was fully implemented in 1997. So, the controls were there for the research project and there was a commercial partner in place until I think 2003, 2004 or 2005. Something like that.

**Mr G Lavery:** It was 2005. It gave notice of its withdrawal in 2003.

**Mr Fulton:** Yes. So, the controls were there for the conduct of the project.

**Mr Rogers:** I am sure that as well as the controls there would have been ongoing evaluations. However, according to the report, it was 2004 before consultants were put in place to assess the "ongoing viability".

**Mr Fulton:** They were brought in to have a slightly broader look. The Quinn report really looked at the relevance of DARD's support to that sector in the round. Of course, this is one aspect of it. From then on, a series of actions were taken to secure a commercial partner to take the results from the research project and start to bring them to the market.

**Mr Rogers:** This is extremely important as we try to harness the potential of the agrifood strategy and everything that is coming up. However, paragraph 4.24 of the NIAO report suggests that, despite that significant investment in the project, seed potato production in Northern Ireland decreased from 55,000 tonnes in 1994 to just over 20,000 tonnes. Why has the project failed to deliver tangible market success?

**Mr Fulton:** I think that we need to look at what has been achieved and what has come out of the programme. Between one fifth and one quarter of the ware potato sector is served by the Navan variety, which was a product of this research programme. That is a very significant success, and Navan is also a very important variety in the Republic of Ireland. Further, about 21% of the projected variety seed area comes from varieties from the AFBI programme. So, it has had success and we hope that it will have greater success. That is the important thing in all this.

**Mr Rogers:** We seem to have missed the boat on a couple of varieties with potential in the European or Mediterranean markets.

**Mr Fulton:** Yes a couple of varieties featured in the farming press in recent weeks where great potential is seen from the commercial partners in trying to take those forward into the marketplace, so that potential is still there.

**Mr Rogers:** Paragraph 4.24 of the report mentions a lack of documentation which means that AFBI is unaware of the total cost of its project. It states that:

*"Available documentation indicates expenditure of at least £7.2 million on the programme since 1982".*

Can you provide more clarity on the total cost of the project?

**Mr Fulton:** I think that costs can be provided back to the creation of AFBI. That is not a difficulty. Currently, the combined commercial and strategic programme cost comes to about £500,000 per annum. It is difficult for the Department to go back to the early 1980s and beyond.

**Mr Rogers:** Paragraph 4.21 states that consultants identified a need in 2005 for an increased commercial focus on the potato-breeding programme, improved marketing and a reduction in DARD's funding. However, in reading paragraphs 4.22 and 4.23, we learn that delays in appointing commercial partners meant that DARD continued to fund the full project cost until September 2012. Have the new arrangements helped to deliver improved performance and value for money?

**Mr Fulton:** A new commercial partner was identified and the contract has been in place since October 2010. That offers a route to try to take the product flowing from the research programme to the market place. That is where the true value of the research will be reflected in due course. As I said, there have been successes from the programme. The single variety Navan is a very important variety in our domestic market now.

**Mr Rogers:** Following publication of this report, the Committee received correspondence from representatives of the seed potato industry. Their particular concern was the failure to ensure that a commercial partner was in place to help promote and market AFBI-bred varieties. I think that for only 11 years out of the 56 years of the project there was delivery on that. How do you respond to those concerns?

**Mr Fulton:** I think that a commercial partner was in place from 1990 through to 2004. The commercial partner withdrew at that stage, so there was a break from 2004 to 2010 until a new commercial partner was put in place. So, there have been links with commercial partners for some considerable time.

**Mr Rogers:** Paragraph 4.44 states that in March 2012, DARD completed a review of 79 ongoing R&D projects, which resulted in two thirds of them being immediately terminated. Actually, the figures show that only 20% of projects continued. What were the 66% of projects that were terminated costing?

**Mr N Lavery:** I am not sure. We would have to write to you and give you the individual costs because we would need to ramp all of those up. The point I am making, and Norman or Seamus may want to come in, is that at that time we were developing our evidence and innovation strategy, so it not surprising that, having looked at that, we decided that a number of those projects did not fit that strategy. Is there anything else that you want to say on that?

