



LEVY BOARD REFORM

**A Report to Defra on the Reform Process
from September 2006 to March 2008**

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LEVY BOARD REFORM – REPORT TO DEFRA ON THE REFORM PROCESS FROM SEPTEMBER 2006 TO MARCH 2008

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EXECUTIVE SUMMARY

This report covers the background to Levy Board reform, the tasks which needed to be completed to allow the new structures to become operational on 1 April 2008, and concludes with a note on lessons learnt from the process.

BACKGROUND

- The Radcliffe report (October 2005) into the role, organisation, funding and function of the five statutory levy boards shaped government thinking on the restructuring of these levy boards.
- Ministerial decision in June 2006 that five statutory levy boards would be wound up and replaced by one new public body with six wholly-owned sector companies.
- Research and stakeholder consultation by management consultants identified levy payer needs and how best these could be met through the new arrangements.

TRANSITION TASKS

- A chair designate and shadow board were appointed to define and take forward the reform process, backed-up by a team within Defra.
- Shadow Sector Boards were appointed to drive the Fresh Start review of Sector needs and strategy development.
- A number of working groups were established to provide links between the AHDB shadow Board and existing levy boards, and regular meetings held with the wider stakeholder community.

CONSTITUTIONAL AND LEGAL ISSUES

- Statutory Instrument took longer than expected to process through the Scottish Parliament, resulting in a two-month delay with knock-on consequences.
- The process to agree the Management Statement and Financial Memorandum for AHDB covered 12 months with a key point of principle as to whether AHDB belonged to the Defra family of public bodies to deliver the Defra landscape being a particular issue in discussions later in the year.

BUSINESS TRANSFER ISSUES

- Important business issues had to be negotiated and agreed - for VAT status and on Corporation Tax. If VAT status had gone the wrong way the financial impact would have been greater than potential savings from levy board reform.
- Issues around transferring existing levy board pension schemes and forming a new AHDB scheme needed very careful management, particularly around the need to avoid triggering a potentially very costly wind-up debt on the MLC scheme, which required an amendment to the draft SI to resolve.

- TUPE rules meant that any restructuring would have to take place after staff had been transferred to AHDB on 1 April 2008.

THE BUSINESS CASE

- Independent consultants developed a detailed business case on what levy board reform could deliver and the overarching issues facing AHDB and its Sector Companies.
- Based on the business case the decision was made to co-locate AHDB and its Sector Companies in Stoneleigh, Warwickshire from mid-2009.
- A corporate plan for 2008-2011, informed from the bottom-up strategic planning process undertaken by each Sector Board, was signed off by Ministers in early March 2008.

THE FUTURE

- A team made up of Sector Company chief executives is under the Chairmanship of the AHDB Interim Chief Executive developing the detailed structural design for AHDB within a framework of guiding principles agreed by the AHDB Board.
- The AHDB Transition team will move to temporary accommodation in Stoneleigh from September 2008.

CONCLUSION

- There was no existing Defra model or Defra expertise in this unique area (involving a mix of public and private sector organisations) which could be utilised to help in the whole process.
- A pragmatic and diligent approach by all parties meant that the many issues and hurdles encountered were overcome and the vesting day of 1 April 2008 was achieved.
- There is still a considerable amount of organisational development to be delivered before AHDB can benefit from the efficiencies and synergies that co-location and shared-services will bring.

LESSONS LEARNT

- Effective partnership working between the Defra team and levy board staff increased the probability of success.
- Engaging experts in the field of tax and pensions informed better decision making in these areas.
- Strong leadership is essential in the management of external consultants. Better management of the early stages of the Accenture project would have yielded more resource for the later more important activities.
- Regular engagement with stakeholders is essential to the successful delivery of this type of reform project.

- It was clear from our work with Accenture that more consideration of strategy in the initial Radcliffe Review would have provided greater insight into the organisation structure.
- The implications for TUPE regulations in this type of complex business transfer can be complicated and onerous. Interpretation of TUPE changed during the reform process causing us to re-address our plans prior to vesting day.

