
REPORT
of an
INDEPENDENT REVIEW OF
GOVERNANCE OF BBSRC-
SPONSORED INSTITUTES
for the
BIOTECHNOLOGY AND
BIOLOGICAL SCIENCES
RESEARCH COUNCIL

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Executive summary

This review was established by the BBSRC to consider the governance and constitution of the seven research institutes it supports and their working relationships with the Council, including arrangements for employment.

At the heart of the governance issue is the tension between the levels of responsibility and risk held by the BBSRC, and the independent status of the institutes as companies limited by guarantee and registered charities. The BBSRC's requirement to exert influence and control the institutes, stemming from the Chief Executive's Parliamentary accountability, is incompatible with their constitutional autonomy. This weakness is systemic. It becomes acute when institutes are under strain, particularly when they experience financial difficulties.

Without contesting the importance of effective governance, a wider perspective was needed for the review. Governance cannot be isolated from fundamental questions about the purpose and role of the institutes in the 21st Century and the distinctive contribution they should make to the BBSRC's mission and to the government's Science and Innovation Framework. Clarity about the purpose of the institutes must precede, then shape, options for good governance. Scientific excellence and effective knowledge transfer are the primary requirements of any research council institute.

Sustainability is a recurring problem for the institutes, exacerbated in some by continuing reductions in Defra funding. The task of leading a BBSRC institute with its emphasis upon operational management and raising research income makes senior posts unattractive to many leading scientists and the institutes are not always attracting outstanding young scientists.

Stakeholder consultation and the Committee's analysis confirm the present governance of the institutes does not follow best practice, nor does it optimise the institutes' research activities and outputs in terms of the priorities of the national science and innovation agenda.

Four options address both the governance issues and, importantly, allow essential priorities to feature strongly.

Option 1: Transfer assets to another body – the most likely candidate bodies are universities, appropriate government departments or other research councils.

The Committee's assessment is that impact of this Option depends very much upon the mission, values and policies of the new parent body.

Option 2: Full independence.

The Committee considers this to be a high-risk option, which may nevertheless be attractive to a self-confident institute.

Option 3: Bring under direct BBSRC control – either as a free-standing institute, or embedded in a university.

This appears to the Committee to offers the greatest potential for major improvement and sustainability.

Option 4: Improve current arrangements.

This Option produces only marginal improvements, and the governance incompatibility would remain.

The Committee believes it important that as first step the BBSRC clarifies which institutes are vital to delivery of its mission. This will influence the option choice and discussions with governing bodies.

Charitable status, with its associated tax benefits, and the BBSRC staff redundancy process with its costs are two important constraints on options for change and improvement. Charitable law would have to be respected in any changes. Charitable assets must be identified and continue to be applied to the original charitable objects, even if transferred.

The cost of BBSRC's redundancy benefits is high and the procedures are complex and time consuming. Reforming present redundancy terms would facilitate modernisation and culture change at institutes; shift resources to areas of most need; and reduce BBSRC's exposure to risk. Renegotiated redundancy terms should be an essential element of both Options 3 and 4, both of which involve a continuing BBSRC liability for employment contingencies.

In conclusion, the Committee recommends that the BBSRC Council address the issues in a structured manner by:

- First revisiting, in a light touch fashion, the overall current strategy for delivering science in the areas covered by the institutes.
- Reviewing the need for each institute in terms of delivering the Council's mission, to determine in principle:
 - which institutes are so important to the Council's mission that they must be brought under direct BBSRC control;
 - which could be candidates for transfer to another body; and
 - which might be offered independence.
- Considering options and drawing up plans for each institute in consultation with governing bodies and in accordance with prevailing charity legislation.
- Where appropriate, setting objectives and timetables for the renegotiation of BBSRC employment terms and conditions, with a view to reforming redundancy procedures and costs.

The Committee is mindful of the potential for this Review to destabilise current arrangements and, therefore, urges the BBSRC to address the issues expeditiously.

The Committee believes an opportunity exists to improve the quality and the sustainability of the institutes significantly, and to reflect the changes occurring elsewhere in the science base. But they also recognise that gaining these really significant improvements will require a bold response. Modest measures will not resolve the fundamental governance conflict identified by Costigan. Nor are they likely to make much impact on the inherent administrative complexity of the system, or improve the medium-long term sustainability of the institutes, let alone make them deeply attractive to scientists.

A. INTRODUCTION AND GENERAL OVERVIEW

1. This review was established to consider the governance and constitution of the seven research institutes supported by the BBSRC and their working relationships with the Council, including arrangements for employment. At the heart of the governance problem lies an incompatibility between the levels of responsibility and risk held by the BBSRC and the independent status of the institutes.

Box 1: Terms of reference of the review

- *To review current governance arrangements within BBSRC-sponsored institutes' Governance Boards and between BBSRC and BBSRC-sponsored institutes in light of the OSI Report on the Review of Governance Issues in Research Council institutes, Centres, Surveys and Units;*
- *To identify and evaluate options for change, including arrangements for employment;*
- *To undertake a consultation of appropriate stakeholders ;and*
- *To recommend a way forward to BBSRC's Audit Board and Council by October 2006.*

2. However, early on the Committee concluded that the review had to be set in a broader context relating to the institutes' capacity to undertake world-leading research and to their sustainability. The higher national context, summarised in the government's Science and Innovation Framework 2004-2014¹, is also critical. The government's priorities emphasise quality of scientific outputs and puts great emphasis on knowledge transfer (KT).

3. The present governance arrangements for the seven institutes (see **Appendix 1**) arose from restructuring undertaken by the Agricultural and Food Research Council (AFRC), the predecessor of the BBSRC, during the 1980s, from which the pattern of '*independent institutes as companies limited by guarantee (CLGs) and registered charities*' began to emerge as the standard. The institutes were encouraged to exercise their independence by securing a plural stream of research funding - effectively becoming autonomous public sector research institutions, and by broadening their remits beyond the parent AFRC (and, since 1994, the BBSRC). It was hoped that plural funding would provide insurance against reduced funding by individual funders, as well as stimulating KT and a stronger entrepreneurial culture.

4. The restructuring also involved harmonising human resource policy and procedures by moving institute staff onto standard terms and conditions with the AFRC/BBSRC as the employer. The aim was to gain administrative efficiencies. It also had the potential to lower barriers to staff moving from one institute to another.

5. The charitable status of the institutes dates from an earlier era. In the 1960s, several of the institutes had successfully applied for charitable status, which brought financial benefits in terms of reduced rates and taxation.

¹ Science and innovation investment framework 2004-2014, July 2004.
http://www.hm-treasury.gov.uk/spending_review/spend_sr04/associated_documents/spending_sr04_science.cfm

6. Thus, present governance arrangements have been in place since the mid-1980s. Over the intervening years the institutes have made their own distinctive national contributions, especially in delivering the outputs that are assessed by the BBSRC on a four-yearly cycle, namely - quality science; reliable independent research to inform public policy needs; engagement with industry, commerce and public policy makers; and science and society. However, they have experienced mixed fortunes; those with higher proportions of BBSRC funding having fared better than those more dependent on (declining) Defra funding (see **Appendix 2a**). Indeed, one of the major destabilising factors for the institutes has been the steady decline in Defra funding and, institute by institute, it has proved to be a critical factor in sustainability.

7. Relations between the BBSRC and individual governing bodies have generally been good, although there have been tensions from time to time over issues such as governance, strategic direction of science and, perhaps inevitably, funding.

8. The arrangements were generally endorsed by a government Prior Options Review in 1996-97.

9. In 2004, following routine visits to the Institute for Grassland and Environmental Research and the Institute for Animal Health, the Charity Commission recognised the BBSRC's legitimate interest in the affairs of the institutes and the Council's justification for attaching demanding conditions to its annual grants. The Commission, however, expressed some concern about the true independence of trustees in the governance arrangements. It recommended changes to institute governing documents to emphasise trustees' independence, thus bringing the governing documents and practices more closely into line with best current practice.

10. The governance arrangements were re-examined in 2005, at the BBSRC's request, by the Office of Science and Innovation (OSI) in a high-level review of governance issues across the institutes, centres, surveys and units of all research councils – (the Costigan Review²; main conclusions in Box 3). The BBSRC's response to Costigan's final conclusion was to establish this Independent Committee (membership in **Appendix 3**).