**Mr Fulton:** If you look at the number of projects that were ceased at that point, we brought 52 of the 79 to a conclusion. Of those 52 projects, 40 had completed their experimental phase, so they were given a clear timeline to complete the write-up and then bring them to a close. It did not mark massive shift in those particular projects. When we published our evidence and innovation strategy in 2009, we clearly stated that, almost certainly, we would have to redirect and refocus our overall R&D agenda, particularly to increase our focus on environmental issues and increase our research evidence base around rural development. Those were specific areas in which we stated that we wanted to increase the research effort. Obviously, within a finite research budget, that would require a refocusing and a reprioritisation. We always recognised that that would have to take place.

**Mr Rogers:** Was it not quite drastic action to close down two thirds of the projects at that stage?

**Mr Fulton:** As I indicated, 80% of those that ceased had completed their experimental phase. Nothing was lost from that work. We simply asked AFBI to complete the write-up, which brought them to a close at that point.

**Mr Rogers:** What happened to the staff involved in the research work at that stage?

**Mr Fulton:** Effectively, they were redirected to the new evidence and innovation programme and the research projects that were commissioned under that programme.

**Mr Rogers:** I have one more question for Gerry. Something jumped out at me about project management when you were answering Mr Easton. You said something along the lines that it was not that there was no project management. That is a scary statement. Who was the project manager at that stage, and who was his or her superior?

**Mr G Lavery:** That would be for Dr Kennedy to respond to.

**Professor S Kennedy:** Each project had a project leader, as we call them in AFBI. They were the project manager for each individual project. The project leader was responsible for producing an annual progress report on each project. The projects in a particular branch were approved or commented on by the branch head. There would have been comments about whether the achievements were good during the year and whether a project was behind in its timescale etc. The various projects from the individual branches were submitted to the head of division, who again reviewed them and commented. Finally, there was an annual research review with the chief executive, who, with the head of division, and, very often, the project leader depending on the circumstances, looked at the detail, such as whether the milestones that were set out to be achieved during the year were achieved and the prospect for future progress in the following year. On the basis of that assessment, a decision was made to allow the project to continue for another year or to allow it to stop the experimental stage and move into what we call the writing-up phase. That is simply a phase in which no work is carried out; it is the period in which technology transfer to the industry would be carried out. Perhaps popular articles or scientific articles would be written and sent off to journals etc. That was the basic process.

**Mr Rogers:** Were any concerns expressed about the oversight process? Who was monitoring it? Was it just the project leader?

**Professor S Kennedy:** Do you mean —

**Mr Rogers:** Take, for example, the seed potato. Do we have one project manager over that thing completely?

**Professor S Kennedy:** Yes. In general, there is one potato expert. They are basically an expert breeder. As you indicated earlier, the scientific output from that programme has been very good. In terms of international rankings, it has averaged about one new variety per year. Mr Fulton has referred to some of the figures for Navan and other varieties in the industry.

**Mr Rogers:** Even taking something like the marketing of the product into account, the concern is that 20,000 tons are being produced now as opposed to 50,000 tons. How did that raise its head in the system and what is being done about it?

**Professor S Kennedy:** That leads into the commercialisation aspect, because, essentially, AFBI has been producing the potatoes. Norman Fulton described the process and the various stages of commercialisation with various companies. There were a number of periods when there was no commercial partner, some periods when there were, leading up the Quinn report, and there is the current contract with Potato Partners Northern Ireland.