LEVY BOARD REFORM – REPORT TO DEFRA ON THE REFORM PROCESS FROM SEPTEMBER 2006 TO MARCH 2008

1. This report has been prepared by the Transition Team of the Agriculture and Horticulture Development Board (AHDB). The report describes the period from September 2006 to the end of March 2008, during which the Transition Team, working with the Defra team, undertook a range of actions, which allowed AHDB and its six Sector Companies to become fully operational on 1 April 2008.
2. This report covers the background to Levy Board reform, the tasks which needed to be completed to allow the new structures to become operational, the links that were created with wider stakeholder groups and summarises with a note on lessons learnt from the process.

BACKGROUND

3. *“It is well-known that the agriculture and horticulture sectors of the UK economy have been undergoing massive change in recent years, change that is certainly set to continue. All the sectors have been affected by the forces of globalisation, most have been affected by major reforms to the Common Agricultural Policy, with an end to production subsidies, and by other European regulatory initiatives. And the UK policy environment has had its part to play, with key issues such as animal health and welfare, health and nutrition, and the domestic regulatory environment all impacting on these industry sectors. They face a formidable array of change drivers but their role in the economy, and their health and prosperity, continue to be of great importance, not just in terms of their direct economic contribution but also in terms of their contribution to the wider sustainability agenda”.*

(Foreword to the Radcliffe Report October 2005)

4. Rosemary Radcliffe was asked by Government in March 2005 to undertake a ‘cross-cutting and fundamental review of the rationale for and role, organisation, funding and function of the five main levy boards’. Her report, published in October 2005, went out to public consultation and in June 2006, the Minister of State in Defra, Lord Rooker, announced that the radical restructuring of levy boards would go ahead. Five existing levy boards (the British Potato Council, the Meat and Livestock Commission, the Milk Development Council, the Horticultural Development Council and the Home Grown Cereals Authority) would be replaced by one statutory levy board (the Agriculture and Horticulture Development Board) with six wholly-owned Sector Companies by April 2008. Lord Rooker commented at the time, “the industry has altered radically since the first levy board was established over forty years ago and the new structure should bring substantial benefits for farmers and growers, including better value for money through improvements in the efficiency and effectiveness of service delivery”
5. Following this Ministerial statement it was further announced by Defra that the management consultancy, Accenture, had been appointed to undertake research to inform a Fresh Start review to be undertaken by the new ‘shadow’ Board of AHDB prior to the introduction of the new system by 1 April 2008. This research aimed to identify levy payer needs and determine how best these could be met

through the new arrangements. The framework for this research was developed and agreed in September 2006. Through a telephone survey, web survey, stakeholder consultations and outreach events, Accenture secured almost 1000 responses in a three-month period (October–December 2006), from farmers, growers, processors and major stakeholders.

6. The research tested the awareness of levy payers and others to services currently offered, identified the key needs of the sectors going forward and tested these results, in terms of potential activities, against the common framework of activities proposed in the Radcliffe Report. The overall conclusions were that a good fit with the common framework existed in the key areas identified by Accenture – improving profitability, better supply-chain co-ordination, improving competitiveness, the promotion and provision of consumer information and innovation and new product development. Accenture also looked at issues around governance and accountability and identified what levy payers were looking for from the proposed reforms and the success criteria that would show whether the levy board reforms had generated the benefits anticipated.
7. The Radcliffe Report was a wide-ranging review of the statutory levy board structures in the UK, their purpose, their functions, their activities, their governance structures and their relationships with their levy payer base. Rosemary Radcliffe's Report highlighted three issues, which influenced her recommendations for reform. She noted that the agriculture and horticulture sectors in the UK were facing massive change, change which could not be seen as a one-off event but as a continuous influence on the sectors for the foreseeable future. This meant that whatever structures were proposed for the future must be capable of responding to this change – the structures needed to be simple, transparent and capable of reacting to changing circumstances with speed and accuracy. Second, she observed that the current system of five NDPBs made the whole statutory levy system look like a part of Government rather than being owned by the industry. She felt that the reforms proposed should reflect the need to bring levy boards closer to their customer base. Third, she felt that any proposals she made should also reflect the need for greater transparency in governance and accountability arrangements; both in terms of relationships with levy payers and relationships with Government.
8. Her key proposals addressed these three issues. The five statutory levy boards would be replaced by one new public body – AHDB – and this public body would have six wholly-owned Sector Companies (to cover beef and lamb, cereals, horticulture, milk, pigs and potatoes) to deliver services within the designated sectors. She also proposed a new Service Company which would provide a range of shared services off a common platform, but after public consultation the Government decided not to proceed with this recommendation but leave the determination of shared services to the AHDB Board, which would then decide on how this shared services platform should be developed.
9. This report now goes on to summarise how the recommendations outlined above were implemented.