11. Several Committee members have an interest in the outcome of this review, and declared their association with institute governing bodies and, in the case of one member, the BBSRC Council. These members were appointed by the BBSRC because of their experience with the present governance arrangements, which added a valuable and practical perspective to the analysis and review conclusions.

12. The Committee consulted widely. The Committee Chairman and several members met major stakeholders, including governing body representatives, institute directors, BBSRC Council and trade unions. In addition, the Chairman and the independent consultant had 14 further meetings with other groups and individuals. Officials of the Charity Commission, an important stakeholder, gave helpful informal advice.

13. In May 2006, the Committee issued a consultation document to interested parties, outlining its initial thinking. The later stages of the review were aided the responses received (see **Appendix 4**). The consultation document itself is available at the BBSRC website³.

² Research Council Institutes, Centres, Surveys and Units: A Review of Governance Issues. Gavin Costigan. Office of Science and Innovation 2005.

³ Available at:

http://www.bbsrc.ac.uk/society/dialogue/consultations/institutes/institute_consultation.pdf

14. This report is generic, presenting practical options for change that would improve current governance arrangements. The options are influenced strongly by the broader considerations of scientific excellence and relevance and institutional sustainability referred to throughout this report. In the time available, the Committee has not attempted to produce a fully researched analysis of the advantages and disadvantages or of the costs and benefits of its options for change.

15. It follows that there are no recommendations for particular institutes. In any case, that is properly a matter for the BBSRC and the relevant governing bodies. But the Committee considers it unlikely that a single option or solution will meet the circumstances or aspirations of all seven institutes or the BBSRC. It is suggested that the BBSRC should test its final decisions against the yardstick that change must genuinely improve an institute's ability to contribute to delivery of the BBSRC's mission, as measured against the following criteria (Box 2).

Box 2: Suggested evaluation criteria

- *Excellence of science*
- *Knowledge transfer*
- *Attractiveness to scientific leaders*
- *Attractiveness to high quality staff*
- *National requirements*
- *Ability to respond to changes with agility*
- *Financial sustainability*
- *Good governance*

16. As noted earlier, the institutes have worked hard to succeed within the current governance structures. They have responded to the changing demands of the government's high-level science policies, and to increasing financial and other pressures, while continuing to produce high quality science. However, the Committee believes change is now necessary, and that any new arrangements must reflect the aims and priorities of the national science and innovation agenda. This review is designed to stimulate the BBSRC and its institutes to consider how they can position themselves to succeed in the 21st Century.

17. The next section explains the analysis that has led the Committee to its conclusions.

B. ANALYSIS

a.) Institute profiles

18. Overall, BBSRC funding of institutes in 2005-06 (revenue and capital) accounted for one-third of the Council's allocation of £320m from the Science Budget. A summary profile of each of the seven institutes is given in **Appendix 2b**, which also shows that the proportions of each institute's revenue funding that comes from the BBSRC range quite markedly from 32% to 71%.

b.) The Costigan Review

19. For his review of research council institutes, centres, surveys and units, Costigan used the Cipfa Good Governance Standard for Public Service⁴ as his frame of reference. He acknowledged that the BBSRC had developed current governance arrangements in good faith and had received at least tacit government support, notably in the 1996-97 Prior Options reviews. Nevertheless, he identified fundamental tensions and concluded as follows (Box 3).

Box 3: Costigan conclusions on BBSRC institute governance

- *The division of governance responsibilities between the BBSRC Council (as the overall governing body for BBSRC funds) and the Governing Boards is somewhat opaque. Some Governing Boards feel that they cannot work in an unencumbered way (as trustees of a charity should be able to). [Para.4.6]*
- *Comparing this situation with the Good Governance Standard for Public Service, it seems that the governance arrangements do not meet some of the principles which the report sets out. In particular, the functions of the governing body are not clear (principle 2.1), it is not transparent how decisions are taken (principle 4.1) and the formal and informal accountability relationships are not understood (principle 6.1). [Para 4.11]*
- *I conclude that improvements are needed in the current arrangements to make them compatible with best practice for corporate governance. It is up to BBSRC Council to consider how to address this situation. There is a range of options, some more evolutionary and some more revolutionary. [Paras. 4.13 & 4.14]*

c.) The current governance arrangements

20. The seven research institutes have complex, but similar, governance structures. There are two distinct lines of accountability and responsibility. The first arises from each institute being an independent legal entity – both a CLG and a registered charity. As a result it has a governing body whose members act as both trustees and company directors, responsible for running the institute in compliance with charity and company law.

21. Secondly, the BBSRC Chief Executive has to account to Parliament for the public funds it awards to the institutes. To fulfil this accountability role, the Chief Executive has to ensure that public funds are used with probity and regularity. This responsibility inevitably means

⁴ Available at http://www.cipfa.org.uk/pt/download/governance_standard.pdf.

that the Chief Executive has legitimate interest in the whole of the finances, business systems and managerial capabilities of the institutes.

22. Although the institutes have separate legal personalities, the BBSRC employs the staff who work in them, with the exception of the John Innes Centre (JIC), where the institute employs the staff, although on BBSRC terms and conditions. As employer, the Council is responsible for human resource policies and procedures in the institutes and carries the contingent staff liabilities for all 2,800 staff. These are estimated to total £180m and represent one of the largest risks on the Council's risk map.

23. These employment arrangements highlight the ambiguities of responsibility and accountability in the current governance model. The BBSRC is properly concerned because it has ultimate responsibility for substantial contingent liabilities, but it does not have complete executive authority for managing the risk, especially as approximately half the liability relates to staff employed on the strength of third party research funding to the institutes that the Council does not control.

24. To help ensure the BBSRC's responsibilities are met, each institute has agreed a set of Conditions of Grant (CoG) under which it receives its funding from the BBSRC. The CoG place clear requirements upon the institute, especially on the institute director who acts as a sub-accounting officer responsible to the Chief Executive of the BBSRC.

25. Importantly for institutes, the CoG confirm that the BBSRC stands behind each institute to cover contingent liabilities, including employer's liabilities, and to ensure that the institute can meet its contractual obligations. On more than one occasion the Council has had to step in as banker of last resort.

26. To mitigate further its exposure to the actions of legally autonomous institutes, the BBSRC has another control mechanism. A number of powers are reserved for the BBSRC in the institutes' Memoranda and Articles of Association. Typically these include restrictions on the ability of the institute to borrow, invest, sell assets; approval of annual business plans; a role in appointing the members of the governing body and the director; as well as involvement in matters concerning staff and associated contingent liabilities. There is also a specific requirement that the director should report to the Chief Executive of the BBSRC in addition to the governing body.

27. Without these various controls, the BBSRC believes that it would be unable to get its own accounts signed off by the National Audit Office without qualification.

28. The above summarises the formal position. Strategically the model is predicated upon the concept that CLG institutes should have considerable legal autonomy within the public sector, and should be encouraged to interact with a range of stakeholders and funders. However, the public accountability requirement on the BBSRC to continue to exert influence is incompatible with the institutes' constitutional autonomy. Perhaps not surprisingly, members of one governing body have had serious doubts about their ability to operate freely and, hence, about the legality of present arrangements. In particular, they have concerns that the BBSRC's controls and conditions are not compatible with their positions as charity trustees, who must be able to operate unencumbered.

29. The Committee believes that there is now an urgent need to resolve the issue, but that it should be done in a manner and to a timetable that does not destabilise the institutes.

d.) The governance and managerial problems of the current model

30. The Committee has concluded that the difficulties with the present institute model arise from two issues, governance and management.

(i) Governance issues

31. The governance problems highlighted by Costigan and described in the preceding section are not illegal, for example in terms of charity and companies legislation, but fall short of best practice in corporate governance, as the Charity Commission noted in 2004 and more recently, and Costigan highlighted.

32. Surprisingly, in response to the consultation document, only two institutes expressed real concerns about governance matters, though others recognised the theoretical problem. Five institutes said they were able to manage the potential conflict. It is probably significant that those institutes most disposed to the *status quo* are those that have suffered less financial pressure in the past decade.