**Mr Rogers:** Why are we losing out to Europe on that? Why are we not still up there as a major seed potato producer?

**Professor S Kennedy:** As an economist, Norman could probably answer that better than me.

**Mr Fulton:** It is because of the broader developments in the industry. In Northern Ireland agriculture generally over the past 20-odd years and more, we have moved increasingly towards grassland agriculture and more specialised units and away from the small-scale seed potato enterprises on individual farms that you had 20 or 30 years ago. The cropping sector more generally has contracted compared to what it was 20-odd years ago. These underlying trends are happening, and there are particular difficulties in the seed potato sector. It always had difficulties, as was pointed out in the Quinn report, with small-scale fragmentation and lack of marketing expertise. So, you had those underlying difficulties as well. A research programme would not necessarily halt the decline of the seed potato sector, nor would it lead to a resurgence in the sector. However, it was one important aspect that would contribute to a future in seed potato production. The important strategic advantage that Northern Ireland has is that it is one of the few high-grade seed potato areas in Europe because of the plant health status here. There is potential for the sector, and that was recognised in the Quinn report.

**Mr Hazzard:** Thanks, guys, for the information to date. I will pick up on an area that Sean was getting into: the projects that were axed. You said that they were maybe in the experimental stage anyway. Is it not fair to suggest that one of the reasons why they were axed was because, for so many years, R&D was not linked to the strategic and long-term aims of DARD and that the projects were simply not important enough to go on?

**Mr N Lavery:** I take your point, and that is why I referenced the evidence and innovation strategy. It is probably going too far to say that they were not linked to DARD's aims and objectives, and the report raises issues with the corporate planning. That is too far. When we brought in the evidence and innovation strategy, we had a look at the individual projects. Norman, do you want to add anything to that?

**Mr Fulton:** Yes. It might help the Committee if I explain the processes that existed from 2005. From then, the initiation of project proposals came from AFBI, but they came to the Department and went to the relevant policy lead in the Department, who considered them in the context of DARD's strategic priorities and the potential benefits to either the industry or to DARD from a policy development implementation review perspective. That person looked at the costs and made a recommendation, which then went to the DARD strategy board, which was headed by the permanent secretary, and it took a decision on the conduct and either approved that project or did not.

I will give you some context. In the period from 2006 to 2010 when we changed to a different process, about 90 projects came forward from AFBI. Of those, only 54 were approved by the Department. So, there was strong scrutiny of the proposals coming from AFBI, and they were very much tested against the DARD strategic priorities. That process was very firmly in place.

**Mr Hazzard:** What criteria did DARD use to judge the projects as being either strategic or non-strategic?

**Mr Fulton:** There was, if you like, a scoring mechanism in place to help policy leads decide on a proposal coming forward. It looked at the proposal's relevance to DARD's strategic priorities, to the industry and to policy development implementation. So, there was a scoring mechanism to try to guide the policy leads through the process.

**Mr Hazzard:** So, for any project to get through, it must be part of DARD's strategic vision?

**Mr Fulton:** Yes, it had to be linked to strategic priorities for the Department.

**Mr Hazzard:** So, 52 projects that were part of DARD's strategic vision were binned. I do not see the correlation. To me, it highlights the fact that too many projects were not aligned to DARD's strategic vision. They were low priority and did not fit into the bigger picture; so it was cost-effective to bin them at a certain stage.

**Mr Fulton:** As I say, 80% of the projects that were ceased had completed their experimental phase and were only then —

**Mr Hazzard:** What does that mean in cost terms? Is that the most expensive stage?

**Mr Fulton:** It is.

**Mr Hazzard:** So most of the money had been spent already.

**Mr Fulton:** That is right. Effectively, they had completed the experimental stage, and it was then a case of giving them a firm timeline to complete the write-up process and move on. That certainly was in place.

**Mr Hazzard:** Do we know the value of those 52 projects and the money spent?

**Mr N Lavery:** As I said earlier, we will have to write to the Committee about that.

**Mr Fulton:** Moving on to the system that we put in place from 2011 —

**Mr Hazzard:** Before you do so, I am perturbed that, for many years, these low-priority projects went through. What role did Queen's have in the project management or oversight of any of those projects?

**Mr Fulton:** They were AFBI projects.

**Mr Hazzard:** They were strictly AFBI projects, so DARD had overall oversight then.

We talked briefly about project management today. Can somebody break down the team for me? Who was at the top? What level was underneath that? Who was ultimately responsible? You might argue that project management was in place, but if that was the case, those involved — and this is how it looks to many of us and the Audit Office — must have been sleeping at the wheel, because for so many projects to go through and then, inevitably, not go anywhere was a serious waste of public money. I would like to get a good picture of what that project management looked like.

