

**POTATOES
SHADOW SECTOR
COMPANY**

AUTHORISED

**MINUTES OF THE FOURTH MEETING OF THE POTATOES
SHADOW SECTOR COMPANY HELD AT THE MAJESTIC
HOTEL, HARROGATE ON TUESDAY 27 NOVEMBER 2007**

- * Prof Janet Bainbridge - Chair
- * Mr Tony Bambridge) - Growers
- * Mr Colin Bradley)
- * Mr Jim Cruickshank)
- * Mr Robert Doig)
- * Mr Graham Nichols)
- * Mr Tim Papworth)
- * Mr Fraser Scott)
- * Mr Alex Stephens)
- * Mr Duncan Worth)
- * Mr David Rankin) - Grower/packers
- * Mr Nick Tapp)
- * Mr Nick Vermont - Processor representative
- * Mrs Fiona Fell) - Independent members
- * Mr Dennis Heywood)
- * Present

In attendance: Mrs Helen Priestley, BPC Chief Executive
Mrs Inga Martin, Secretary
Mr Steve Moore, BPC Head of Finance & IT (Item 07/43)

ACTIONS

06/35 CHAIR'S OPENING REMARKS

The Chair welcomed members to the fourth meeting of the Shadow Board, which was held at Harrogate, in conjunction with BP2007. Professor Bainbridge said she was confident that this two-day event would be most interesting.

07/36 APOLOGIES FOR ABSENCE

All Members were present.

07/37 DECLARATIONS OF INTERESTS

There were no new declarations of interests.

07/38 MINUTES OF THE BOARD MEETING HELD ON 23 OCTOBER 2007 (PCM/07/03)

The Minutes of the meeting held on 23 October were approved and signed as a true record.

07/39 MATTERS ARISING (PCP/07/17)

Company Name: Potato Council Ltd (Minute 07/24)

The Board noted that the incorporation of Potato Council Ltd, a company limited by guarantee, was now complete. Professor Bainbridge had been recorded as the first Director and Mrs Martin as the first Secretary.

The Chair said that she had hoped to be able to show members the PCL logo, which – as agreed previously – would be based on that of the BPC. However, the quote from the designers had been unacceptably high and she had asked for a more reasonable figure, failing which other design firms would be contacted. The quote was available to members for inspection.

Levies in other countries (Minute 07/24)

The report on levies collected in other EU states had been circulated to Board members.

07/40 LEVY RATE PROPOSALS FOR 2007/08

Hitherto, the BPC had made proposals for levy rates every year and submitted these for Ministerial approval. It had now been confirmed that this task would be taken over by AHDB, and the Shadow Board was asked to make a recommendation. The matter would be reported to the BPC on 4 December and put to AHDB for a determination on 10 December.

The Board agreed that it would not be politically acceptable to request an increase in levy rates, nor would it be financially prudent to go for a reduction. On the proposal of Mr Heywood, seconded by Mr Stephens, the Board agreed to recommend the following levy rates for 2008/09:

Area levy -

- £39 per hectare for payments received by the due date;
- £44 per hectare for payments received after the due date.

Tonnage levy -

- 17 pence per tonne for payments received by the due date;
- 19 pence per tonne for payments received after the due date.

Mr Tapp highlighted the need for early communications with levy payers, which was discussed later in the meeting. See Minute 07/44.

07/41 GRADING STANDARDS FOR POTATOES (PCP/07/21)

The British Potato Council had decided, at the time of its inception, to adopt the grading standards for ware and new potatoes prescribed by its predecessor body, as they stood in 1997, so these could be used by others. The standards were, and continued to be, used by some parts of the industry. They were of particular interest to Trading Standards Officers (TSOs) in their work on behalf of consumers, as the Courts had traditionally accepted them as a benchmark. The BPC did not engage in any enforcement activities, though its field officers could act as expert witnesses in actions brought by TSOs. The latter would be concerned about the loss of the grading standards, once the BPC was wound up.

The Board was asked to decide whether these standards should be adopted by PCL in the same way as was done by its predecessor body, in order to help protect the public.

Mr Worth felt that these standards were out of date and questioned their usefulness. Mr Bambridge believed that the standards served a useful purpose, though he agreed that they needed revision; for instance, some of the size regulations were not in keeping with current practice. The Chair said that any change should be industry led, which entailed consultation, whilst the most pressing matter was to decide whether the basic standards should be adopted now.

