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5 December 2012

AgResearch – Advice and support for the Future Footprint Business case

This letter summarises PwC's advice and support of the Future Footprint (FFP) Business case for AgResearch, as per our Letter of Engagement, agreed on 15 November 2012.

Background and Purpose

AgResearch carries out agricultural scientific activities around New Zealand, producing research and new products for farmers and horticulturalists. AgResearch employs many staff and accommodates these staff in multiple sites across New Zealand.

The FFP Business Case (the Business Case) is focussed on getting better value for money through the sale of lower performing assets with the associated potential to reinvest and realign your business. The ultimate aim of this process is to deliver better science outcomes with resultant economic benefits to New Zealand.

AgResearch prepared a Business Case to submit to the Minister (through COMU and MBIE) to gain approval to proceed with the FFP project. AgResearch engaged PwC to provide advice and support in regards to the Business Case development to provide a compelling case for the FFP project to proceed, particularly from the perspective of government officials.

This letter provides a summary of our work undertaken and key areas of advice.

Scope

Our role was not to develop the Business Case but to critique the approach and challenge the findings in advance to enable AgResearch to produce as robust a case as possible.

PwC were asked to provide advice and support to AgResearch in relation to the development of the Business Case and the submission to the Minister (through COMU and MBIE).

We took many perspectives in our aim to provide you with broad feedback and improvements that could be made to the Business Case (e.g. financial, ministerial, strategic lenses). The objective was to provide comprehensive views of how the Business Case would be interpreted by Ministers and other parties involved.

We assessed the Business Case in line with best practice as outlined by the Treasury Better Business Cases approach in terms of:





- scope – does the Business Case cover the areas we would expect it to cover and is the plan to achieve the timeline robust?
- content – is the analysis at a level of detail and robustness we would expect to see given the nature of the project and best practice?
- future focus – given the Business Case will lead to a business transformation, does it provide a sound basis to take the transformation forward in your organisation and have the implications of the transformation been fully considered in its management plan and costs identified?

We also provided advice and insight in relation to:

- how the overall logic of the need was defined
- how the Business Case will be viewed from a ministerial perspective when assessing competing options
- how the overall document flowed, including each of the five cases and whether they contributed and supported the same overall logic
- how the Strategic Case aligns with the organisation's key objectives and purpose and SOI documents
- the Economic Case articulating the benefits and that these benefits are identified as being the interest of AgResearch and the Crown
- the Financial and Commercial Cases delivering the required detail and accuracy to stand up to the rigor expected from government officials for similar business cases we have been involved with
- how the financial model, prepared to support the Business Case, follows best practice financial modelling and that the calculations are appropriately used. We used certain procedures to assess the financial model and reported these results to you. See the Financial Case section of the Summary of our advice and support for more detail.

Approach

PwC provided an experienced team to this assignment, spanning several areas of expertise. This meant that we were able to review the five cases with people experienced in writing those cases, as well as an overall evaluation of the Business Case to assess whether it included all of the required areas and flowed well.

Our approach to this assignment included:

- initial phone calls to discuss our approach
- phone calls and meetings with various AgResearch staff involve in the Business Case development to understand to context of the Business Case
- a high level assessment of the initial Business Case drafts, focussing on structure, flow and key requirements
- more detailed assessments of each of the five cases
- an assessment of the financial models underpinning the financial analysis (see Financial Case)
- follow-up assessments of the Business Case and financial models
- discussion with AgResearch staff to feedback the findings of our assessments
- a 'policy writer' edit by a former Steven Joyce advisor.



Summary of our advice and support

Overall structure, flow and language

The approach taken of reviewing the structure, flow and language was to consider what Ministers would be looking for when they reviewed the Business Case. The advice we gave was all editorial suggestions as opposed to content provision as this was all provided by AgResearch.

Based on our review and input, we have the following commentary over the final draft Business Case:

Strategic Case

The Strategic Case is suitably detailed for the Business Case. Suggestions we made were largely structural adjustments to improve the flow and language adjustments to suit a ministerial perspective.

We also discussed potential strategies around a solid asset management case backed up by wider economic benefits.

Economic Case

We felt the benefits identified, in particular the efficiency gains from consolidation of staff into fewer premises, were well articulated and supported the overall flow into the Financial Case. Our advice was centred on keeping these benefits qualitative, rather than trying to quantify these benefits in monetary terms and compare against any additional investment needed.

We also provided some support as AgResearch staff sought to quantify the benefits of clustering and improved science output. The references assembled by AgResearch in this area are appropriate and balanced, albeit in a limited field of research.

Financial Case

We carried out certain testing procedures in relation to the financial models that underpin the Business Case (refer to Appendix B for a summary of the testing performed and what was considered out of scope).

We reported the results to you of our testing throughout the project. Overall, none of the findings from our testing suggested that the overall conclusion of the Business Case from a financial analysis perspective is materially unreasonable.

