



Lyn Provost

17 March 2015

File Ref: EN/CRI-0009

Hon David Parker, Dr David Clark, and Clare Curran
Private Bag 18888
Parliament Buildings
Wellington 6160

Dear Mr Parker, Dr Clark, and Ms Curran

REQUEST FOR INQUIRY INTO THE DEVELOPMENT AND IMPLEMENTATION OF AGRESEARCH'S FUTURE FOOTPRINT BUSINESS CASE

My Office has extensively assessed the matters raised in your letter of 23 July 2014, asking me to carry out a formal inquiry into the development and implementation of AgResearch's Future Footprint business case. I consider that we have done enough work during our assessment to address your concerns and report our findings and conclusions.

Our main conclusions are:

- The October 2012 business case was sufficient to support decisions to move to the next stages of Future Footprint planning.
- To bridge developments since 2012 and inform final decision-making about the required capital investment, an updated Future Footprint business case with more detail is now needed.
- There has been a small reduction in the number of AgResearch's scientists and technicians between 2011 and 2014. The reduction is not inconsistent with the overall trend in the Crown Research Institute sector. It is unclear the extent to which this reduction relates to Future Footprint. It is too early to tell what changes may result from Future Footprint, and we intend to continue to monitor this area.
- Appropriate guidelines have been followed by AgResearch's Board to manage conflicts of interest.

Your concerns

You were concerned about:

- the quality of the business case to support proposed changes under Future Footprint;
- the extent and quality of consultation over Future Footprint proposals;
- management of staff retention (and related scientific capability); and
- allegations of conflict of interest.

I also note that you have a particular concern about the future of AgResearch's Invermay campus. In February, I visited Invermay with a senior member of my staff. We toured the campus facilities and spoke with some of the staff. We were impressed with the standard of the newest buildings, and the campus grounds. I appreciate the history of the campus, its place in the local and regional economy, and the considerable sense of attachment felt by staff, ex-staff, and others in the community.

However, we also noted that most of the buildings were under-used, which gave us an appreciation of the challenging decisions that AgResearch must make to best manage its science capability and physical resources. It is outside my mandate to second-guess these management decisions.

In addressing your concerns, and as indicated in my letter of 9 October 2014, I have focused on the quality of the processes and the evidence of AgResearch's management of consultation, staff retention, and conflicts of interest relating to the Future Footprint business case.

Our work

We have made extensive enquiries of AgResearch:

- We commissioned Martin, Jenkins & Associates Limited (MartinJenkins) to help us with our review of the original Future Footprint business case and related and subsequent processes and documents. This work included interviews with key managers involved in the Future Footprint project, and in the monitoring department.
- With a senior member of my staff, I visited four of the AgResearch sites that would be most affected by Future Footprint (Ruakura, Grasslands, Lincoln, and Invermay), and spoke with managers and staff at each location.
- We examined the processes and procedures followed by AgResearch's Board to manage conflicts of interest.
- We gathered and analysed data on AgResearch's staff retention and turnover during the past several years. We will continue to use the data that we have gathered to date as the basis for ongoing analysis of the Future Footprint project's effect on science capability and staff retention.

My observations from our work are detailed below.

Quality of the Future Footprint business case

Our review of the business case used Better Business Cases (BBC) guidelines to:

- identify whether any aspects of process or approach (including project governance and management arrangements and leadership) fell short of the standard normally expected for business cases of this size and importance; and
- assess whether any issues we identified have potentially compromised the reliability of the business case to support informed decision-making.

We confirmed that AgResearch was advised by Ministry of Business, Innovation and Employment officials to prepare a single-stage business case. This type of business case is normally prepared where final decisions to commit to an investment are being sought. This was not the case in this instance as AgResearch was seeking approval to move to the next stages of Future Footprint planning.

In our view, overall, the October 2012 business case was of an appropriate standard for an "indicative business case" and was sufficient to support decisions which shareholding Ministers took to move to the next stages of Future Footprint planning.

Our view was reinforced by the need for change foreshadowed in AgResearch's 2011 and 2012 Statements of Corporate Intent. We found substantial evidence that AgResearch had been thinking about its options to best position its workforce to maximise the benefits expected from greater internal and external collaboration. An "investment logic map" had been prepared, although this was not included in the business case.

The business case made a clear case for change. The primary goal was to generate benefits for New Zealand through better science, with a supporting objective to improve infrastructure quality and asset use.

There were some departures from standard business case practice, especially if viewed as a single-stage business case. However, these departures did not compromise the reliability of the business case as a basis for the Ministerial decision to agree to the Future Footprint direction or to reinvest proceeds of asset sales back into the business.