On the proposal of Mr Bambridge, seconded by Mr Stephens, the Board agreed that the current grading standards for ware and new potatoes should be adopted and that these would be reviewed at a later date.

Mrs Fell asked whether the BPC field staff were remunerated

for their work assisting TSOs. The Secretary replied that their travel and subsistence costs were reimbursed but they did not charge any fees. It was agreed that this was a matter where the Board may wish to introduce a different policy.

07/42 CORPORATE PLAN (PCP/07/18, 22, 23 & 26)

At its previous meeting, the Board, faced with the task of producing a three-year corporate plan within a very challenging time-frame, had agreed that the first priority was to create top-line strategies for presentation to an AHDB sub-group on 5 November. It had further been agreed that a fundamental review would then be carried out, with a target date for completion in June, and evaluation in September 2008.

The Chair said that the presentation on 5 November, where she was accompanied by Messrs Tapp and Worth and by Mrs Priestley, had gone well. (The slides were presented as Paper PCP/07/26). All sector companies had now made their presentations and as there were substantial differences in style and content, AHDB had decided that it was necessary to synchronise the submissions. Notes of guidance and a template for recording the plan were set out in Paper PCP/07/23.

The Chair said that the next stage was to present the final version of the Corporate Plan at the AHDB meeting on 10 December. This did not allow much time but she was very keen that the members should have the opportunity of seeing the document in advance of the presentation, to ensure it had the approval of the Board. The main issues arising from the debate so far were targets, budgets and reserves, and policy issues

Mrs Priestley said that she had found the AHDB sub-group challenging in its questions and it was clear that the members wished to see evidence of intended change, not continuation of the status quo.

Mr Bambridge said that he understood the need for an endorsed plan, but he was concerned that there would not be sufficient flexibility, that what was in effect 'work-in-progress' would become a fait accompli. He would like to see, as an objective, improved sustainability - both economic and environmental - and, as a target, an increase in the industry share of consumer spend.

Mr Doig expressed a similar concern regarding flexibility; he felt that the paltry timescale allowed for the important task of preparing the plan, and the way items produced by the Board were continuously sent back for change, did not bode well for any future scope for manoeuvre.

The Chair said that she had not found AHDB prescriptive in its approach. Nevertheless, she undertook to make it clear that the corporate plan was not the final submission but a working document. Mrs Priestley reminded the Board that they had previously decided to carry out a fundamental review. She suggested that this should be included in the corporate plan, that is, review would be listed as a strategy. The meeting agreed.

Targets

At its previous meeting the Board had accepted that the overall objectives were – *continued demand for potatoes and potato products; and GB potatoes fulfilling that demand competitively*

The Chair said that, at the presentation on 5 November, the following targets had been suggested: *per capita consumption increase to 104.8 kg per year, and a 5% increase in home crop proportion of usage*. The feedback received was that these may be overly ambitious and that targets must be measurable.

Paper PCP/07/22 contained graphs showing the high level objectives, which were in effect for the industry to achieve, i.e. not under the direct control of PCL, as well as details of more low level, or 'tactical', targets, with suggestions of how these could be measured. Mr Tapp asked that the figures be split between fresh and processed potatoes.

Mrs Fell suggested that those high level objectives where PCL could not directly influence the outcome should be viewed as 'aspirations', with more achievable and measurable targets slotted in underneath. Mr Cruickshank, aware of the risk of giving hostages to fortune, agreed. Referring to the point made previously by Mr Bambridge, he believed that if the two identified aspirations were met, that would result in improved sustainability.

Mr Tapp stressed the importance of knowledge transfer. Mrs Fell, concurring, felt that there may be things which were being done already and which could, if taken up by levy payers, help improve profitability etc. She suggested that such items should be suitably presented in the plan.

Mr Tapp asked about cross-sectoral activities. Mrs Priestley said that, at functional level, there were collaborative groups with representatives from the current levy boards, covering R&D, KT and nutrition; a similar group for market information would also be set up. The Chair said that, at Board level, there was a cross-sectoral R&D group which she chaired and which

would report to AHDB on 10 December. One of the AHDB independents, Chris Bone, chaired a similar group on marketing.