**Mr Fulton:** In AFBI?

**Mr Hazzard:** Yes. Who was responsible for the DARD-funded R&D projects going through?

**Mr Fulton:** During the operation of the old process, a project was initiated following proposals from the AFBI project leader. That then came to the policy lead in the Department to be considered and scored. It then went to the strategy board, and a decision was taken there on whether to approve it. It then went back to AFBI, which had responsibility for delivery of the project. I will hand over to Seamus, who can describe the internal processes in AFBI.

**Professor S Kennedy:** As I mentioned earlier, for each project, there was a project leader, who was essentially the project manager. They had a number of staff, depending on the size of the project, who carried out the practical work. Going back to your earlier point, 40 of those 52 projects were stopped because they had come to the end of the road anyway; they were finished. The practical work had all been done. The main expense had been incurred at that stage.

**Mr Hazzard:** They had no value, then, going forward?

**Professor S Kennedy:** No. Those projects had gone through the beginning, the middle and the end. The experimental work was complete. They were normal projects.

**Mr Hazzard:** That is what I am saying: going forward, they were of no value to DARD.

**Professor S Kennedy:** No. The work covered by many of those projects would have been taken forward under new projects with, for example, a slightly different focus. Take, for example, tuberculosis: that is a long-running issue, and we have a longstanding programme of TB research. A project would typically run for three years, and then there would be another project, depending on the results coming out of the first project. So, I do not think that it is true to say that they had no value; they had a value.

**Mr Hazzard:** I take your point. Perhaps that is not reflected in what we thought. I am still getting my head around the fact that the projects were going through the project management process and annual reviews always in the belief that they would get to the writing-up stage.

**Professor S Kennedy:** Yes.

**Mr Hazzard:** So, for some reason, it was decided that there was no point in sending those projects through because there was no value in doing so.

**Professor S Kennedy:** It depended a lot on the individual projects. It depended on the nature of the work and when results that were worth writing up arrived, because it was not the case that you would always wait until completion of the experimental phase and only then start to write up.

**Mr Hazzard:** It may be helpful if the Committee received a list of any of those 52 projects that you are talking about that fed into a different project or was worthwhile. I do not think that the public would see it that way unless they saw that a particular project fed into a particular line of investigation. That may be helpful.

**Professor S Kennedy:** I just to want to add that post-project evaluations have been completed on all those projects showing their value.

**Mr N Lavery:** That is the point that I was going to make.

**Mr Hazzard:** AFBI was established in 2006, but it was only in 2010 that the call for research was issued and designed to ensure that the R&D programme was driven by DARD. Was that call for research restricted to AFBI?

**Mr Fulton:** Yes.

**Mr Hazzard:** Why not put it out to the wider market?

**Mr Fulton:** We have a requirement to set a work programme for AFBI. It is setting the part of the work programme that is associated with R&D. The other part is obviously the diagnostic analytical work that AFBI would carry out for us. This is one part of the overall equation, if you like, for setting a work programme for AFBI going forward.

**Mr Hazzard:** OK. No problem.

Again, given that it was implemented only in 2011-12, why did it take DARD so long to assume the lead in commissioning that R&D work from AFBI despite the fact that DARD was paying millions of pounds annually for it?

**Mr Fulton:** It was a different system that we introduced. That is not to say that the previous system was wrong per se; it just had a different way of managing the research. So, we moved to a system whereby, under the evidence and innovation strategy, we wanted to be in the driving seat when it came to shaping the overall research programme to ensure that it was policy-led and policy-directed, and also that there was appropriate coverage of the research, right across all our strategic interests, so that, rather than reacting to proposals that came to us, we would steer the research agenda. That was something that we envisaged coming out of the evidence and innovation strategy. As I mentioned earlier, we recognised that it would probably mean increasing our research efforts in certain areas, such as environmental issues and the broader rural development and rural agenda. Those areas may not have received sufficient research efforts when we were reacting to proposals because we were not steering the overall agenda.