Future Footprint is a large and relatively high-risk project that requires careful consideration and informed decision-making. An appropriate step at this stage would be to update the Future Footprint business case with more detail about the project. This would serve to bridge the developments since 2012, and better inform final decision-making about the required capital investment.

We note that, after consideration of the 2012 business case, shareholding Ministers approved AgResearch to proceed to the next stages of Future Footprint, including more detailed planning and further engagement with staff and stakeholders. Ministers asked AgResearch to report back to them as plans were developed for an integrated hub at Lincoln. They also sought further information.

Public entities need to give careful attention to their choice of the type of business case and associated processes they use. All should be appropriate to the level and nature of the decisions that need to be made on the basis of the business case.

It is important that those developing and monitoring business case proposals give adequate attention to project management capability in the early stages of projects of similar size to Future Footprint.

This is because we found evidence that many elements of effective project management for Future Footprint were yet to be established at the time of the October 2012 business case. These project management issues have since, in large part, been addressed. However, it is clear from the management case section of the business case and confirmed by our discussions with AgResearch staff that, at the time of the 2012 business case, AgResearch had limited project management capability for a project of this nature.

Quality of consultation on Future Footprint proposals

Our assessment of the business case and related processes included looking at the extent of AgResearch's engagement with staff and key stakeholders during preparation of the business case and subsequent consideration of Future Footprint.

We found evidence of extensive engagement with staff through various workshops and with external stakeholders. Options were identified and considered through a series of staff workshops. The options were also informed by discussions with a wide cross-section of industry and science sector organisations. After the shareholding Ministers' letter approved further engagement, a formal staff consultation process was initiated. Feedback from that process led to several changes to the original proposals.

It is possible that expectations about consultation on the October 2012 business case might have been affected by it being approached as a "single-stage business case". We cannot comment on possible expectations. We note that the consultation that took place allowed the opportunities that we would expect for staff and stakeholder input for developing and commenting on options, and then further developing the proposals after the Ministers' approval to proceed to the next stages of planning.

Management of staff retention

Your third concern was about Future Footprint's effect on science capability.

We raised the management of staff retention in each of our interviews with senior managers. From those discussions, and a document review, we are satisfied that AgResearch:

- has treated the issue of retention of staff, and in particular science staff, as a key risk;
- is aware of the need to make provision for science capability for the continuity of long-term science projects;
- has strategies in place to address staff retention and recruitment issues, particularly relating to its science staff; and
- has provided affected staff with relevant information and support to assist them with relocation decisions (the Future Footprint Relocation Support Package).

AgResearch is proposing to relocate more than 200 staff. It is fully aware that some staff, including science staff, may decide not to move and to leave AgResearch. As you point out, some science staff have already decided not to relocate. However, the decision point for staff (2017) has not yet been reached, and AgResearch has therefore been unable to provide us with specific numbers of intended leavers.

To provide a context for Future Footprint staffing movements, we looked at AgResearch staffing trends for total staff for 2005-2014. We found that there had been a significant reduction in AgResearch's total staff numbers, from 934 in 2005 to 767 in 2014. We note that the trend is similar to staffing trends in the Crown Research Institute sector as a whole, as provided to us by the Ministry of Business, Innovation and Employment. We also looked at trends for scientists, technicians, and support staff for 2011-2014 (the period for which data was available). We found that there had been a small reduction in scientists and technicians during the period 2011-2014.

Figures 1 and 2 set out AgResearch's staffing data:

