

Looking forward to tomorrow

Home-Grown Cereals Authority
Annual Report & Accounts 2005/2006





Cover photograph Biofuels Corporation PLC, biodiesel production plant, Teesside

Home-Grown Cereals Authority

Annual Report & Accounts 2005/2006

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- **£50.8m** of project expenditure managed by HGCA
- **108,036** unique visitors to www.hgca.com
- **985,500** website page views
- **160** companies supported through the Enterprise Awards since 1995
- press advertising equivalent of **£2.25m** from Farmhouse Breakfast campaign
- **14,500** Farmhouse Breakfast education packs ordered
- over **418,000** emails with data and reports sent through the Market Data e-club
- **56,100** subscriptions to HGCA publications
- **90** events held throughout the UK with **13,250** visitors
- every **£1** levy generated **£4** for R&D projects

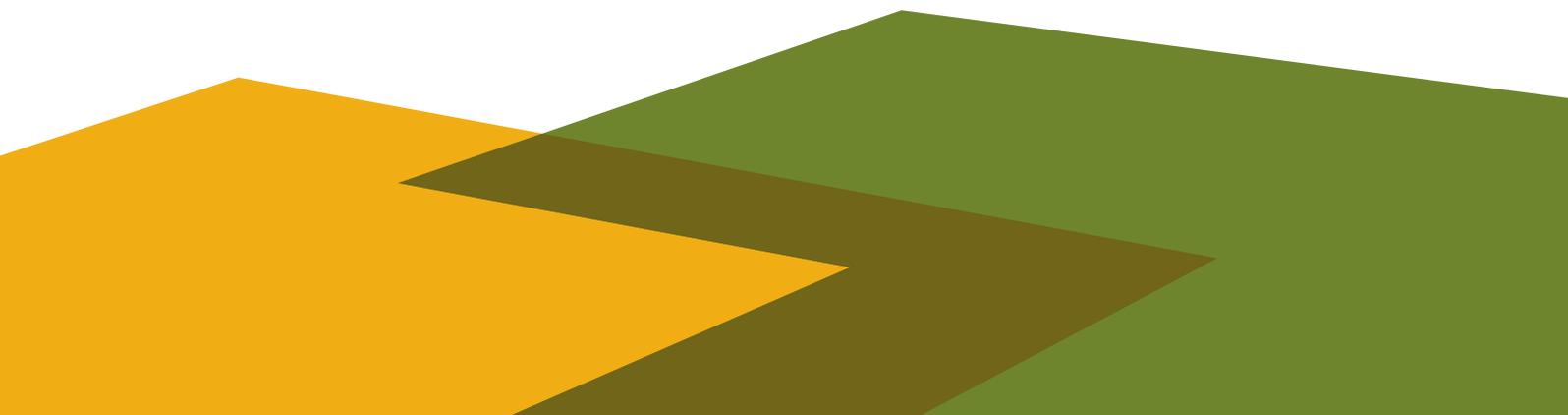
Our vision

To be essential to the arable industry

Our mission

To improve continuously the production, wholesomeness and marketing of UK cereals and oilseeds so as to increase their competitiveness in UK and overseas markets in a sustainable manner.

HGCA provides high quality services which are cost-effective and designed to meet the needs of levy-payers, whilst taking account of both consumer and environmental requirements.



Contents

Chairman's statement	02
Chief Executive's report	03
Management commentary	
Performance against targets 2005/06	04
Exploiting existing market opportunities	06
Developing new markets	08
Meeting market needs cost-effectively	10
Managing the business and market volatility	12
Promoting grain within a healthy balanced diet	14
Securing funds and developing new partnerships	16
Developing better communication channels	18
Maintaining and improving operational efficiency	20
Performance targets 2006/07	22
Financial statements 2005/06	24
Board and Committee structure 2005/06	46
Current staff structure and contact details	47
Glossary	48

HGCA was established under the Cereals Marketing Act 1965 to: provide a market information service; sponsor or undertake research work in home-grown cereals and oilseeds; and undertake other non-trading initiatives aimed at improving the production and marketing of cereals.

Chairman's statement

The arable industry needs to be well placed to adapt to change and help ensure a sustainable future



The *Review of the Levy Bodies*, commissioned by Defra and carried out by Rosemary Radcliffe, was published in October 2005. The review was very clear in endorsing the work of levy bodies and HGCA regard the findings as a valuable contribution towards the future provision of levy-funded services. HGCA strongly supports the Levy Board Reform measures announced by Lord Rooker in June 2006.

The review made a strong case for continuing the cereal and oilseed statutory levies. It recognised that cereals and oilseeds are produced by businesses of all sizes and that the reform of the Common Agricultural Policy (CAP) and the introduction of the Single Payment Scheme (SPS) continue to drive substantial changes in their financial viability. HGCA provides national, co-ordinated independent information to support businesses right along the grain chain from farmer to miller, maltster or feed compounder on research and development, market analysis, training and market development.

The potential market for biofuels has been widely debated during the year, with climate change, global warming

and greenhouse gas emissions all high on the political agenda. The need for alternative fuel supplies gives British farmers a major new use for cereals and oilseeds for the first time for fifty years, as well as the opportunity to help tackle the problem of environmental damage from carbon emissions.