**Mr Hazzard:** OK. Looking at it now, it is obvious that DARD must take a much stricter line on that. Projects that go through must tie in with the strategic long-term aims of DARD. Again, I wonder what particular lessons were learned from that period. What are the standout changes or evolution that is has acquired so that we can have confidence going forward?

**Mr Fulton:** We now have in place quite a sophisticated architecture to guide our annual commissioning process. We have four programme management boards, which are each linked to one of the four strategic pillars of the Department. There is an annual process by which PMBs sit and consider evidence gaps. They also have a very strong stakeholder engagement process. We have an annual stakeholder conference to consider proposals that come forward from the PMBs. In some ways, it is a competitive process because each of the PMBs would probably like to commission more research than we can afford. So, overall prioritisation takes place in an overarching evidence and innovation priorities group. The four PMBs feed their proposals into that. We seek a response to our annual call from AFBI. Effectively, we pose the research question. AFBI comes forward with its

proposed way to address that question. That is then considered by the policy leads and is subject to an appraisal etc. The overall final shape of the commission each year is decided on by the overarching evidence and innovation priorities group, which seeks to achieve a balance across the four PMBs and the strategic priorities for the Department.

**Mr Hazzard:** Who does that group consist of?

**Mr Fulton:** It is chaired by the head of policy group in the Department. The four PMB chairs are members of that evidence and innovation priorities group. Our science advisory branch and the departmental scientific adviser all sit on that group.

**Professor S Kennedy:** I just want to add the point that, when DARD approves R&D projects to be carried out in AFBI, very often, that allows us to go to other funding bodies, such as the European Union, and pull in additional funding so that we leverage in more money, which really stretches or adds value to the R&D spend that DARD invests in AFBI. That is a very important part of our work.

**Mr Hazzard:** What has been AFBI's record in doing that?

**Professor S Kennedy:** It has been quite good. We talked earlier about the growth in external income. Recently, the Department funded a Northern Ireland contact person for agrifood to assist the industry. Not only AFBI but the universities increased their share of the forthcoming Horizon 2020 programme. So, we are gearing up to increase our drawdown of that source of funding quite substantially.

**Mr N Lavery:** We have targets for that under the Barroso task force initiative.

Mr Hazzard, you made the point about lessons that have been learnt. Initially, the Department's model for commissioning research was quite devolved. Norman talked about two different models. In essence, the arm's length has got shorter. You could take a completely different approach, which is to devolve it completely and put it out to a third party. We have chosen not to do that. We have quite strong governance control. I think that that is right at the moment. My view is to let us see how that goes.

**Mr Hazzard:** I think that you are right to talk about the arm being made shorter. I think that that is the case for a reason. I am trying to get at why it needed to be made shorter.

**Mr N Lavery:** I will bring Norman in shortly. Some of the issues that were raised about governance are part of the reason why we have done that. We also wanted to have a closer link between policy and innovation. The point that I was trying to make was that other jurisdictions may be looking at different models, one of which is to completely outsource all that research to a commercial sector. That is not a route that we have gone down.

**Mr Fulton:** We changed that approach for those strategic reasons to ensure that we achieved a balance of R&D across all our interests and that it was a policy-driven agenda. So, that was the prime driver for changing the model. As Noel said, Teagasc, for example, down South, is much more at arm's length. The research agenda is effectively set by Teagasc after discussing it with its stakeholders. The Department there takes more of a back seat. It is a different model. All models have their values and drawbacks. There is no one perfect model, that is for sure.

**Mr Hazzard:** It sounds as though this has been remedied going forward, but what about the contention that there was not the expertise in whatever project management was in place previously to ensure that R&D was part of DARD's strategic vision? Would you accept or contest that?