33. The BBSRC, in contrast, is very conscious of the ambiguities in governance and the ultimate accountability for independent institutes carried by the BBSRC Chief Executive. This may be because the BBSRC is considerably more exposed than the institutes to the strategic and financial risk, even though the institutes themselves sometimes have to contribute financially and always have to manage locally the acute effects of periodic decreases in funding leading to staff redundancies.

34. Costigan identified several possible ways of resolving the conflict, all designed to clarify who has authority and financial responsibility for each institute – the BBSRC, or an institute’s governing body. Basically, however, there were only two main options:

- To bring the institutes fully under BBSRC control, possibly involving the winding up of the CLGs and shifting institute focus towards BBSRC’s primary objectives. This may or may not affect employment conditions.
- To make the institutes truly independent and transfer the financial risk, notably that of staff employment, to the institute itself.

These two vectors, movement towards direct BBSRC control or towards greater independence, are central both to Costigan’s options and the conclusions of this review.

(ii) Management issues

35. Costigan touched only obliquely on the managerial consequences of present governance arrangements. As independent legal entities, institutes have formal relationships with the BBSRC, the Charity Commission, statutory auditors and Companies House. The regulatory burden has increased across all sectors over the past 10 years and impacts disproportionately on small-medium enterprises (SMEs), like the seven institutes. Indeed, one of more serious challenges facing all institutes is the cost associated with their autonomy, so minimising the proportion of income and effort that can be devoted to front line science. In terms of scientists submitted to the BBSRC’s institute assessment exercise, the institutes are no larger, and often smaller, than many mainstream bioscience departments in leading universities, yet they carry the inefficiency of much heavier governance and overhead burdens.

36. This cost is not only financial, but includes the opportunity costs to management. The current task of leading a BBSRC institute, with its significant emphasis upon operational management, can make the post unattractive to many leading scientists. The same issues exist to a degree in university departments and other government research institutes, but without doubt they are exacerbated by current governance arrangements at BBSRC institutes. A primary aim in any changes must be to allow senior management to focus far more upon scientific and KT leadership.

37. In terms of financial cost, two institutes asserted to the Committee that annual reporting to the Charity Commission and Companies House does not present any difficulty, and is based on existing internal management information. They emphasised that the greater reporting burden is imposed by the BBSRC itself, arising from its accountability for the use of public funds.

38. Indeed, it has been argued that the BBSRC's control and reporting requirements embedded within the current governance model have added to the complexity and cost of institute administration, leading to inefficiency. Certainly, in addition to complicated governance, their complex mix of funding requires more financial effort (and posts) at the institutes for budgeting, management accounting and financial control compared with the institutes of other research councils. Some believe that administrative complexity may now be inhibiting the development, indeed the sustainability, of the institutes.

39. The review also considered briefly whether BBSRC's own arrangements for overseeing the institutes are fit for purpose. It is vital that the BBSRC has controls appropriate to its responsibilities. It seems to the Committee, however, that the current governance arrangements, with their many lines of communication, pre-occupy too much Council, CEO and senior management time, resulting in frustration for both the BBSRC and institutes. Increased delegation and clearer rules of subsidiarity, including an appropriate balance between control and assurance, and simplification of communications should be essential elements of any new governance structures going forward.

40. Although the factors outlined above are not overwhelming, their combined weight highlights that the balance of advantage no longer lies with the model of '*independent institutes as CLGs and registered charities*'. The weaknesses are systemic, and become acute when institutes are under strain, particularly when they experience financial difficulties. The current arrangement is no longer fit for purpose in an environment where there have been profound changes in the pattern and priorities of UK research and development. The challenge, therefore, is to propose alternative models that meet today's circumstances – in terms of delivery of the BBSRC's mission and the national science and innovation agenda; the genuine aspirations of the institutes; accountability; and good standards of governance.

e.) The wider perspective

41. Without contesting the importance of effective governance, the Committee concluded that a wider perspective was needed. Governance cannot be isolated from fundamental questions about the purpose and role of the institutes in the 21st Century and the distinctive contribution they should make to the mission of the BBSRC and to the government's Science and Innovation Framework. Clarity about the purpose of the institutes should precede and then shape options for good governance.

42. Three of the six '*Ambitions for UK science and innovation*' in the Science and Innovation Framework are particularly germane to this review:

- World class research at the UK's strongest centres of excellence.
- Greater responsiveness of the publicly-funded research base to the needs of the economy and public services.
- Sustainable and financially robust universities and public laboratories across the UK.

43. Consonant with the government's high-level aspirations, it seems vital to the Committee that the following priorities should define what institutes do, and how their success is measured.

Priority 1. International competitiveness of science outputs.

44. Scientific excellence is an absolute requirement. If institutes cannot deliver first class science, they are unlikely to be credible or competitive in areas such as strategic research, diagnostics, research training and science and society activities.

Priority 2. Improved performance in KT.

45. Knowledge transfer is a key output. The Science and Innovation Framework, and subsequent government science policy documents, emphasise the importance of improving UK performance in KT and commercialisation from universities and public laboratories. Research councils' programmes are expected to be more strongly influenced by, and delivered in, partnership with end users of research. The BBSRC institutes may have a good record in KT, but they are now expected to increase their activities in this key area.

Priority 3. Attractiveness to the leaders of scientists, and

Priority 4. Attractiveness to the creative young scientists.

46. There is evidence that the institutes are not always able to attract a strong field of candidates for senior leadership posts and, whilst they have a number of excellent researchers, they are also not as attractive to outstanding younger scientists as are competitors. Within the current management structure, the balance of working in an institute as distinct from a leading university has changed in the last fifteen years. Well-publicised funding difficulties are undoubtedly a deterrent, but questions of intellectual isolation and, for potential leaders, the frustrations of the present reporting arrangements, are also relevant. To be successful, institutes need to be attractive to high quality senior scientists who can provide crucial leadership and vision, and the best young scientists, who will provide creativity, challenge and vigour.

Priority 5. Maintenance of strategic capability to respond to national public policy and economic needs.

47. A number of public sector research institutes provide a genuine national strategic capability of infrastructure, unique facilities, skills, and data sets. The extent to which they do this varies from institute to institute, and it is for the BBSRC and government to decide which national capabilities in their institutes are critical to maintaining a capability to respond to public policy and economic needs.

Priority 6. Capacity for agile reactions to the changing external environment in which they operate.

48. To compete in today's research market, institutes need to have flexible and agile management. For example, they need the flexibility to deploy their staff to meet changing scientific opportunities and customer requirements, and to shift resources rapidly. There is potential to develop further existing techniques of modern performance management for appraising and incentivising individuals and groups. Modernisation is needed to help institutes succeed in an increasingly competitive market.

Priority 7. Institutional sustainability.

49. The priorities outlined above feed through into the final key priority of sustainability in terms of mission delivery, income, and critical mass of intellectual capital and facilities. Indeed, an overall lack of sustainability has been an underlying weakness for many of the institutes (as it has been until recently in universities) and remains a very real issue for the

smaller institutes. Reflecting a shrinking market for agricultural and food research and long-term trends of declining research income, the BBSRC institute base has been consolidated and repositioned scientifically several times over the past quarter century. Over the period, staff numbers have declined steadily from a peak of over 6,000 in the 1970s to the current 2,800. Further reductions are in progress.

50. These seven priorities received broad support in our consultation exercise and provided the groundwork for discussion about institutes. They were widely viewed as essential features of a successful institute, and the Committee factored them into the options for changing governance (Tables 2-5).