TRANSITION TASKS

10. There were three key areas of work that needed to be completed to enable the new system to become operational by 1 April 2008 – vesting day.
- First, a range of constitutional/legal issues had to be resolved; the Statutory Instrument had to be laid, State Aid clearances secured, agreement reached on a Management Statement and Financial Memorandum and agreement on a standard Memorandum and Articles of Association for the six new sector Companies.
 - Second, a group of tasks centred around business transfer; Corporation Tax, VAT, Pensions, TUPE and wind-down procedures for the existing levy boards.
 - Third, the transition team had to address the development of a business case – based on the Accenture research – which would determine the key operational aspects of the new arrangements and plan for the business transfer on vesting day.

Transition Team

11. Defra provided a team of eight people, who were working on the constitutional/legal issues, public appointments, state aids, pensions, taxation and a range of transitional issues and provided more general support – particularly as the AHDB team was small in numbers in the early days – around Press/PR issues, servicing Committees and Project Boards and maintaining links with existing levy boards. A Chair designate for AHDB was appointed in late October 2006 and began work at the end of October. In the first instance secretarial support was provided by the Defra team, but in January 2007 an interim Chief Executive and PA were appointed on secondment from the Meat and Livestock Commission and in the autumn of 2007 a Finance Manager (seconded from HGCA) and an HR Manager (seconded from MLC) joined the AHDB team.

Transition Budget

12. Although an initial budget of £3m was allocated to this project, in reality, bearing in mind phasing of expenditure and a Treasury cap on overall expenditure, the actual maximum available was £2.6m. Spend in 2006/07 was £677,000 – the main components being the fees to Accenture (business planning), Deloitte (tax advice) and the direct costs of the Transition Team. In 2007/08 overall spend rose to £1.35m, main costs being the new AHDB Board, the new Sector Shadow Boards, the Transition Team and further fees from Accenture and Deloitte. In overall terms the professional service costs were higher than originally anticipated (due to lengthy negotiations on VAT) and the Sector Shadow Boards drew down resources quicker than had been planned, leading at one point to a need to reduce the frequency of Sector shadow board meetings. At year-end overall project spend was just over £2m.

AHDB Board and Sector Company Boards

13. It had been determined that the new AHDB Board should consist of the six Sector Chairs and four Independent Directors; one of whom would be the Chair. In

January 2007, interviews for the three Independent Directors were held (managed by Defra and Whitehead Mann) and three appointments made from a very strong field. These appointments provided the Board with major experience in corporate change management, public sector finance and business growth. In January and February, interviews were held for the six Sector Chairs (managed by Defra). Appointments made were ratified by Ministers in late February and the new AHDB Board, in shadow format, met for the first time on 5 March 2007.

14. Board meetings for the rest of the year were held on a monthly basis (twelve meetings in total up to March 2008, which included a number of in-depth sessions on business planning and future strategy). In order to expedite a number of key issues, the Board set up three sub-committees (Nominations, Audit and Remuneration) and added later in the year three time-limited sub-groups on R&D, relocation and cross-sector marketing. In the April/June 2007 period interviews were held, under the auspices and with the support of Defra, for each of the Sector Boards (75 appointments in total) and these began to meet from August onwards. The key issues the Sector Boards had to deal with were their own Memorandum and Articles of Association, the development of a forward strategy for 2008/11 and business plan for 2008/09, discussions around shared services and the transition arrangements for the transfer of staff and assets.
15. Unfortunately, due to a business conflict of interest the Chair of the Horticultural Sector Company had to tender his resignation in May 2007 and a further round of advertisements and appointment panels had to be activated to find a successor, who took over in August. In February 2008, the Chair of the Potato Sector Company resigned for personal reasons and a successor is currently being sought.