Mr Bradley said that there were concerns about losing control over the 'potato sector identity', which must be addressed. That said, however, opportunities for cross-sector departmental teams, e.g. joint market information, should be explored with an open mind. Professor Bainbridge said that the Chair of AHDB, Dr Bridge, would be at the event the following day and any issues or points of concern could be raised with him.

Completion of Plan

Mr Vermont reiterated that, in year 1, PCL would continue, and build on, current activities, as well as carry out a fundamental strategic review. Years 2 and 3 would be characterised by three external factors: savings from re- and co-location; opportunities for cross-sectoral activities; and the impact on staff of the proposed move. He added that, in his view, the review was a matter for PCL, the savings were a matter for AHDB.

Mrs Fell said she understood that what AHDB wanted were new, well thought-out, ideas. She suggested that the Board should not restrain itself but keep all options open.

Mr Heywood pointed out that any proposals had to be properly costed. Any additional, rather than replacement, activities could lead to a budget overspend, so intentions had to be clearly stated.

The Chair thanked members for their contributions to the debate and said that the next step was to complete the form included in Paper 07/23. Mrs Priestley said she would do so, taking account of the discussion at the meeting. This would include a reference to the top level aspirations – the need to pull the industry together to address issues such as consumption, competitiveness and sustainability.

CEO

07/43 BUDGET FIGURES FOR THREE-YEAR PLAN (PCP/07/19)

Reserve Policy

One of the issues where a decision was required from the Board now, was that of reserve policy. Matters to be considered in the longer term included income, expenditure and non-levy revenue generation. Steve Moore, the BPC Head of Finance, attended the discussion of this agenda item and provided members with information, to augment that included in the Paper.

AHDB had requested the Shadow Board to prepare budgets for the three years ending 2011 on the assumption that the costs of running PCL would be the same as the BPC running costs. It was expected that, in reality, PCL would have a lower cost base and the intention was to use the balance to fund the transitional costs, including exit costs and dilapidations in respect of the Nash Court office.

The Chair said that the BPC, acting on the principle that it was inappropriate for levy bodies to hold on to excessive reserves, had engaged in a policy of managed draw-down. If the levy body review had not happened, the BPC would shortly have had to decide whether to reduce activities or seek an increase in levy rates. AHDB expected the Board to take a prudent attitude to reserves and had suggested that £1.8m was a reasonable figure.

With effect from 1 April 2008 all property, rights and liabilities of the BPC would be statutorily transferred to AHDB. The BPC reserves consisted of three parts:

- A revaluation reserve in respect of the subsidiary, SBEU Ltd, which could only be released in the case of a sale and was, therefore, a 'paper reserve' - £126K.
- A ring-fenced redundancy reserve, which comprised the aggregate of individual employees' redundancy payment entitlements, which were contractual - £900K.

This reserve could be used for cash flow purposes, but could not be spent.

- A general reserve, which had to cover the full costs of winding down the BPC, as there must be no call on public funds in such a situation - £2.26m.

Mr Moore said that he was a member of a finance group which had been set up to review and consider a whole host of practical issues relating to the forthcoming levy body re-organisation. They had been informed that the net assets of all levy bodies would be transferred to AHDB, but it was not known whether these would then be transferred to the sector companies; apparently, there were matters of taxation to consider.

In response to questions from members, the Secretary confirmed that all contracts of employment of current staff would transfer to AHDB under the rules of TUPE. There had been some suggestion that certain staff might eventually be

employed by the various sector companies (which would entail further TUPE transfers), but that had not been confirmed. Currently, AHDB were consulting staff and their representatives on the AHDB business case and the proposed co-location and move to Stoneleigh. The consultation process was expected to be complete in late December and until then, no final decision could be taken. If, at a later stage in the re-organisation, redundancies became relevant, there would need to be further consultation.

The Chair added that AHDB would receive the outcome of the current consultation and make a final decision at its meeting in January 2008.

The Paper contained projections for annual income and expenditure for the period ending 2011, based on various factors. These excluded the ring-fenced redundancy reserve (currently standing at £900K). In response to a question from Mrs Fell, it was confirmed that funds needed to build up the aggregate redundancy entitlements in future had not been budgeted for. Mrs Fell said that, from her experience of other public bodies, she felt that a reserve in line with 25% of income, plus redundancy provision, seemed reasonable; other members agreed.