We also reviewed the overall Financial Case as documented in the Business Case. We provided a range of comments and feedback to you during the development process, including in relation to sensitivity analysis and supporting key assumptions. Overall the Financial Case flowed well and appeared to have an appropriate level of detail to support its assumptions and findings.

Please refer to Appendix B for the limitations of our analysis in relation to the Financial Case.

Commercial Case

Overall, we were comfortable that the focus of the Commercial Case on demonstrating feasibility of procurement and achieving a certain level of consideration for the sale of surplus campuses was reasonable. We focussed on considering whether the focus and articulation of the Commercial Case was robust. We did not assess the underlying substance of the analysis underpinning the Commercial Case, but do note that AgResearch employed external professional consultants to assist in developing the Commercial Case assumptions.



Management Case

We discussed the implementation plans with your team and it is clear that these are logical and follow an appropriate sequence for this stage of the Business Case. The extent of transformation change and implications on future operating and business models for AgResearch have largely been excluded as this Business Case fundamentally deals with property change.

In the future the wider operational implications should be considered and if there are fundamental new operating models, these would need to be considered by your management team. To define and then undertake the extent of organisational change proposed within the business case there will be a need to clearly identify and map the actual realisation of the business case benefits. This will require a comprehensive and robust transformation approach. The current Project Management approach and change techniques, such as the Kotters model will need to be revisited we believe, in order to develop an approach that encompasses all of the implications and activities that are needed to achieve the transformation to the Future Footprint.

Overarching comments

Overall, through a well worked initial document, and through collaboration and incorporation of our feedback, the Business Case was robust, logical, and coherent and provided a strong case for the FFP option.

The Business Case clearly defined the problem AgResearch was facing, the options they had, how they arrived at their preferred decisions, limitations of the analysis, risks involved in proceeding with the preferred option, sensitivities of key assumptions which could vary the outcome of the preferred option significantly and identified appropriate mitigation factors to limit these risks.

Overall, we felt the Business Case was well positioned for the intended audience and address the requirements of the Treasury's Better Business Case Guidelines. The five cases were well informed, based on the information available and suitable for the nature, and context, for the problem and the FFP project being considered. The language and flow of the document allowed for the key points to stand out and provided a fluent story for the reader to follow.

As we have said above in the Management case, the level of planning around the details to achieve this magnitude of change and the robustness of the transformational approach to be applied will need to be considered as an early activity post the business case being approved.

Limitations of our advice and support

We relied upon AgResearch that information presented in the Business Case was accurate and came from a reliable source. We did not verify this information from source documents, including assumptions underpinning the financial analysis, nor did we challenge the reasonableness of this information.



Disclaimer

This Business Case assessment has been prepared solely for AgResearch and is not to be distributed to other parties without the written consent of PwC. This letter has been prepared solely for the purpose set out in this letter and should not be relied upon for any other purpose.

To the fullest extent permitted by law, PwC accepts no duty of care to any third party in connection with the provision of this letter and/or any related information or explanation (together, the "Information"). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

The engagement has been conducted with care and diligence and the statements and opinions in this letter are given in good faith and in the belief on reasonable grounds that such statements and opinions are not false or misleading. In conducting this engagement, we have relied on the data and information provided by AgResearch as being complete and accurate at the time it was given. The views expressed in this letter represent our independent consideration and assessment of the information provided.

No responsibility arising in any way for errors or omissions (including responsibility to any person for negligence) is assumed by us or any of our partners or employees for the preparation of this letter to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in this letter or assumptions reasonably taken as implicit.

We reserve the right, but are under no obligation, to revise or amend this letter if any additional information which exists at the date of this letter, but was not drawn to our attention during its preparation, subsequently comes to light.

This letter is issued pursuant to the terms and conditions set out in the Letter of Engagement agreed on 15 November 2012.



Once again, thank you for the opportunity to assist you in this project. We are more than happy to clarify or further discuss any points raised here.

We realise that you face a challenge in the near future as the Future Footprint transformation process begins. This will be by no means an easy task. We have been involved in a wide range of business transformations recently and would welcome the opportunity to assist you through this process.

Yours sincerely

A handwritten signature in black ink, appearing to be 'GD'.

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A handwritten signature in black ink, appearing to be 'Chris Money'.

Chris Money
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Appendix A – Letter of Engagement

Andrew McSweeney
Shared Services Director
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5 October 2012

Review and Assistance with AgResearch Business Case

Dear Andrew

Thank you for the opportunity to discuss with you and Simon Lovatt the potential to assist AgResearch with your business cases.

You have been working since November 2011 on your Future Footprint Project and the Minister is now requesting a business case completed by October 2012.

This business case is focussed on getting better value for money through the sale of some lower performing assets with the associated potential to reinvest in order to realign your business. The ultimate aim of this process is to deliver better science outcomes.