51. Overall, the consultation endorsed the conclusion that the current governance model not only does not follow best practice, but also does not optimise the institutes' research activities and outputs in terms of the national science and innovation agenda. The governance review provides the BBSRC with an opportunity to address strategic change and sustainability for each of its sponsored institutes, ensuring that they are appropriately placed for the challenges of the 21st Century.

f.) Prior questions for BBSRC

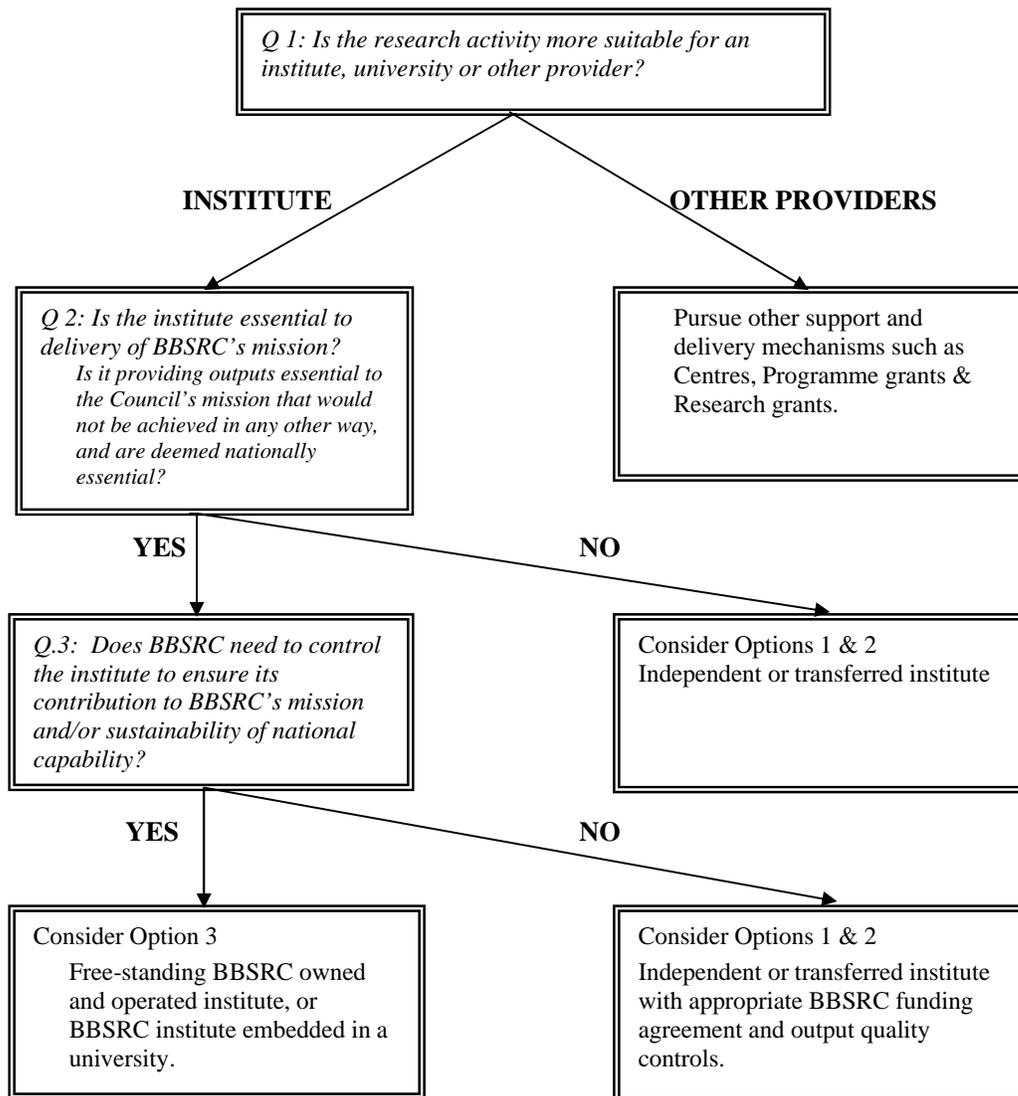
52. Several respondents to the consultation stressed that the role and purpose of institutes should be addressed before redesigning their governance structures. The Committee concurs.

53. When considering institute support and governance, key requirements for the BBSRC are:

- a clear strategy for research activity in institutes, rather than through grants to universities (such as provided by the recent BBSRC institute strategy document⁵), then
- a review of the need for each institute to determine which are genuinely essential to delivery of the Council's mission.

54. A simple decision tree is set out below. It reflects the Committee's view that the BBSRC should control directly only those institutes that are providing quality science outputs essential to the Council's mission and which cannot be achieved in any other way. This decision tree could prove useful in the Council's deliberations about options for resolving the current governance incompatibility, and in particular by helping to distinguish between institutes that are candidates for closer BBSRC control, and those which might, or should, be offered greater independence.

⁵ Science and Innovation in BBSRC-sponsored Institutes. The next ten years. BBSRC 2005.



C. PRACTICAL OPTIONS FOR CHANGE

55. The review has concluded that the following options could address the governance issues and, most importantly, allow essential priorities to feature strongly. As previously mentioned, it is unlikely that one of these options will meet the circumstances or aspirations of all seven institutes or the BBSRC.

Option 1: Transfer assets to another body – the most likely candidate bodies are universities, appropriate government departments or other research councils.

Option 2: Full independence.

Option 3: Bring under direct BBSRC control – either as a free-standing institute, or as an institute embedded in a university.

Option 4: Improve current arrangements.

56. Variants of these options were previously identified by Costigan (see Table 1). Costigan’s options ii.), iii.) and iv.) amount to different ways of improving present arrangements and are closest to Option 4.

Table 1: Comparison with Costigan options	
Costigan option	This report
i.) Retain CLG status, with or without charitable status, with institutes themselves progressively employing staff with different employment liabilities terms.	Tending to Option 2
ii.) Retain CLG status, charitable status and BBSRC as employer, but revise articles, memoranda and condition of grant document and allow more independence.	Variant of Option 4
iii.) Retain CLG status, convert institutes to exempt charities with BBSRC as principal regulator, allow Institutes more independence.	Variant of Option 4
iv.) Convert to a charitable incorporate organisation (CIO), a new legal form, which removes issues of compliance with company law.	Variant of Option 4
v.) Retain CLG status, drop charitable status and become subsidiary company of BBSRC.	Variant of Option 3
vi.) Drop CLG status and charitable status and become part of BBSRC.	Option 3

Option 1: Transfer assets to another body

Table 2: Option 1. Transfer assets to another body	
Main features	<p>Full or partial transfer of assets in furtherance of the charity's objects, probably to a university, a government department or, conceivably, another research council, possibly accompanied by dissolution of the charity.</p> <p>The new parent body would employ the staff and carry employment liabilities (or take over responsibilities for staff). It would also have to provide pension entitlements that met the government's Fair Deal for transferring public sector pensions.</p> <p>TUPE would apply if all staff were transferred to the new employer on Day 1. Transitional arrangements, not involving TUPE, might be possible.</p> <p>Governing bodies could become scientific advisory boards.</p> <p>Warwick HRI, now part of the University of Warwick, is a recent exemplar of a transfer to a university. The Committee knows of no recent example of an institute moving between government departments but, if appropriate, it is entirely possible.</p>
Costigan	No direct analogue. Could be seen as development of his Option i, but extended significantly.
BBSRC CE as Accounting Officer	No
Benefits	<p>Resolves the governance ambiguities with BBSRC.</p> <p>The BBSRC benefits by transferring future employment liabilities.</p> <p>Transfer to a leading university would enable access to a higher education environment, including students; adoption of a new culture; and new terms and conditions of employment aligned to those of university employees. It would also reduce the superstructure that institutes currently carry as independent CLGs and registered charities.</p> <p>Transfer to a government department might be appropriate where a national resource must be sustained.</p> <p>Institutes should benefit from the bigger operational scale of a university or government department, with capacity to smooth fluctuations in research income.</p>
Issues	<p>Transfer of charitable assets would require trustees to be satisfied that this furthered the objects of the charity.</p> <p>Winding up a charity requires assets to be disbursed in accordance with its governing documents.</p> <p>The BBSRC would lose strategic influence over the institute, but this could be mitigated by conditions applied to core or programme grant funding.</p> <p>Successful transfer agreements would depend on an equitable transfer of assets and liabilities.</p> <p>Mission drift as priorities changed under new parent body.</p> <p>Potential loss of national strategic capability.</p> <p>Great difficulty for a receiving body outside government to accept employment risks without indemnities.</p>
Transitional costs	Substantial, possibly including transfer of assets and liabilities.
Institutes' reaction	IAH mentioned a transfer to a government department as one option for its future. Other institutes are generally lukewarm, though one points to affinities with NERC and Scottish PSRIs engaged in sustainable land use and environmental research.