**Mr Fulton:** There were two different models. Both were based on the premise that any R&D that was approved was in line with a departmental policy objective and strategy. It is just that, under the old model, research was initiated by AFBI. Now, it is initiated in the Department. However, in both cases, it had to be policy-relevant before it was approved.

**Mr N Lavery:** I will just add that the Department did put in place the post of departmental scientific adviser to add its strength.



**The Chairperson:** OK. Mr Lavery, the C&AG's report clearly highlighted the shortcomings with the financial management, oversight and control of the R&D programme and governance in AFBI. Did the AFBI board actively challenge any of the issues identified by the C&AG, and has the board included members with the sufficient financial expertise to assist AFBI in achieving the required standard of financial management and governance? What is your assessment of the board?

**Mr N Lavery:** I will break that down into a couple of points. I know that the board set up a finance subcommittee in 2010-11 to deal with its oversight of this, and I suspect that that was based on internal audit reports and concerns and discussions with the Department. The financial reporting has improved significantly, and we now have a financial implementation improvement plan in place. The board has a finance subcommittee and an audit committee with individual chairs.

**The Chairperson:** Who chairs the board?

**Mr N Lavery:** The chair of the board at the minute is Seán Hogan, the chair of the finance committee is Hilary McCartan and the chair of the audit committee is Bob McCann.

**The Chairperson:** What is the make-up of the members on the board?

**Mr N Lavery:** I do not want to give you the wrong answer, so I will pass that over to Professor Kennedy.

**Professor S Kennedy:** The finance committee comprises Seamus McCaffrey, who, like the chair, Hilary McCartan, is an accountant, and Hilda Stewart. The chair of the audit committee is Bob McCann, and the other members are Trevor Hinds and Sarah Havlin. Trevor has an HR background, Sarah is a qualified solicitor and Bob is an accountant.

**The Chairperson:** Thank you.

**Mr N Lavery:** I have been involved in one board assessment with the chair, and the chair has been active in seeking a resolution to these issues. I would also add that the Department meets the board. Gerry, how often is that? Is it half yearly or quarterly?

**Mr G Lavery:** I think that it is half yearly.

**Mr N Lavery:** The departmental board meets the AFBI board. I can give the Committee an assurance that matters of finance and governance are very high on my agenda for that meeting.

**The Chairperson:** Who sits on the departmental board?

**Mr N Lavery:** Me, the deputy secretaries, the departmental finance director, the HR director and two independent members.

**The Chairperson:** Who are they?

**Mr N Lavery:** The two independent members are —

**The Chairperson:** Who are all the departmental board members?

**Mr N Lavery:** Sorry, I will run down the table for you. Me; Gerry; John Speers, who is currently head of policy; David Small from service delivery group; the Chief Veterinary Officer Robert Huey; the finance director Graeme Wilkinson; and corporate services director Tracey Teague. The two independent members are David Russell and Frank Caddy.

**The Chairperson:** That is good to know.

Going back to the 1995 Westminster report — some of the issues have been covered — the problems that arose from that report are similar to those we are dealing with here today. Given that the 1995 report recommendations were slow to be implemented, I suppose that, in a sense, there is no point in us being here today to discuss this if the Committee's recommendations are not implemented. We will

look at the memoranda of reply that you will respond to with a view to review those in 12 months. I think that it is fair to say that we will be doing that.

Finally, Mr Lavery, what corporate governance arrangements are in place for AFBI? How have those been strengthened in response to the Audit Office findings?

**Mr N Lavery:** There are a couple of points, Chair. I recognise that, a number of times in the report, the Audit Office refers to the improved governance arrangements already put in place. Paragraph 5.11 refers to further recent improvements in governance, and paragraph 5.12 refers to the costing systems. Paragraph 5.20 states:

*"DARD's procedures for commissioning and managing the research and development it procures from AFBI were substantially strengthened in 2011-12".*

Paragraph 3.7 is about positive developments regarding business plan targets.