Managing the Transition Process

16. At an early stage, Defra put in place a number of groups to support and advise on the transition process. Links with existing levy boards were important. A Project Board was established (initially chaired by Defra, but then by the interim Chief Executive of AHDB), which met on a monthly basis. Members of the Project Board included the Chief Executives of the five Levy Boards, representatives of the devolved administrations and the internal Defra team. Additionally a Strategic Steering group was established which met on a quarterly basis and had as members the Chairs of the existing Levy Boards, representatives of the devolved administrations and key stakeholder organisations (NFU, CLA, TFA, etc.). This group was chaired by the Chair designate of AHDB. In mid 2007, it was decided to split this Strategic Steering group into two; one group consisting of the levy board chairs providing oversight of wind-down issues (year end accounts, transfer of assets, pensions, etc) and the other group (consisting of key stakeholders) looking forward in terms of reviewing the business planning process, transfer arrangements and future strategy.
17. In addition a number of time-limited groups were established to deal with specific issues – pensions being a case in point. This formal structure was supported by a wide range of one-to-one meetings with key stakeholders, trade associations and other interested parties. As an indication, the Chair designate of AHDB held over fifty such meetings during the transition period. Regular meetings were held

with Ministers (nine in total), representatives of the devolved administrations (and those elements of the livestock sector which were transferred to direct Scottish and Welsh control) and regular meetings were held with the outgoing Chairs of the Levy Boards and visits made to meet with their Boards.

18. Regular meetings were held with the Manager of the Project Brief (Brian Harding) and with Sir Don Curry, in his capacity as Chair of the Delivery Group for the Farming and Food Strategy. Contacts with the Press were developed at an early stage, which allowed for the change agenda to be widely reported in the technical and more general press. These contacts were developed further during the year, including a Ministerial press conference in September 2007, which covered the relocation to Stoneleigh and a Ministerial announcement on 1 April 2008 covering the launch of AHDB.
19. Mindful of the need to see the new structures well embedded in the agri-food supply chain, discussions also took place with a number of players in the retail sector, one specific being the work of the AHDB Board sub-committee on cross-sector marketing, which, for success, requires buy-in from the retail sector.

CONSTITUTIONAL AND LEGAL ISSUES

Statutory Instrument (SI)

20. Working from mid May 2006 to February 2007, Defra officials produced a draft affirmative Statutory Instrument, Levy Board UK Order 2007, following discussions with all the current Levy Boards, both on changes to the arrangements for their particular sector and on the general provisions in the Order. Where possible the SI proposed that both regulatory and administrative burdens should be reduced both for AHDB and for levy payers. A specific provision in the draft SI was to allow for a poll of levy payers, initially set at five year intervals, to determine whether a statutory levy system should continue to apply to that sector. This reflected a recommendation in the Radcliffe Report that such a mechanism should be included in the levy board reforms.
21. Following Ministerial approval, the draft SI was sent out to public consultation, which closed in early June 2007. AHDB itself was a consultee and agreed a list of comments at its Board meeting on 4 June 2007. Defra published the responses to the public consultation in August 2007 and indicated that it accepted nine of the amendments proposed through the public consultation; the most significant from AHDB's point of view being a proposal to reduce the period before a ballot of levy payers can be invoked from five years to three years. This issue was finally resolved at four years initially, but three years thereafter. Separately, AHDB discussed with Defra an amendment to the SI, which facilitated the transfer of the MLC Pension Scheme without triggering a wind-up Section 15 debt.
22. The SI was debated in Westminster in early December 2007 but it also needed to be debated in the Scottish Parliament and was not considered there until February 2008. The SI was not made until 28 February 2008. This was two months later than had been hoped. The principal effect of this delay was in delaying some areas of expenditure, which could only be entered into once AHDB achieved "skeleton" status, one such being moves to progress contractual discussions on the new site at Stoneleigh.
23. The AHDB team felt that there was always a very open dialogue with the Defra team through the drafting of the SI and through the public consultation process. Defra officials briefed the AHDB Board in late April, so the Board felt fully informed about the process.

Management Statement and Financial Memorandum (MSFM)

24. An early draft of a proposed MSFM for AHDB was prepared by Defra officials in March 2007 and was then the subject of lengthy discussions and negotiations. In reality a very high proportion of the original draft was non-contentious and the discussions centred on a limited number of issues, notably a point of principle as to whether AHDB belonged to the 'Defra family of public bodies'. Rosemary Radcliffe had made it very clear (para 5.40) that she considered the new arrangements were not part of the 'Defra landscape'. Progress was reported to the AHDB Board and at the meeting in February 2008 it resolved, having reviewed the full draft, that the Chair of the Shadow Audit Committee and two

other members of the Board should be mandated to conclude negotiations with Defra. The major point of principle, noted above, some points of detail (around notification of redundancies and pensions) were finally resolved in March 2008; at which point AHDB was able to proceed with the delegation agreement and from that issue delegation limits to its Sector Companies.