57. Although the transfer of assets from an institute to another organisation might appear simply to displace the governance conflict rather than resolve it, the process of transfer would inevitably provide a catalyst for cultural change, the refocusing of priorities, constitution, governance, employment terms and conditions.

58. An example of the possibilities of a transfer to a university is provided by the Defra/BBSRC transfer in 2004 of Horticulture Research International (HRI) to the University of Warwick, where it has become a department within the University. The new arrangements are still in transition. Block grants from Defra and BBSRC, which were negotiated as part of the transfer, are still protecting the institute from the full force of competitive funding from HEFCE, research councils and government. So it is rather too early to draw conclusions about success and sustainability.

59. There is also an opportunity to transfer an institute to another part of the public sector where it may be better placed to provide a national resource. Such transfers should be considered in the contexts of maintaining vital national strategic capabilities, and ensuring KT and science are available to support key public policy requirements.

Option 2: Full independence

Table 3: Option 2. Full independence.	
Main features	<p>Full independence as free-standing research institute – possibly as a CLG and a charity, but other possibilities exist, subject to compliance with charity law.</p> <p>The institute would employ the staff and carry employment liabilities, either progressively or after a one-off TUPE transfer. It would also have to provide pension entitlements that met the government’s Fair Deal for transferring public sector pensions.</p> <p>Would need a detailed transfer agreement, including the terms under which BBSRC would provide some security of funding.</p> <p>East Malling Research (EMR) and two NERC institutes - Plymouth Marine Laboratory (PML) and Scottish Association for Marine Science (SAMS), are recent exemplars.</p>
Costigan	A logical extension of his Option i, leading to transfer to the private sector.
BBSRC CE as Accounting Officer	Would continue until sufficient transfer of assets and liabilities had been completed to shift the balance of accountability to the independent institute.
Benefits	<p>Resolves the governance ambiguities.</p> <p>The BBSRC transfers employment liabilities.</p> <p>Full autonomy should encourage an entrepreneurial culture to evolve rapidly.</p>
Issues	<p>Was found not to be a realistic option in the Prior Options Review of 10 years ago.</p> <p>The BBSRC loses strategic influence over institute, but could mitigate this by applying conditions to core or programme grant funding.</p> <p>Likelihood of mission drift towards a commercial culture.</p> <p>Would require institutes and their governing bodies to demonstrate the appetite, resources and structures to take on all the risks and liabilities of this model.</p> <p>Trustees would have to carry out due diligence.</p> <p>Major concerns about institute size and sustainability.</p> <p>Major upheaval, legal complexity and possible short term disruption to research.</p>
Transitional costs	Substantial, possibly including transfer of assets and liabilities (but could be phased).
Institutes’ reaction	Generally considered to be a high risk trajectory. Babraham, alone, sees this as one possible way forward.

60. Option 2 is the logical conclusion of a process of progressively increasing institute independence and reducing BBSRC controls. As Costigan noted, there would be significant changes to the present BBSRC/institute relationship if, and when, institutes assume sufficient independence to put them outside the Accounting Officer responsibilities of the BBSRC Chief Executive. From this perspective, Option 2 may have attractions to BBSRC and government.

61. Under this Option the institutes would have the freedom to conduct their own affairs, although they would lose the safety net associated with access to a banker of last resort. The main risks for institutes would arise from increased, and eventually full, responsibility for employing staff, including contingent staff liabilities, and uncertainty about future funding from BBSRC.

62. In the past few years the NERC has gone down this path with two small institutes – the Plymouth Marine Laboratory (PML), with about 125 staff, and the Dunstaffnage Marine Laboratory, with some 80 staff. The latter was absorbed within the Scottish Association for Marine Sciences (SAMS) with which it shared its site and facilities. The reconstituted institutes were established partly as a deliberate effort to reduce the Council's exposure to risk. A new CLG was created for PML. SAMS was already a CLG with charitable status. The NERC transferred assets to the new entities under transfer agreements and is providing funding to both institutes for agreed core research programmes over four years. The grant is similar to a large research grant to a university and requires no additional management or scrutiny by the NERC.

63. New staff are employed by the institutes with less generous redundancy terms than residual NERC staff; already approximately half the staff at each location is employed by their institute.

64. Although still in the early stages, the PML is considered by NERC to have been a successful initiative. Though there is collaboration, it has as yet no formal links with the local University of Plymouth. SAMS has been independent for a longer period. It has borrowed at commercial rates to build new facilities and is associated in teaching and other activities with the emerging University of the Highlands and Islands.

65. Both institutes have developed robust governance arrangements appropriate to CLG status. The Chief Executive of the NERC is not responsible for the institutes' financial management. The governance of both institutes was commended by Costigan.

66. The PML and SAMS examples highlight the potential benefits of Option 2. But, as with the Warwick HRI exemplar, it is too early to draw conclusions on sustainability, particularly as the PML and SAMS operations are relatively small and it is unclear what would happen if financial turbulence were experienced. It is also unproven that these changes could be applied to BBSRC institutes with 300-500 staff.

67. As a variant of Option 2, some of the current BBSRC institutes could form a partnership or merge to create a single research provider with a potential annual turnover of £150m a year, and with credibility and authority in the areas of sustainable land use/food chain/ecology/environment. This idea gained little support in the review consultation, mainly because of worries about lack of brand, geographical spread and the different cultures and histories of institutes, all of which could be obstacles to merger or partnership.

Option 3. BBSRC direct control; free-standing or embedded institute

68. This model is adopted by several research councils, but most thoroughly by the Medical Research Council (MRC) for all its institutes and units. The exemplar is the Laboratory of Molecular Biology (LMB), one of the world's finest centres for research. Another example is the Clinical Science Centre (CSC), which is intimately embedded in the Hammersmith Hospital site of Imperial College (virtually all other small units are embedded in universities). The aim is to place the highest priority on the quality of the research and KT missions, with significantly less effort being devoted to administration and to developing a broad funding base to achieve sustainability.

69. Institutes and units are part of the MRC; they have no legal personality of their own. The MRC employs the staff, with a few historic exceptions, and provides the premises, either directly or by leasing. Because it is concerned about critical mass, the MRC believes that *'they are never big enough on their own'*. Consequently, current policy is to embed units and institutes in universities as opportunities arise, a policy illustrated by the relocated National Institute for Medical Research being embedded within University College London. Despite embedding CSC and most units in universities, the MRC carries all the risk, including contingent staff liabilities.

Table 4: Option 3. BBSRC direct control; free-standing or embedded institute	
Main features	Institutes wind themselves up to become part of the BBSRC (as many were in an earlier era). Redundant governing bodies could evolve into scientific advisory boards. The MRC model, especially LMB, is the exemplar. CSC, and soon NIMR, are moving towards the embedded model.
Costigan	Essentially Costigan Option vi.
BBSRC CE as Accounting Officer	Yes
Benefits	Governance ambiguities resolved. The BBSRC Accounting Officer can have full assurance. Institutes' sustainability secure as long as they meet a strategic BBSRC need. Institutes able to focus on science and so more attractive to potential leaders and to scientists. Back office transactions contracted to central Shared Support Centre (SSC). No need for potentially difficult employment transfers.
Issues	Transfer of charitable assets would require trustees to be satisfied that this furthered the objects of the charity. Winding up a charity would require assets to be disbursed in accordance with its governing documents. Loss of charitable status carries a financial cost (VAT, rates, possible loss of access to charitable research funding). Uncertainties about future of research income from non-BBSRC funders; institutes might be smaller than at present. Are governing bodies willing to surrender their autonomy? Does the BBSRC have sufficiently strong strategic needs to assume direct control and responsibility of some or all its institutes? BBSRC would need to apply strategic control. Consequences for the BBSRC Council and Executive. Would not, of itself, address employment liabilities.
Transitional costs	Could be modest if done progressively.
Institutes' reaction	Three institutes see this as an Option worthy of consideration, subject to learning much more about the details.

70. Funding is on a five yearly cycle, the quantum being determined by peer review of performance and each director's forward programme proposals. This funding arrangement effectively provides a built in sun-setting clause, which is invoked as circumstances require, particularly for units. Directors have great discretion in spending their allocation and most institutes (and units) focus upon a quality science mission, though a few also have a defined national strategic capability. The Human Nutrition Unit at Cambridge, which delivers services such as government diet surveys, is an example of a unit with strategic capability. The service element of its remit is recognised by the MRC. The Unit has appropriate performance targets and is assessed by a separate peer review mechanism for these functions.