Our understanding is that you are seeking to progress a single stage business case and that you will be confirming this with your monitoring agencies.

Our services

You are looking for PwC to provide you with advice and support as you progress your business case and we will provide quality assurance on your deliverables.

We will assess the business case in line with best practice as outlined by the Treasury Better Business Cases approach in terms of:

- Scope – does the business case cover the areas we would expect it to cover and is the plan to achieve the timeline robust?
- Content – is the analysis at a level we would expect to see given the nature of the project and best practice?
- Future focus – given the business case will lead to a business transformation, does it provide you with a sound basis to take the transformation forward in your organisation



We will also review of your financial modelling that you undertake as part of the business case development. We will agree upon certain procedures for us to perform and we will report the result of these procedures to you.

We will also be available to provide assistance and advice in relation to the financial case and the underpinning financial analysis if required.

We will not provide formal financial assurance as to the accuracy and completeness or otherwise of any financial models involved in this assignment.

We will provide these services in a timeframe mutually agreed within your project plan. We note there are certain restrictions to the financial modelling aspects of this assignment. These are documented as an appendix of this LoE.

Our people

Chris Money (Director) will undertake the services and will be your primary point of contact.

Grant Dennis will be Engagement Partner for this assignment and undertake quality assurance over the business case.

9(2)(a) will oversee the financial model and financial case review, assisted by 9(2)(a)
9(2)(a)

Fees

We propose that this work be undertaken on a time and expense basis.

9(2)(b)(ii)

The

proposed fees are as follows:

PWC Hourly Rates (GST excl)	
Partner	\$ 9(2)(b)(ii)
Director	\$
Associate Director	\$
Analyst	\$

Any specific disbursements such as travel (local or otherwise) and accommodation will be charged in addition.

We are anticipating that most of this work can be undertaken in Wellington based on documents sent to us, however there will be a need to spend some time in Christchurch or Hamilton with the team on the initial review activities.

Our fees will be invoiced fortnightly and our invoices are due for payment within 14 days of invoice date.



Standard Terms of Business

The Terms of Business attached to this letter set out the obligations and duties of each party in respect of the Engagement. The Terms of Business provide that, amongst other things, you will indemnify us against claims brought by any third party. The Terms of Business also exclude our liability in certain circumstances and in other circumstances limit our aggregate liability whether in contract, tort or otherwise to a maximum amount of five times fees paid.

This letter and the Terms of Business comprise the entire agreement (the Contract) for the Engagement to the exclusion of any other express or implied term, whether expressed orally or in writing, including any conditions, warranties and representations. The Contract shall supersede all previous letters of engagement, undertakings, agreements and correspondence regarding the Engagement. The Terms of Business should, therefore, be read in full.

The Terms of Business will also apply to any work which we subsequently carry out which arises out of this assignment.

Once again, thank you for the opportunity to discuss this project. I am more than happy to clarify or further discuss any points raised here.

Yours sincerely

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Appendix B – Assessment in relation to the financial models underpinning the Business Case

Our procedures included assessing:

- Hard-coded figures in the SCI model agree to the SCI document
- All formulas and calculations across the analysis period for accuracy and appropriateness
- All formulas and calculations across all the models for consistency and appropriateness in the context of the scenario
- The mathematical reliability of the output of the models
- Documented assumptions match the corresponding inputs
- At a broad level, the accounting treatment used in the models.

Our review did not include the following:

- Agreeing scenario and model assumptions to source data
- Assessing the validity or reasonableness of the assumptions
- An assessment of the appropriateness of the tax treatment (i.e. we did not consult our tax team)
- An assessment of fixed asset calculations (sales, write downs, revaluations etc.) treatment due to lack of detailed information in the models
- A review of the commercial rationale for the proposed Business Case being costed, other than the relative cost calculation produced by the models.

Restrictions in relation to our procedures

- We give no assurance that the Model reflects the anticipated commercial conditions
- We make no comment on the commercial rationale for the proposed business case being modelled.
- Our work does not include any work in the nature of a financial audit and we did not verify any of the assets or liabilities involved.
- We make no comment on the validity or reasonableness of the assumptions, and expressed no opinion as to how closely the results actually achieved will compare with the projections in the Model.
- We did not review the projections produced by the Model, or make any comment in any form on the outputs produced by the Model, other than to confirm that the outputs generated by the Model appear to be consistent with the input assumptions for the input assumptions considered.
- Where undocumented assumptions (either numerical or logical) are contained within the Model, which we would not expect, or have not found to be documented elsewhere, we relied upon AgResearch to confirm the accuracy and validity of these values or logic, through written responses provided to certain issues raised in the course of our work.
- It is not practicable to test a spreadsheet model to an extent whereby it can be guaranteed that all errors have been detected and accordingly we will give no such guarantee.