Memorandum and Articles of Association

25. Developing a standard Memorandum and Articles of Association for AHDBs six Sector Companies was an early priority for the AHDB Board, since the rules governing the appointment of Sector Boards and the composition of those Boards had to be agreed before the appointments process could begin. On appointments the AHDB Board agreed that three conditions be identified to guide the composition of the Sector Boards. First, the Sector Board should consist of no more than fifteen people (including the Chair). Second, that each Board should have at least one member who is independent of the particular sector and, third, that the remainder of the Board should be representative of the sector as a whole. Another key feature of the drafts considered was that AHDB was the sole member of the companies limited by guarantee, emphasising the fact that the Sector Companies are wholly-owned subsidiaries of AHDB. Three drafts of the model Memorandum and Articles of Association were considered by the Board in March and April and a final draft was presented in June 2007, which was formally approved by the Board.

State Aids

26. The statutory levy is classed as an agricultural state aid by the European Commission. The Commission defines a state aid as 'any aid granted by a Member State which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods.' All activities undertaken by AHDB must meet the ECs rules and restrictions on state aid. Defra began preparing a case for state aid notification in 2006 under three umbrella notifications that give details of the activities that will be undertaken across all sectors. The notifications are:

- Technical support.
- Aid to encourage the production and marketing of quality agricultural products and research and development.
- Advertising and promotion.

27. In March 2007 Defra indicated that the notifications had been drafted, based on details of the activities undertaken by the current Levy Boards. However, they would provide flexibility for any additional activities that AHDB might want to undertake as a result of the Fresh Start review. Frequent updates were then provided by Defra to the AHDB Board and the Project Steering group. A formal update paper was prepared for the August 2007 meeting of the AHDB Board. Defra also reported that the third notification regarding advertising and promotion could not be forwarded to the Commission formally until the names and logos of the levy bodies had been finalised. All names were finalised and agreed by the Board at its September 2007 meeting. All notifications were finally approved by the Commission in January 2008.

BUSINESS TRANSFER ISSUES

Taxation – VAT and Corporation Tax

28. Defra entered into early discussions with Deloittes on the tax consequences of restructuring to ensure that as far as possible the restructuring be tax neutral. Deloittes prepared a review on the corporation tax position, which formed the basis of early discussions with HMRC. Deloittes also reviewed the VAT liability (bearing in mind that four levy boards were VAT registered and one was not - HDC) of the levies charged and how, post transfer, a VAT neutral position for the new Sector Companies could be achieved so that no irrecoverable VAT costs arose on the transfers to Sector Companies. Deloittes determined that charging VAT on the levy, with a VAT grouping arrangement between AHDB and the Sector Companies, would be the optimal approach for the new organisation and they developed a case to present to HMRC on this basis.
29. A key issue on VAT was the ability to demonstrate to HMRC that under the new arrangements there would be more of a business relationship between levy payers and the services provided by the new structures. Ironically, in respect of Corporation Tax the reverse needs to be argued; that there is no trade being undertaken. By June HMRC broadly accepted the arguments around Corporation Tax but were taking a much more intransigent position on VAT, arguing, based on earlier discussions with the Sea Fish Authority, that these levies were outside the scope of VAT. Detailed discussions continued with HMRC throughout the Summer and on 12 September agreement was reached with HMRC to a transitional VAT status allowing AHDB to charge VAT on all levies from April 2008. The arrangement will be subject to annual review but unlikely to change, if at all, until EU VAT legislation is reviewed.
30. VAT was a very high-risk area for the project. An inability to secure the required VAT status would have led to an annual loss in revenues which would have been greater than the overall savings to be secured from levy board reform.

