

From David Sterling
Date: November 2012
To: SMT

BIOSCIENCE AND TECHNOLOGY INSTITUTE (BTI)

Introduction

1. SMT members will all have received a summary of the recommendations flowing out of the PAC hearing on the Bioscience and Technology Institute, and the Department's and DFP's response to those recommendations, and have been asked to bring the lessons learned to the attention of staff in their areas. Recommendation 14 of the Report specifically references leadership and management culture and is therefore of particular interest to the SMT Group.
2. A summary of the background to the actual initiative is set out below:-

Background

The Bioscience and Technology Institute Ltd (BTI) was established in 1998 with the primary objective of providing biotechnology incubator facilities through the development of a specialist building at Belfast City Hospital. The company was funded by a combination of public funds and debt. BTI received public funds of approximately £2.2 million over the period 1999 to 2002 from the Department; from two of its affiliated bodies (the Industrial Development Board and the Industrial Research Technology Unit); and from the International Fund for Ireland.

It was the company's original expectation that Belfast City Hospital would provide a site in its grounds free of charge, on which BTI would construct business premises. In the event, the premises were not built at that location and, in 2001, the company acquired the Harbourgate building, in respect of which it paid a "finder's fee" of £100,000 to a firm of Belfast solicitors. Investigations have revealed that the finder's fee was subsequently disbursed to others, including Teresa Townsley, a director of BTI.

The Institute effectively never operated as the Harbourgate building was unsuitable and would have required to be upgraded at a cost of potentially £4m. The project was therefore never adequately funded or managed from the outset. The Harbourgate building cost £5 million, payable to a developer. The building was subsequently sold, in 2005, by the Ulster Bank for £4.55 million. The latter sum was used, in that year, to satisfy the Bank's debt and partly redeem one other secured debt.

Invest NI and DETI decision making and monitoring did not follow the processes that had been established within the organisations for the assessment, approval, consideration and approval of material changes, payment of grant, or monitoring of the project.

Public funds of £2.2m were lost with little return in terms of economic value.

3. There were a number of specific issues in the case:-

Guidelines were in place for processes such as project appraisal and approval, project monitoring and payment of claims but were not always applied. For example, projects put forward by promoters should be appraised by the funding body. In this case, the procurement of the consultancy firm that appraised the project was handled by BTI.

Funding was offered to the BTI project despite it not having a well developed and comprehensive business plan. There were also significant uncertainties about the project particularly in relation to the sources of funding. Similar issues arose in the Valence Technology project which was also the subject of a PAC hearing.

The funding bodies included conditions in their Letters of Offer to mitigate the risks and uncertainties surrounding the BTI project. Conditions were also included in the Letter of Offer for the Valence Technology project. In both cases conditions were set aside or relaxed and the risk to the funder increased. Guidance has been issued which highlights the circumstances in which changes in projects or conditions which increase risk would result in a re-appraisal of the project or a re-submission to the original approving authority which may include DFP and the DETI Minister.

A significant change in the project involving the decision to relocate BTI from the Belfast City Hospital site to the Harbourgate Building should have led to a re-appraisal.

There was pressure to meet funding deadlines for the EU Peace and Reconciliation Programme and a Letter of Offer was revised to facilitate payment of grant within the funding deadline.

The project was not adequately monitored. BTI failed to provide information (quarterly management accounts and annual accounts) required by the Letter of Offer. Progress reports submitted by BTI contained limited detail. Similar criticisms arose in relation to monitoring in the Valence Technology project.

Records were not kept to explain each decision. Invest NI entered into a contract to purchase the top floor of the Harbourgate Building for £1.5 million without a business case having been prepared and there was no documentary evidence that the required approvals were obtained.

4. There were established processes and controls within both IDB/Invest NI and DETI which would have led to a different outcome. IDB/Invest NI and DETI decision making and monitoring did not follow the processes that had been established within the organisations for the assessment, approval, consideration and approval of material changes, payment of grant, or monitoring of the project.
5. It appears there was a culture ten to twelve years ago that enabled those procedures to be circumvented and ultimately lead to the substantial loss to the public purse.
6. Disciplinary action was taken in regard to the case, and the Department suffered reputational damage with adverse PAC comment. Recommendation 14 of the Public Accounts Committee Report is set out below.

Public Accounts Committee Report: Recommendation 14

“There is a particular responsibility on top management to encourage a culture of compliance with good practice throughout their organisation. The Committee recommends that both DETI and Invest NI now ensure that the lessons on leadership and management culture arising from the report are assimilated within their respective organisations.”

7. I am content that the culture within DETI is totally different to that which appears to have operated ten to twelve years ago. Indeed the work we have done on our CORE values reinforces that position.
8. **Courage** is DETI's first CORE value. It takes courage to call a halt to a project, or seek appropriate Ministerial input in any decision, in which a number of individuals have invested time and effort and everyone wants to succeed. Were such a situation to arise today I am confident that we would have **Openness** in communicating the difficulties with the project and **Respect** to be given to those relaying the difficulties. The culture which we would all expect to be displayed would therefore lead to **Excellence** in policy delivery and decision making and the effective management of public money.
9. So long as we continue to foster and implement our CORE values in our work I am satisfied that such that a project such as BTI would therefore not be able to proceed in today's environment within DETI.
10. I am also happy that as an organisation we can and should take risks in order to deliver our objectives. Risks should be recognised and managed, and decisions taken at an appropriate level commensurate with the funding and risks being proposed. This should not result in undue delay in decision making, and following appropriate and proportionate process protects the individuals involved in the decision as well as the public purse.
11. I would ask that you discuss the issues that arose ten years ago in this case with particular reference to our CORE values with your teams, highlighting that when we operate effectively within our values we can deliver projects and value to the economy and we can also effectively manage the public money for which we are responsible.

DAVID STERLING