Figure 1: AgResearch total staff numbers, 2005-2014

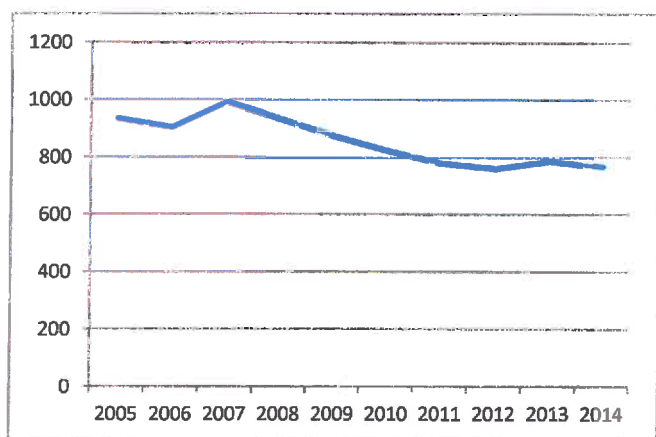
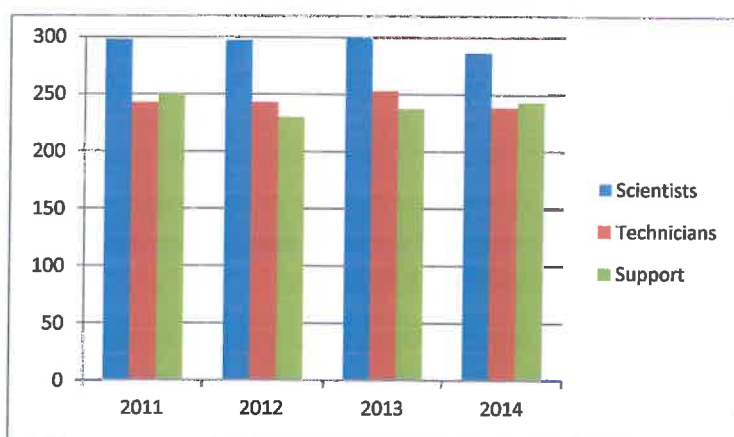


Figure 2: AgResearch scientists, technicians and support staff, 2011-2014



We note that there is a risk that Future Footprint could adversely affect AgResearch's science staffing levels and its capability, and we will continue to monitor those changes. New workforce indicators have been agreed across the Crown Research Institute sector, and reported against for the first time in AgResearch's 2013/14 Annual Report. These will provide more transparency around workforce data. For example, the data includes voluntary and involuntary turnover, which showed that AgResearch's voluntary turnover for scientists (7.3%) is higher than for other AgResearch groups (with an average for total staff of 5.4%), while the lowest voluntary turnover is for technicians (2.9%). Technicians have the highest involuntary turnover, at 4.1% (with an average for total staff of 3%).

AgResearch's management of its science capability is a very important aspect of Future Footprint that we will continue to monitor and comment on where appropriate. We will use the data that we have to date as the basis for ongoing analysis of Future Footprint's effect on science capability and staff retention.

Allegations of conflicts of interest

The basis for your concerns about possible conflicts of interest was an article published in the *National Business Review*. The article included statements that various AgResearch Board members could have had conflicts of interest in the preparation of Future Footprint. The article was not specific about the nature of the alleged conflicts of interest, although we note that conflicts with personal financial interests were not alleged.

The lack of clarity about any particular allegations made it difficult for us to assess whether, in relation to particular decisions, Board members may have been conflicted. Therefore, we focused primarily on whether an appropriate process was followed to manage conflicts of interest.

We discussed with AgResearch about its conflict of interest policies and processes. We also considered AgResearch's management of conflicts of interest in regard to the business case, various Board minutes, the *National Business Review* article, and Board members' interests' lists.

AgResearch keeps records about and discloses Board directors' other directorships. The copy of the interests register that we examined shows that many of the Board members have interests in industry-related businesses, in particular, through holding directorships. These Board members have been appointed for their expertise in the agricultural industry so it is natural that they will have interests in the sector. Some of them will have had connections to organisations in towns or areas that AgResearch was considering moving into or away from. However, that of itself is a relatively indirect connection.

AgResearch told us that it follows Institute of Directors' guidelines with regard to conflicts of interest. Our auditor confirmed that this was the case, and that the AgResearch Board chairperson properly considered the question of allowing those listed on the interests register with an interest in the decisions about Future Footprint to remain in the meeting.

Conflicts of interest primarily need to be managed by the directors themselves and their Board. The Board and the Minister have sanctions available to them if directors fail to meet their obligations.

Our main conclusions

The main conclusions of our assessment of the development and implementation of the Future Footprint business case are:

- The October 2012 business case was sufficient to support decisions to move to the next stages of Future Footprint planning.
- To bridge developments since 2012 and inform final decision-making about the required capital investment, an updated Future Footprint business case with more detail is now needed.
- There has been a small reduction in the number of AgResearch's scientists and technicians between 2011 and 2014. The reduction is not inconsistent with the overall trend in the Crown Research Institute sector. It is unclear the extent to which this reduction relates to Future Footprint. It is too early to tell what changes may result from Future Footprint, and we intend to continue to monitor this area.
- Appropriate guidelines have been followed by AgResearch's Board to manage conflicts of interest.

Thank you for bringing these matters to my attention. Because of the public interest in Future Footprint, I will publish this letter on my Office's website.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Lyn Provost', written in a cursive style.

Lyn Provost
Controller and Auditor-General