Pensions

31. The initial position on pensions was that all current pension schemes would be transferred to AHDB, but would be closed to new members; a single DC scheme would be offered to new members. Therefore, there were two key tasks: to ensure that the existing pension schemes could be transferred without any major problems and that a suitable DC scheme could be implemented. On the latter point a Pensions Working Group, chaired by the Chair of HGCA, was set up to make recommendations to the AHDB Board.
32. An early issue was the status of the MLC Pension scheme, where it seemed likely that a modification to the SI would be necessary to avoid the trigger of a wind-up debt when MLC was dissolved. MLC retained a QC to draft a universal vesting clause, which was subsequently integrated into the revised SI, which avoided the problem identified above. The Pensions Working Group, which met four times between March and June 2007, presented formal proposals to the AHDB Board in July. The main proposal was that the new DC scheme should be a group Personal Pension Plan based on a contract with a pension provider. The

report also short-listed two providers, but left the final decision to the AHDB Board, which at its meeting in August 2007 agreed to appoint INVESCO.

33. A complication of the MLC scheme was that it is a multi-employer scheme which includes, in addition to MLC, Meat and Livestock Commercial Services, Hybu Cig Cymru and Quality Meat Scotland. MLCSL was not a problem as it transferred over as a wholly owned subsidiary of AHDB. HCC's status has not changed and therefore there was no difficulty in it remaining as a participating employer. The position with QMS was more complex as it is now a separate NDPB which has resulted in a change of status. Work is continuing on this arrangement. The HGCA pension scheme undertook an actuarial re-valuation in July 2007, which identified a funding deficit. A deficit-funding plan was subsequently agreed which will be met from HGCA funds. After 1 April 2008 AHDB has the right to appoint new trustees to each scheme.

TUPE

34. TUPE is closely bound up with any proposals that AHDB might have had for restructuring ahead of vesting day. A recent ruling in Scotland suggested that the restructuring process, which is informed by the business planning process around shared services and the relocation of those services, could not begin until after 1 April 2008. This outcome clearly delayed the restructuring process and, essentially, did not allow AHDB to undertake any of the restructuring, which had flowed from the business case developed by Accenture for the AHDB Board. In September Ministers approved the recommendation from AHDB that a single location for AHDB and its sector companies at Stoneleigh should be pursued. This decision meant that all staff currently employed within the levy board system would transfer across as AHDB employees on 1 April 2008 and that restructuring would take place after this transfer. This proposal then formed part of a wider consultation with staff on the business case, which was completed by December 2007 and led to a recommendation to the AHDB Board that any representations from staff were not sufficiently persuasive to overturn the Board's decision to co-locate at Stoneleigh.
35. All staff were issued with AHDB statements summarising their current terms and conditions in a standard format across the organisation. Additionally a further written communication explained to staff the TUPE arrangement both in terms of the immediate arrangements post 1 April and to ensure that it is understood that changes to the future structure of AHDB are being planned.

Wind Down Procedures

36. The five existing Levy Boards were dissolved on 31 March 2008. It was important in the transition period to ensure that each Levy Board continued to deliver services to levy payers up to the point of dissolution. Second, arrangements had to be put in place to provide for all the appropriate transfers to the new structures and, finally, arrangements needed to be put in place to ensure that the final accounts were produced in a timely fashion for presentation to Defra. The monthly meetings of the Project Board, supplemented by more frequent teleconferences towards the year end, ensured that the Transition Team were able to deal with all the above issues with the Chief Executives of the Levy

Boards. In addition the Winding Down Group provided an opportunity for all the Levy Board chairs to meet the Transition Team to deal with any outstanding issues.

37. There was a high degree of co-operation within these groups, which lead to a successful transition of undertakings and activities at year end and plans are in place to ensure that all final year-end accounts are completed by the end of June 2008.