71. MRC has chosen to be the dominant funder as a matter of policy. It believes this avoids mission drift and dilution of the quality of science that constitutes the key performance indicator for the director and the institute as a whole. Non-MRC funding is generally 10-20% (but higher in those units with a service role). The external funding is from medical charities, government departments, the EU and industry. Scientists have only recently benefited from reciprocal, but limited, access to BBSRC and other research council research grant schemes, but, as a matter of MRC policy, still do not have access to that Council's research grants. This simpler funding regime contrasts quantitatively with the plural funding streams that present a major challenge for BBSRC directors.

72. The model is widely perceived to be successful, not only in terms of the international acclaim of the scientific outputs and measures of esteem, including Nobel Prizes, but also in the attractiveness of its institutes and units to science leaders and to innovative scientific and clinical staff.

73. Up to the mid-1980s this model was common for agricultural research institutes. Of the current seven institutes, two were previously owned and directly controlled by AFRC. In today's different circumstances Option 3 has many attractions, most notably its focus on science, although its adoption by the BBSRC would present challenges for both the Council and institutes.

74. Taking (back) direct control of some, or all, the institutes would mean a significantly different role for the central structures of the BBSRC (although, of course, they exist in other research councils already), and for the relationship between the BBSRC Executive and the institutes. The BBSRC Office would have to be refocused, possibly with a senior scientist leading an intra-mural research programme team. It would also change the dynamics between the BBSRC and other stakeholders in ways that probably ought to influence the membership of Council itself.

75. A key to success would be commitment and central drive from the BBSRC. For an institute to be attractive to top quality staff the BBSRC would have to demonstrate that it was at least as committed to research excellence as is the MRC.

76. There would also be a number of significant technical and legal issues for institutes. These range from issues over the governing bodies and charitable assets to the challenges of balancing external and BBSRC funding. It would also be essential to protect the innovations already developed by the institutes; an example is Babraham Biosciences Technology Ltd, the wholly owned Babraham Institute KT subsidiary.

77. This reform overcomes the governance issues and, as the number of institutes potentially adopting this path is limited, it does not raise some of the strategic management issues raised by Costigan concerning MRC institutes and units. Employment would remain a responsibility of BBSRC and continue to be a risk, although the Council itself would have far greater control.

Option 4. Improve present arrangements

78. The Committee debated resolving the governance incompatibility through modest, evolutionary changes. The most obvious change would be to amend the institutes' Memoranda and Articles of Association, as recommended by the Charity Commission in 2004 to the Institute for Animal Health, to dilute the Council's formal influence in the institutes' affairs. Communication between the BBSRC Executive and governing bodies could also be improved by means of a number of simple measures and the relationship moved to one in which BBSRC focuses upon a strong strategic involvement in an institute's research programme and minimises other interventions.

79. Such improvements to the *status quo* might satisfy the Charity Commission’s immediate concerns about independence of trustees. In addition, separate moves to simplify and reduce the costs of the BBSRC’s complex redundancy procedures would address some of the concerns of institutes. It is clear from their responses to the review consultation that a majority of the institutes would go along with modest changes of this sort.

Table 5: Option 4. Improve present arrangements	
Main features	<p>Measures to reduce the problems with the present system by increasing transparency and clarity of governance, that might include:</p> <ol style="list-style-type: none"> i. Thorough revision of institutes’ Memoranda. & Articles of Association to remove or define more clearly BBSRC powers. ii. BBSRC strategic management to dominate over tactical processes. iii. Strengthen governing body by seeking to allow remuneration, at least of key members. iv. Addressing the key issue of employment liabilities (perhaps over an extended period). v. Addressing the pros and cons of charitable status. <p>If so extended by iv and v, this option would progressively begin to take on some of the features of Option 2, though the fundamental tension in governance would remain as long as BBSRC remained publicly accountable for the institutes.</p>
Costigan	Maps on to Costigan’s Options ii, iii & iv. Essentially, institutes gain increased autonomy, but still are within BBSRC control.
BBSRC CE as Accounting Officer	Yes
Benefits	<p>Improved communication, documentation and practice, makes existing arrangements work better.</p> <p>If employment practices were altered progressively then the change would become significant, but only over time.</p> <p>Back office transactions contracted to central Shared Support Centre (SSC).</p>
Issues	<p>Fails to address the fundamental incompatibility in the system between the responsibilities of the BBSRC and of independent institutes.</p> <p>May not alleviate Charity Commission’s general concerns about independence of trustees.</p> <p>Payment of governing body members unlikely under present charity law or the Charities Bill.</p> <p>Does not address many aspects of the modernisation agenda.</p> <p>In most cases it leaves an institute as vulnerable as at present.</p>
Transitional costs	Modest.
Institutes’ reaction	The favoured option of four of the institutes as well as the JNCC TUS, who favour minimal change.

80. However, all variants of Option 4 fail to solve the incompatibility between BBSRC as employer of the staff, banker of last resort and quasi-regulator and the institutes as autonomous bodies. The Committee believes it would be an inadequate BBSRC response to the OSI in the light of Costigan’s conclusions and it would mean that the Council was avoiding the wider challenges facing institutes and their role in the 21st Century British science base.

D. OTHER ISSUES AND CONSTRAINTS

81. Charitable status (with its associated tax benefits), and the staff redundancy process and its costs, are two cross-cutting issues that arose frequently during the review. Both represent constraints on options for change and improvement.

a.) Charitable status

82. Charitable status, which all seven institutes enjoy, provides tangible benefits, principally:

- 80% mandatory business rate relief;
- some benefits to payments and recovery of VAT, notably on new buildings with less than 10% business use;
- profits from non-charitable subsidiaries can be transferred free of corporation tax; and
- exemption from climate change levy on buildings (if less than 40% business use).

83. In addition, institutes derive non-tangible, reputational advantages from charitable status that some would be reluctant to lose.

84. Regarding tax benefits and rate relief, Costigan estimated that institutes saved at least £2.3m, but probably less than £5m a year. Furthermore, VAT exemption on new buildings could save the BBSRC (as principal funder) and institutes 17.5% on a capital programme of £200m over the next 10 years.

85. Simply saving money is not, however, a compelling reason for retaining charitable status with its inevitable governance burden. And the savings to institutes and the BBSRC are costs to other parts of central and local government. As Costigan pointed out, fully funding BBSRC institutes and removing these taxation benefits would be fiscally neutral at national government level. A policy decision by central Government departments (notably the Treasury) could lead to full funding of institutes at no net cost to Government, removing the somewhat artificial financial case for charitable status and thus one of the constraints on improving governance. The BBSRC Executive believes the prospects of achieving this are poor, but a sustained effort, especially when led by the OSI and DTI, could be successful.

86. Despite its financial and non-tangible benefits, charitable status can be a real obstacle to good governance, as already noted by Costigan. If the institutes were to remain as independent CLGs (Options 2 and 4), charitable status would continue to prohibit the payment of fees to governing body members (company directors) thereby frustrating the need to strengthen the mix of skills and experience on their boards.

87. Equally, as direct BBSRC control would be incompatible with the duties of trustees, Option 3 could only proceed if institutes relinquished their charitable status or reduced their charitable activities to a minimum. Charitable assets could be transferred to similar charities, which already exist in the case of at least two of the institutes, or to other organisations that could maintain the original charitable objects. If not modified one way or another, existing charitable status could block the full realisation of both Options 2 and 3.

88. The Charity Commission's informal view is that they agree with Costigan that there is a fundamental tension in the governance arrangements and they welcome this review. They doubt if Option 4 would resolve the tension and believe that all the other three options are feasible, albeit with many legal complexities. They support the need for strong

governance and stand ready to advise and help individual institutes in any change process. As regulators, conformity with charity law is their prime concern.

89. The Charities Bill, currently before Parliament and with Royal Assent expected in the autumn, is unlikely to change the situation much as far as large charities like the institutes are concerned. In particular, the suggested option of exempt charity status for the institutes appears not to be possible. Existing registered charities such as the institutes are not able to become exempt charities. And the Bill specifies only a few regulators of exempt charities, not including the BBSRC. Nor does it seem that Charitable Incorporated Organisation (CIO) status offer any resolution of the current governance tension.