I can give the Committee an assurance that those improvements are already in place. I can give the Committee additional assurances on a couple of points. I said that the finance team has been strengthened, and there is a finance improvement plan in AFBI. Norman referred earlier to an enhanced regime of appraisal and scientific testing. There is enhanced DARD oversight, and I have requested a report to the departmental board on the back of Norman's quarterly meetings with AFBI on the governance and budgetary issues arising in AFBI.

Only last month, the departmental board received a report on AFBI's performance against its business plan targets, and it will continue to do that quarterly. As I said, I have requested that Professor Kennedy, in addition to the other assurances that he gives me, gives a specific assurance quarterly on his management of R&D expenditure. Also, in the new regime on the evidence and innovation strategy, Norman's team and the team within policy are getting quarterly costs for those R&D projects. I believe that that is a comprehensive regime, in addition to the other controls that the Department has.

I would like to point out that last year AFBI achieved unqualified accounts and a 99.7% out-turn on its budget. That is the comment that I would like to close those remarks with.

**The Chairperson:** Thank you. I think that Mr Clarke wants in on that comment.

**Mr Clarke:** I just want to take a bit of wind out of your sails, Noel. You are very quick to tell us what you are going to do about AFBI, but what are you going to do about your own Department? It was its lack of a grasp of the finances of AFBI in the first place that brought us here today. You are quick to tell us what you are going to do to bring AFBI into line, but I did not hear what you are going to do within your own organisation, unless I missed that bit.

**Mr N Lavery:** There are a couple of points on that. First, on the Department's oversight of AFBI, which is where you are going, I said the departmental board will look at any issues arising from the sponsor branch's oversight of AFBI. That is the departmental board in Norman's area of the Department and its oversight of AFBI. I am getting assurances from AFBI, and I will be testing those. I will get internal audit to look at our sponsorship of AFBI and will look at AFBI's performance against its targets. There are a couple of points to make on the Department's oversight role. First, we have changed our system of commissioning research. That is an absolutely core part of what we are doing. Regarding statutory testing, we accepted the recommendation to look at benchmarking.

**Mr Clarke:** That is fine, because you are relatively new in post, but I will ask your colleague Gerry. This came to light in 2012, and you were the acting permanent secretary in 2010. Why had you not done something prior to 2012?

**Mr G Lavery:** We had a number of initiatives at the time, and they are reflected in the report.

**Mr Clarke:** Sorry, it was on the basis of a 1995 House of Commons report. You accepted the report from the Audit Office. If you have accepted that, you will accept the Audit Office's criticisms suggesting that those things did not change until, I think, April 2012. I think you told someone earlier that you came into post in March 2010. So, when you came into post in March 2010, I am sure that

you knew that there was a particular document floating about regarding references to AFBI in the past. Has it taken Noel Lavery to come into post to fix this, or what were you doing from 2010 to 2012?

**Mr G Lavery:** There are two issues there. One is around the financial management from 2010. We took initiatives, reflected in the Audit Office report, which we have agreed. Our board indicated that the financial reports coming to us were insufficient. We wanted a consistent format, and we wanted them drawn from the accounting system and official returns. We recognised that AFBI was attempting to meet the needs of our board by producing ad hoc material, which meant that every month you got the issue of the month dealt with, but you did not get that consistent financial information that you could compare month on month drawn off the accounting system. We wanted it timeously, and we wanted it to be the same data going to both boards. We did not want a report coming to us that the AFBI board did not see. Those were the issues that we were dealing with. We wanted a narrative commentary, and we have dealt with all that. That is the material that the Audit Office reflect has been the improvement in the financial relationship between the two boards. It is the effort that we made to support AFBI in getting its strategic review under way with the assistance of KPMG consultants. That review, which was undertaken in, I think, 2012 while I was still acting permanent secretary, addressed the vision, the challenges, the priorities and the operating model for AFBI. It recommended that AFBI remain an NDPB. It was the recommendation for a revised organisational structure whereby we reduce from three scientific divisions to two and create space at the table, without additional cost, for a deputy chief post to deal with finance and corporate affairs. That post was filled in January 2013 while I was still in post. So, I did take action on that.