THE BUSINESS CASE

The Development of the Case

38. As noted above, by February 2007 a Shadow Board of AHDB had been appointed and Accenture began a detailed investigation of the activities and financial structures of the five existing Levy Boards as a prelude to a detailed presentation to the new Shadow Board on the development of the business case for implementing the reforms.
39. However much activity and financial resource had been committed to the project before the shadow board had been constituted. On reflection some of the early work could have been streamlined, reserving financial resources for later more important research.
40. The Shadow Board received regular reports from Accenture, who also undertook one-to-one meetings with the new Sector Chairs to identify key priorities for the future; both these being a prelude to the strategic planning process which engaged the Shadow Board in detailed discussions from March to September 2007, when final decisions on the business case were taken. Additionally, the Transition Team met the Accenture team over a dozen times to discuss specific details. Accenture reported to the AHDB Board on 2 April 2007 on the outcome of the initial interviews with the Sector Chairs. The interviews confirmed a strong consensus around the key overarching issues facing AHDB and its Sector Companies: competitiveness and improving product differentiation. Competitiveness lies at the heart of sustainable farming. It involves the control of costs; understanding costs, managing costs and reducing costs. It also involves the integration of assured quality at all stages of production. Product differentiation refers to the ability of UK producers to secure a premium for their products at the point of sale, based on a range of attributes underpinned by a recognisable system of quality assurance. These two overarching themes suggested AHDB should concentrate on five major workstreams: business performance; supply-chain co-ordination; market intelligence; business development and the promotion of industry products to consumers and retailers.
41. It became clear that this work on strategy was vital to the design of the organisation and should have been part of the original review before the group structure was determined.
42. A further round of meetings with the Sector Chairs, AHDB and Accenture considered the delivery of these workstreams, in terms of services that could be delivered off a common platform and those which were specific to a particular sector. This consultation showed that there was a general enthusiasm for delivering services off a common platform and a consensus on a number of shared activities. These included back office services, business analysis (all services except business development), co-ordination of market intelligence, co-ordination of research and development, cross-sectoral promotion and crisis management.
43. In these early stages, this process did put a strain on the Sector Chairs who had a corporate responsibility to AHDB as a member of that Board, but also had to

reflect the interests of the sector they represented at a time when the new sector Boards had not been appointed. These strains and the legitimate concerns that arose were managed effectively both in the Board (the Independent Directors played a crucial role) and in one-to-one meetings between the Chair designate and interim Chief Executive of AHDB and Sector Chairs.

Recommendations on the Business Case

44. Accenture presented to AHDB at its meeting on 4 June 2007 a preliminary analysis of the business case for both the delivery of shared services and the relocation of staff to secure efficiencies in delivery. The analysis was refined and extended; in particular to test a number of different location scenarios in terms of long-term cost savings (clearly set against short-term relocation costs). At the Shadow Board meeting held in June Board Members considered all the options and agreed that two options be taken forward – one proposing all services and activities be co-located on an existing site and one on an entirely neutral site. During June 2007 all the English RDAs were approached to provide site options and an indication of possible financial incentives that might be available to support a move to a new site. The best option came from Advantage West Midlands, who offered a site at Stoneleigh in Warwickshire, which would bring all AHDB's operations on to one single site, and would provide significant long-term savings. The only existing site that could provide similar facilities was Winterhill in Milton Keynes.
45. The Board, at its meeting on 3 July 2007 agreed that these two options should be considered further by a sub-group of the Board and that a final recommendation should be put to the Board at its meeting on 6 August. At its Board meeting in August AHDB was able to review the full financial implications of the proposed relocation options. A move to Stoneleigh would generate an up-front cost of approximately £12m, which could be more than offset by deferred rental payments on the proposed new building, grants from AWM and cost savings. The Winterhill option would involve similar up-front costs but would not generate the same level of subsidy available at Stoneleigh. Both options were able to generate annual savings of £4.5m per annum. The Board agreed to recommend to Ministers that, subject to staff consultation, AHDB and its Sector Companies would co-locate on a new site at Stoneleigh from mid 2009. For financial year 2008/09 the Sector Companies would develop a delivery plan, which would provide continuity of service at the same time as bringing forward changes consistent with the overall strategy of AHDB.
46. Ministers accepted this recommendation and a public announcement was made on 19 September 2007. The staff consultations commenced immediately and consisted of two meetings with staff representatives. The first consultation meeting was to explain and discuss the rationale behind the proposals to transfer all staff to AHDB, to co-locate and centralise relevant services and to relocate to Stoneleigh from mid-2009. Staff were provided with all the written documentation that had been considered by the AHDB Board and the presentation material that had been used to brief the existing levy board chairs and key stakeholders.
47. A second series of meetings were held in November 2007, when all the detailed questions raised by staff through their representatives were addressed and

agreement reached on all the issues that needed to be reported back to the AHDB Board. The Board considered all the issues at its meeting on 10 December and determined that there were no over-riding issues which would lead them to review further their formal recommendation on the business case. This was transmitted to staff representatives at a final meeting on 19 December 2007.