90. The Charity Commission stress it is the responsibility of the trustees to ensure that any changes are in the best interest of their charity and to undertake their own due diligence on any proposals for changes, including seeking the necessary advice from professionals and the Commission itself.

b.) Employment (redundancy) liabilities

91. The Council's provisions for employee redundancy in its standard employment terms and conditions cannot be divorced from considerations of governance since:

- managing the risk of redundancy costs is at the root of present BBSRC controls on institutes and, consequently, the ambiguities in governance;
- redundancy costs impose a large financial burden on institutes, who have to pay some, or all, of the costs, thus discouraging necessary internal restructuring and even threatening longer-term sustainability;
- it is difficult to rebalance the pattern of expenditure both between staff and other costs, and between categories of staff. This seriously impedes many aspects of modernisation and discourages decisive action by management to increase efficiency and maximise agility; and
- the prospect of possible large redundancy payments equally discourages staff turnover, contributing to reduced institutional agility and flexibility.

92. Redundancy terms have been an issue for many years. The cost of benefits is high and the procedures are complex and time consuming. Employment liabilities were identified by Costigan as an important constraint in present arrangements, and it appears that institutes are generally in favour of change, as is the BBSRC, though the TUS JNCC argued against any changes.

93. The benefits of reforming present redundancy terms are considerable, principally:

- facilitating modernisation and culture change at institutes;
- altering the balance of staff costs thus allowing resources to be shifted to areas of most need; and
- reducing the BBSRC's exposure to risk.

94. For Options 1 and 2, changes to terms and conditions would almost certainly flow from a change of employer, subject to the provisions of TUPE.

95. The Committee believes that renegotiated redundancy terms should also form an essential element of Options 3 and 4, both of which involve the BBSRC continuing to employ staff. Provided that that new employment arrangements continued to be under public pay control, staff could have continuing access to the BBSRC pension scheme.

96. However renegotiated redundancy terms should not be regarded as a panacea. Subject to negotiation with the trades unions, the overall costs to BBSRC and institutes should be less than at present, though the pace at which the changes could be introduced would be a key issue in the negotiations. Reform of present arrangements is a prudent action by a responsible custodian of public funds, rather than the solution to all institutes' staffing and financial problems. Redundancies could still occur and the costs, albeit on a reduced scale, would have to be met.

E. COMPARING THE OPTIONS & RECOMMENDATIONS

a.) Comparing the options

97. Table 6 summarises the consequences of each of the four options on some of the main elements of governance. The Committee’s main conclusion is that Options 1, 2 and 3 each offer means of resolving the underlying governance incompatibility. Option 4, on the other hand, may ameliorate the conflict, but would not resolve it.

Table 6: Comparing the options				
	1. Transfer assets to another body	2. Greater independence	3. Direct BBSRC control	4. Improve present arrangements
CLG	Change to new parent body’s structure	Possibly retain	No	Retain
Charity	Optional	Optional	No	Retain
Employer of staff	New parent body	Institute	BBSRC	BBSRC
Renegotiate redundancy terms?	Yes	Yes	BBSRC must address the issue anyway	BBSRC must address the issue anyway
BBSRC banker of last resort?	No	No	Yes	Yes
Resolves governance incompatibility?	Yes	Yes	Yes	No

98. Reflecting the importance of the wider perspective, the Committee also compared each of the four options against its seven priorities (paras. 43-49), with the following conclusions.

Option 1

99. The merits of this Option and its potential to improve the situation of an institute very much depend on the mission, values and policies of the new parent body. A move to a university would be very different, for example, from one in which government decided its national priorities required a reorganisation of the existing scientific arrangements. Institutional development and sustainability should improve under the right parent body. Attractiveness to existing staff, as well as to future recruits, would be a very important issue. A new parent body would have to demonstrate a commitment to an institute’s corporate and individual scientific values and offer a vision of the future that staff would support. Charitable assets would have to be identified and maintained, and used only in pursuit of the original charitable objects.

Option 2

100. The NERC’s experience with PML and SAMS suggests that, given willing parties, this Option could be implemented relatively easily. After negotiation, the BBSRC would transfer staff and associated assets and liabilities to an institute by means of a transfer agreement. A research funding agreement would provide the independent institute with medium-term assurances about income. Whether the position would be sustainable would depend on the vision and energy of the governing body and institute executive. The Option has potential to improve performance against the seven priorities, though problems of small size would

remain. Streamlining of administrative structures and culture change would probably be essential for survival. Overall, this is a higher risk option, but one with potential prizes for a self-confident institute.

Option 3

101. This Option offers real potential for improving the focus upon science and KT, as well as improving sustainability. It would resolve the governance incompatibility and, through direct BBSRC control, should allow a great simplification of administration and place a greater priority upon the science, making the institute more attractive to leaders and to outstanding young scientists. This is the potential prize, but such improvements will not happen of their own accord. A programme of change would be an essential. There would be an impact on the culture and business systems of the BBSRC and of Council itself. A prerequisite of this Option would be that the BBSRC first determines which institutes it deems are genuinely essential to the delivery of its own mission and the government's science and innovation agenda.

Option 4

102. As already stated, this Option has potential for improving governance to a degree but, crucially, the fundamental incompatibility would remain. Furthermore, it offers little prospect of improving the present situation of the institutes, or of increasing performance against the Committee's seven priorities.

b.) Recommendations

103. This review recommends that the BBSRC Council address the issues in a structured manner by:

- First revisiting, in a light touch fashion, the overall current strategy for delivering science in the areas covered by the institutes.
- Reviewing the need for each institute in terms of delivering the Council's mission, to determine in principle:
 - which institutes are so important to the Council's mission that they must be brought under direct BBSRC control;
 - which could be candidates for transfer to another body; and
 - which might be offered independence.
- Considering options and drawing up plans for each institute in consultation with governing bodies and in accordance with prevailing charity legislation.
- Where appropriate, setting objectives and timetables for the renegotiation of BBSRC employment terms and conditions, with a view to reforming redundancy procedures and costs.

104. The Committee is mindful of the potential for this Review to destabilise current arrangements and, therefore, urges the BBSRC to address the issues expeditiously.

105. The Committee considers that this Review offers the opportunity to improve the quality and the sustainability of the institutes significantly, and to reflect the many changes that have occurred elsewhere in the science base. But they do believe that a bold response will be needed by BBSRC to gain these really significant improvements. Modest measures, some of which have been outlined in this review, will not resolve the fundamental governance conflict identified by Costigan. Nor are they likely to make much impact on the inherent administrative complexity of the system, or improve the medium-long term sustainability of the institutes, let alone make them deeply attractive to scientists.

September 2006

BBSRC-sponsored institutes*Rothamsted Research Ltd (RRes). 530 staff⁶*

Tracing its origins back more than 160 years ago, RRes is a CLG with charitable status. The Lawes Agricultural Trust (LAT) has a single trustee, LAT Company Limited (LATCo) which is also a charitable CLG. LATCo owns the land and buildings, which RRes utilises under licence. LAT has a subsidiary charity, Rothamsted International, and a subsidiary holding company with two constituent companies; a property/conference company and an international consultancy company. Until 1989 the RRes predecessor was a component of LAT. Trustee-directors of the RRes governing body are nominated by LATCo, BBSRC, the National Farmer's Union and SEERAD. Trustee-directors of LATCo are appointed with the advice of the Royal Society. All the staff working for LATCo, its constituent charities and companies are BBSRC employees.

Institute for Animal Health (IAH). 508 staff

CLG with charitable status. Staff are BBSRC employees. Governing Body members nominated by BBSRC. Land and buildings are owned by BBSRC.

John Innes Centre (JIC). 474 staff

CLG with Charitable Status. Staff are JIC employees, but JIC agrees to abide by BBSRC terms and conditions and staff code. Governing body members nominated by the BBSRC and the John Innes Foundation (JIF - a separate charity). Land owned by JIF and leased at a peppercorn rent. Assets were gifted from JIF to JIC in 1994.