After a lengthy and careful discussion, the Board decided that a minimum reserve of £1.5m, including the redundancy provision, was appropriate. *However, this was subject to the caveat that the matter would be reviewed in 2009, at the end of PCL's first year of trading.* By then, more useful information would be available about cost savings and the Board would be in a better position to make a decision for the longer term.

Revenue Generation

The Chair said that one of the factors which had been put forward in considering future income and expenditure was that of generating non-levy revenue, be it commercial or grant-funded income, and she asked for members' views.

Mrs Priestley was aware that one of the other levy bodies sold market information to its levy payers. The BPC had suggested a similar arrangement within the last few years, but the idea had been rejected by the sector. This was, of course, something that PCL could revisit.

Mr Tapp suggested that the levy sector CEOs should get together and discuss the whole issue in a constructive fashion.

Other members commented that, on the face of it, KT seemed a

suitable source of income generation. However, as it was a job persuading levy payers to make use of the results which were available free of charge, it was difficult to see who would be prepared to pay.

Mr Doig suggested that if it was possible to generate income within current resources, it should be done but if it meant having to spend additional costs to make additional income then it should not.

The Chair, summing up the discussion, said that PCL should not actively pursue income generation but should take up any opportunities which presented themselves. So, for now, it was not a top priority, but the subject would be included in the strategic review.

07/44 RISK ASSESSMENT (PCP/07/20)

A number of potential risks had been identified in the course of the development of the Corporate Plan. Staff had analysed these, using a three-dimensional model, covering probability, impact and controls, and the results were set out in the paper, for members' consideration.

Risks with high scores included dilution of potato identity, lack of income for agreed activities, failure to achieve cost savings, and – particularly – *loss of key staff*.

The Board accepted the results in general. However, Mr Tapp felt, and other members agreed, that the risk of "levy payers' dissatisfaction resulting in a call for a ballot" was not scored sufficiently highly.

Both issues, relating to levy payers and staff, were concerned with communications. It was agreed that this would be one of the major agenda items for the next Board meeting. It was essential to draw up a structured communications plan.

Secretary

Regarding staff, members agreed that it was essential to involve people at an early stage. Methods suggested were – inviting directors and managers to a Board meeting; and holding a meeting with all staff, to update them on what was happening and tell them of the Board's plans. Mr Vermont felt most strongly that a meeting should be held as soon as possible, as rumour and speculation would otherwise flourish. The point was made, and agreed by all, that there was no intention of interfering with the ongoing formal consultation process, nor any need for any conflict in that regard.

The Chair would discuss this matter further with members.

Chair

It was subsequently agreed that Mr Vermont and Mr Tapp would meet staff at Nash Court on Tuesday 11 December 2007; the Chair to visit on 11 January 2008.

07/45 OPERATIONAL BUSINESS PLAN (PCP/07/11: RE-SUBMITTED)

The Business Plan for the period April 2008 to March 2009, which had previously been discussed, was adopted by the Board. The text would, however, be revised and cross-checked against the three-year Corporate Plan, to ensure there were no discrepancies.

CEO

07/46 INTERNATIONAL YEAR OF THE POTATO (PCP/07/25)

The Board received an information paper, detailing the plans for participation in this global project.

07/47 ANY OTHER BUSINESS

There was no other business to discuss.

07/48 DATE OF NEXT MEETING

It was agreed that the next meeting of the Potatoes Shadow Sector Board would be held in London, at 8.30 am on Wednesday 9 January 2008.

07/49 SCHEDULE OF MEETINGS IN 2008

Members acknowledged the need for financial restraint in all aspects of the Board's activities, including arrangements for meetings. However, there were a couple of causes of dissatisfaction: Members missed the opportunity for informal discussions, which helped a group to 'gel' and which aided speedy and effective decision making at the formal meetings; starting the meetings later in the morning, which was necessary if some attendees had to travel on the day, was wasteful for those who were there already.

For these reasons it was agreed that future meetings would start at 8.30 am and that there would be informal get-togethers the evening before. The meetings in February and March 2008 would be held at Oxford, to give members the chance of meeting staff.

The schedule of meeting dates in 2008 (all Wednesdays) was:

9 January	2 July
6 February	6 August
5 March	3 September
2 April (subject to change)	1 October
7 May	5 November
4 June	3 December

Meeting 27/11/07

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