Regarding the 1995 report —

**Mr Clarke:** That was two years after you came into post.

**Mr G Lavery:** If I may. The key issue in the 1995 report, which, I must admit, I read with great admiration, was the contractor/customer split. The recommendation then, because it was a report of its day, was around creating the science service as a Next Steps agency. We did not do that, but, in 2004, we brought in legislation to make AFBI a non-departmental public body, putting it at a more significant distance to create that customer/provider split. In doing that, we did tee up a number of problems for ourselves to get those systems in place. I accept that it took too long to get them in place, but the intention was there to meet the requirements set out in the 1995 PAC report. Today, we are in a very good position vis-à-vis the 1995 report.

**Mr N Lavery:** I fully understand the Committee's concerns, having had the 1995 report and having this hearing today. That is why I have given the Committee an assurance on my oversight of these matters. As Gerry said, the majority of concerns identified in the 1995 report have now been addressed.

**Mr Clarke:** Sorry, Noel, but most of those were not addressed until 2012.

**Mr N Lavery:** Absolutely. I am just making the point —

**Mr Clarke:** So, there was an awful time lapse between 1995 and 2012.

**Mr N Lavery:** I understand the point; I put my hand up early on, and the Audit Office said that it was too prolonged. The Department and AFBI will accept that, Mr Clarke, but, in fairness regarding the comments made earlier, the positive comments made by the Audit Office all precede me joining the Department. That sounded better in my head than the way that it came out. The Department has also put together an ALB sponsor manual, which preceded me, and the commissioning regime preceded me. I have asked internal audit to have a look at that. I added the extra quarterly reporting, and I added the R&D requirement on Professor Kennedy.

Chair, my view is that we now have a robust regime. Time will tell, but I can assure the Committee that we take the governance of AFBI extremely seriously. Again, I welcome the Committee's positive comments about AFBI's performance.

**The Chairperson:** Thank you, Mr Lavery. We can only take you at your word.

**Mr Rogers:** It is great to get that reassurance. I go back to the 52 projects that were scuppered after the special DARD review. Surely, if there had been effective monitoring and evaluation, and if there

had been an effective annual review and forward work plan for each one of those projects, there would not have been any need for the review. The projects that had come to the end of their lifetime would have been closed down when they were supposed to have been closed down. You would not have needed the other review.

**Mr N Lavery:** I go back to the point that Norman made. That was when we introduced our evidence and innovation strategy. So, we were concerned about the balance of the programme at that stage.

**Mr Fulton:** It was always envisaged that we would review the entire portfolio of research that was being conducted to ensure that it aligned with the new strategic direction that was set out in the strategy, and we stated that in the evidence and innovation strategy, which we published in 2009.

**Mr Rogers:** Surely, if the first review was effective enough, there would not have been any need for a review of the review.

**Mr Fulton:** Yes, but the reviews that were taking place in AFBI did not have the benefit of the evidence and innovation strategy. You have to have the strategy in place before you can review against that strategy.

**Mr Rogers:** I acknowledge what Mr Lavery just said about lessons being learned regarding the monitoring and evaluation and the effective review.

**Mr N Lavery:** We have put our hands up. The weakness in those reviews was that they looked only at benefits and did not take account of the costs, and the costs were being managed at a functional level and AFBI level. The system that we have now is very different from and much stronger than that.

**The Chairperson:** As I said, we can only take you at your word, and the proof will be in the pudding. We will keep the memoranda of reply that you will be responding to on review.

The Committee has explored deeply today. We have dug deep into the earth in order to do our research going forward with our report. We explored and tried to understand the example of poor stewardship. We will consider the evidence and produce our report in due course. There have been issues around some of the lines of questioning on the further information that your office will provide to the Committee for its report.

As has been said by all our members, we appreciate the good work that exists within AFBI. As you said, Mr Lavery, it provides significant benefits not only to the economy but to the farming world here. We appreciate the work that you do and continue to do, but, going forward, we will monitor the way in which the corporate governance is adhered to. As I said, we will do that through our review in 12 months.

On behalf of the Committee, I thank you for attending our session.