Babraham Institute. 362 staff

CLG with charitable status. Staff are BBSRC employees. Land and buildings owned by BBSRC. Governing Body Chairman, (but not members) nominated by BBSRC. Wholly-owned subsidiary company, Babraham Bioscience Technologies Ltd, with 12 staff, who are not BBSRC employees.

Institute of Grassland and Environmental Research (IGER). 330 staff

CLG with charitable status. Staff are BBSRC employees. Governing Body members nominated by BBSRC. Some land and buildings are owned by BBSRC and others by the University of Aberystwyth.

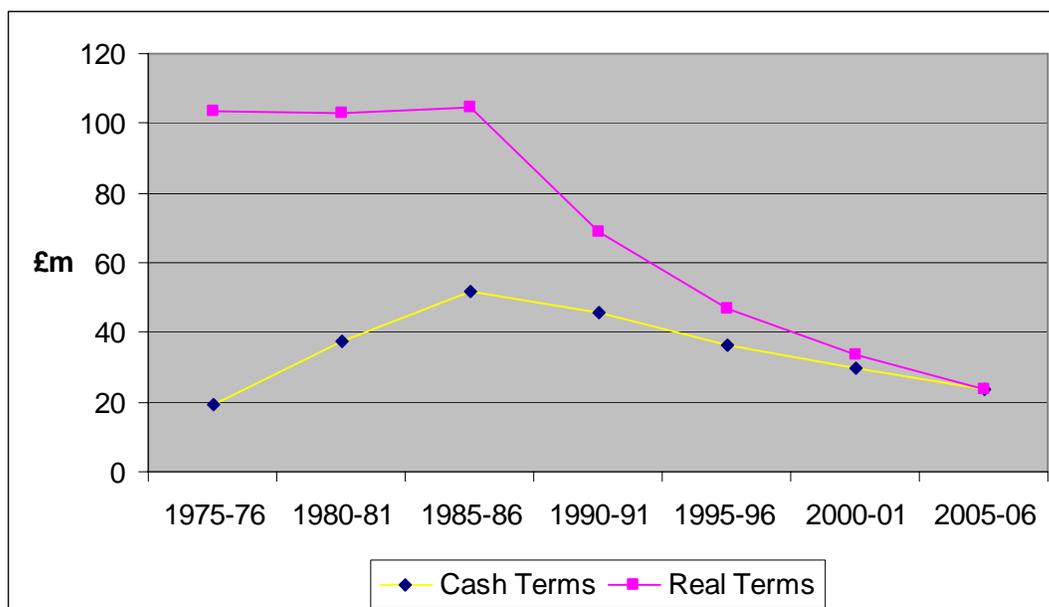
Institute of Food Research (IFR). 275 staff

CLG with charitable status. Staff are BBSRC employees. Land and buildings owned by BBSRC. Governing Body members nominated by BBSRC.

Roslin Institute (RI). 227 staff

CLG with charitable status (under Scottish law). Staff are BBSRC employees. Land and buildings owned by BBSRC. Governing Body members nominated by BBSRC.

⁶ All staff numbers are on 1 April 2005 and exclude postgraduate students and visiting workers.

Defra Funding of BBSRC Institutes 1974 to 2006

Source: BBSRC April 2006

Institute funding: 2005-06 (£k)

Institute	BBSRC CSG and grants	Defra/FSA	Other research income	Other income, e g services	TOTAL REVENUE INCOME	BBSRC Capital
Animal Health & Welfare						
IAH	12,892	7,991	4,422	6,812	32,117	7,341
RI	6,665	1,205	3,619	1,629	13,118	421
Total	19,557	9,196	8,041	8,441	42,235	7,762
Biomedical & Food						
BI	13,576	0	2,747	3,725	20,048	1,834
IFR	11,086	1,801	2,227	677	15,791	807
Total	24,662	1,801	4,974	4,402	35,839	2,641
Sustainable Agriculture & Land Use						
IGER	5,800	7,128	2,990	1,551	17,469	1,437
JIC	17,501	1,024	2,712	2,923	24,160	4,271
RRES	14,851	5,108	4,054	1,379	25,392	3,150
Total	38,152	13,260	9,756	5,853	67,021	8,858
SRI*	2,805	102	526	428	3,861	185
TOTAL	85,176	24,359	23,297	19,124	151,956	19,446
* Closed 31 March 2006						

Source: BBSRC Annual Report 2005-2006

Membership of the Independent Review Committee

Sir Brian Follett (<i>Chairman</i>)	Chair, Training and Development Agency for Schools; Chairman of the Arts and Humanities Research Council; Department of Zoology, University of Oxford
Mr Alan Barber	Chair, Institute for Animal Health Audit Committee
Sir John Beringer	Chair, John Innes Centre Governing Body
Dr John Brown	Chair, Roslin Institute Governing Body
Professor Robert Freedman	Member of BBSRC Council and Audit Board
Mr Paul Greaves	Head of Assurance, HEFCE
Mr Ray Harris	Head, Research Councils' Internal Audit Service
Mr David Holmes	Formerly Registrar, University of Oxford
Dr Tracy Long	Boardroom Review
<i>Independent consultant</i> Dr Brian Jamieson	
<i>Secretariat</i>	
Dr Kathryn Turton	BBSRC Executive

Consultation with stakeholders

The consultation phase

As part of the consultation processes, the Chairman and independent consultant met BBSRC Council, members of institutes' governing bodies, the institute directors, OSI, senior Defra officials and the JNCC Trade Union Side. In addition, the Chairman and independent consultant separately consulted 14 individuals. The independent consultant also had an informal meeting with the Charity Commission.

More formally, the review's terms of reference asked for a broad stakeholder consultation. At the end of May the consultation document⁷ was circulated to approximately 35 organisations, including all seven institutes. A copy was also put on the BBSRC website to widen participation.

In the event 28 responses were received (see **Table 2**). The provenance of the responses was as follows.

BBSRC sponsored institutes	7
Universities	4
Government departments	4
Research councils	3
HEFCE	1
Individuals	5
JNCC TUS	1
BBSRC Executive	1
Anonymous	2
Total	28

Key messages from the consultation

The responses show a considerable degree of support for the context, analysis and range of options set out in the consultation document. The main messages were:

- Very little disagreement with, or additions to, the account of the background and context of the present relationship between the BBSRC and institutes.
- Some concern, nevertheless, that the distinctive national strategic role of institutes has been underplayed by the Committee.
- A range of views within the seven institutes whether present governance arrangements are workable from an institute perspective.
- Surprisingly little recognition of the imperatives the BBSRC faces as employer and banker of last resort, and the governance conflicts therein.
- Strong views that the BBSRC should determine the purpose and role of each institute prior to addressing governance options.

⁷ Available at http://www.bbsrc.ac.uk/society/dialogue/consultations/institutes/institute_consultation.pdf

- General agreement with the Committee's range of options for change, though closure was mentioned as another option by a few respondents.
- Little evidence of an appetite for risk in the institutes, with most favouring improvements to the *status quo* and/or moves towards direct BBSRC control.
- Conflicting views on the importance of continuing charitable status, with its tax benefits. Some respondents believe it is an impediment to simpler governance, others suggested that exempt charity status might be an improvement, highlighting the need for professional advice.
- A strong current of opinion in favour of changing terms and conditions of new staff to bring redundancy procedure and costs more in line with universities and other competitors in the research market.

Table 2: Respondent	
1	James Cook
2	JNCC Trade Union Side
3	Institute of Grassland and Environmental Research
4	Anonymous
5	Dr Pat Nuttall
6	Medical Research Council
7	Dr Debby Reynolds, (Chief Veterinary Officer, Defra)
8	University of Warwick
9	Babraham Institute
10	John Innes Centre
11	Sir Don Curry (Sustainable Farming and Food Delivery Group, Defra)
12	Anonymous
13	Welsh Assembly Government
14	Professor Grahame Bulfield
15	Higher Education Funding Council for England
16	Roslin Institute
17	BBSRC Executive
18	University of Edinburgh
19	Natural Environment Research Council
20	Sir Tom Blundell FRS
21	University of Wales Aberystwyth
22	Council for the Central Laboratory of the Research Councils
23	Defra
24	Institute of Food Research
25	University of East Anglia
26	Rothamsted Research
27	Stewart Jamieson
28	Institute for Animal Research

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