The Corporate Plan

48. The AHDB determined that by December 2007 it would have a Corporate Plan in place, which would include AHDB's own strategic framework for the three financial years beginning 1 April 2008 and the associated sector strategies and detailed sector business plans for 2008/09. These business plans, whilst being based on the future strategies for each sector, as determined by the Sector Company Boards, also had to reflect the transfer of on-going business activities – the contractual commitments around R&D projects being a case in point. Each Sector Board developed and approved its own sector plan and this was then presented to a small AHDB scrutiny committee, chaired by the shadow Chair of the Audit Committee and included the Chair designate and interim Chief Executive of AHDB.
49. Each plan was reviewed in terms of the strategic objectives for the sector, the proposed programme of activities and the costing and delivery of these activities. Any modifications suggested at this point were incorporated in the final draft, including recommendations on the proposed levy rates for 2008/09, which was approved by the AHDB Board at its meeting on 10 December 2007. It was agreed at this meeting that the Plan would be sent out for industry consultation on 21 December in order that the results of the consultation could be considered by the Board at its meeting on 4 February 2008, prior to the Corporate Plan being submitted to Ministers. The Plan was sent to 65 consultees and 17 written responses were returned to AHDB. The Plan was amended to reflect a number of the points raised in the consultation and in particular key targets and milestones for 2008 at the request of Defra. The Corporate Plan and the recommended levy rates were signed off by Ministers in early March 2008.

THE FUTURE

Transitional Arrangements

50. At the beginning of the current financial year, each sector company is operating out of the offices occupied by the old Levy Boards. AHDB's Transition Team has short-term accommodation in Defra, until a move into temporary accommodation at Stoneleigh in September 2008. The current Transition Team will be expanded to bring on board people who will start to work on the early consolidation of services onto a common platform.
51. In April, a Chief Executive's team was brought together to develop clear proposals for the future organisation design for AHDB. This team, bearing in mind the key operating principles agreed by the AHDB Board, in particular that of placing levy payers long term needs at the heart of the approach, will make recommendations to the AHDB Board in July 2008 on the final design, how functions should be grouped, reporting and management relationships between different parts of the organisation and a framework for managing the transition, including recommended timescales for moving to the proposed model. It may be possible at this point to accelerate the move of staff to Stoneleigh, utilising the temporary accommodation available, which would reduce some of the risks and uncertainties associated with the project as a whole.

Relocation

52. Once Ministers had approved AHDB's recommendation to co-locate all services onto one site at Stoneleigh and the staff consultation process had been completed, discussions were entered into with Advantage West Midlands and their preferred developer on a timescale for the project. Discussions also began with Defra's internal teams on the development of a new building.

CONCLUSION AND LESSONS LEARNT

53. The period June 2006 to March 2008, during which the Agriculture and Horticulture Development Board was brought into existence, was both complex and challenging for the small teams involved.
54. There was no existing Defra model or Defra expertise in this unique area, which could be utilised. However, a pragmatic and diligent approach by all parties meant that the many issues and hurdles encountered were overcome. The planned vesting day of 1 April 2008 was achieved, and sector specific workstreams to benefit levy payers were continued without any disruption or degradation in service levels. That all this was achieved within a tight timescale, with minimal disruption, is down to the close working links developed between the Transition Team, Defra officials, the existing Levy Boards and wider stakeholder group. The system came under a lot of pressure at times but the determination to deliver the project on time was always present.
55. The AHDB and Sector Boards are aware that there is still a considerable amount of organisational development to be delivered before AHDB can benefit from the efficiencies and synergies that co-location and shared-services will bring. This next transition phase is clearly mapped out and should be completed during the second half of the 2009/10 financial year.

Lessons Learnt

- Effective partnership working between the Defra team and levy board staff increased the probability of success.
- Engaging experts in the field of tax and pensions informed better decision making in these areas.
- Strong leadership is essential in the management of external consultants. Better management of the early stages of the Accenture project would have yielded more resource for the later more important activities.
- Regular engagement with stakeholders is essential to the successful delivery of this type of reform project.
- It was clear from our work with Accenture that more consideration of strategy in the initial Radcliffe Review would have provided greater insight into the organisation structure.
- The implications for TUPE regulations in this type of complex business transfer can be complicated and onerous. Interpretation of TUPE changed during the reform process causing us to re-address our plans prior to vesting day.