HGCA has been working to ensure that the arable industry is able to deliver on this new commitment to society. During the year, amongst other activities, HGCA commissioned and published an independent report which confirmed the environmental benefits of producing bioethanol from wheat, established the carbon accreditation scheme and held its first biofuels conference.

UK agriculture has the potential to produce three to four million tonnes of cereals and oilseeds for biofuel production without major changes in land use or damage to existing habitats. The government announcement of a Renewable Transport Fuel Obligation, setting the compulsory inclusion of 5% biofuels in petrol and diesel by 2010, has given new impetus to the drive to ensure that the UK is not left behind countries such as France, Germany and the United States in establishing a biofuels industry.

The process to formulate the new HGCA research strategy is currently underway, with levy-payers, stakeholders and research institutions all being asked to contribute ideas and suggestions for future research and development needs, both for food and energy crops. This will establish an agreed list of priorities that will drive the research programme for a three-year period.

Partnership funding of research across a range of major issues all along the grain production and use chain is increasingly important if HGCA is to deliver value to its levy-

payers. We have worked with government and industry to maximise the opportunities to achieve this while recognising that some topics remain appropriate for sole HGCA funding. New funding obtained during the past year has enabled timely work looking at today's problems as well as longer-term projects designed to ensure a sustainable future for UK agriculture.

A handwritten signature in black ink, appearing to read 'John Page'.

John Page
Chairman, HGCA

Chief Executive's report

Working in partnership to deliver best value to all our levy-payers



HGCA draws upon a wide range of support and knowledge from partner organisations. Producers, traders and processors all make a huge contribution of both time and effort to ensure that HGCA benefits from the views of all parties in the arable industry.

This is reflected in the make-up of our Committees and Board. Representatives from across the grain chain are prepared to get involved, recognising the role that HGCA plays at the heart of the industry. All our activities from research to markets are vetted by growers, the trade and processors to ensure that HGCA delivers what the industry needs.

HGCA always tries to ensure that all its services and products add value to the arable industry. A benefits statement has been prepared to demonstrate to levy-payers the range of activities and to help them understand the role that HGCA plays within the industry. The evaluation of activities will be stepped up over the coming year to ensure that success can be measured and all aspects of value identified.

Significant advances were made during the year in bringing about greater co-operation and collaboration

throughout the grain chain. The Cereals Industry Forum programme has been developed and has generated real benefits, including benchmarking the business for farmers through CropBench and enhancing the supply chain through a range of Value Chain Analysis projects. The success of the Cereals Industry Forum has been a direct result of full-chain participation.

The past year has seen HGCA improve its links with overseas organisations in comparable positions to our own. This has included establishing partnerships with organisations involved in the cereals industry both in and outside the European Union. The exchange of ideas benefits both parties, and HGCA is ready to look at successful practices elsewhere in the world and maximise benefits to the UK by learning from the information and knowledge that already exists.

Planning for the future never stops, and HGCA is constantly looking at new ways of doing things or doing the same things more cost-effectively. We regularly appraise our strategies on behalf of and in conjunction with our levy-payers. The changing nature of the arable industry means that HGCA has to constantly adapt to ensure that it is still delivering services that are both relevant and value for money.

The financial results for the year exceeded expectations due primarily to the sale of equity investments, cost savings and project rephasings. Details are shown on pages 30 onwards. It is also encouraging to report that the total value of Cereals Industry Forum projects being managed now totals £5.4 million and the combined value for R&D projects is £50.8 million.

The focus of HGCA operational activity continues to be the targets and objectives as set out in our *Annual Business Plan*. All major goals were accomplished with the

help of an engaged and committed workforce. Despite the uncertainty surrounding the outcome of the Levy Bodies Review, employees of HGCA have remained diligent in providing levy-payers with improved products and services relevant to the cereals and oilseeds industries.

A handwritten signature in dark ink, appearing to read 'Jonathan Cowens'.

Jonathan Cowens
Chief Executive, HGCA

Performance against targets 2005/06

Exploiting existing market opportunities

- Monitor markets and changing market conditions
Market Report updated and readership increased by 20% to 7,700
- Develop Cereals Industry Forum (CIF) work and publish results
CIF programme on schedule, 15 articles achieved and 4 workshops held
- Disseminate results of HGCA Cereal Quality Survey (CQS)
Good CQS coverage achieved with 30 articles
- Establish ukp and uks export brand requirements within RL
Brand built into HGCA Recommended List system and strong uptake by overseas customers
- Assess HGCA's position as data provider in enlarged EU
New contacts made with EU Commission, Germany, France and new member states
- Link HGCA activity with Cereals Industry Forum (CIF) strategy and Cereals Liaison Group (CLG) demands
CLG demands responded to and CIF output publicised as part of HGCA message

Developing new markets

- Hold marketing seminar for processors
102 delegates attended this event with positive feedback
- Investigate supermarket requirements for biofuels
Consumer survey published and three meetings held with supermarkets
- Establish the biofuel accreditation as an industry standard
Technical report published and discussions held with Low CVP, DfT and REA
- Assess needs of renewable packaging manufacturers
Enterprise Award implemented along with food industry presentation
- Establish an integrated HGCA non-food programme
Non-food group operating and projects being funded
- Establish a technical sub-group to assess industrial uses of grain
Sub-group established and operating well

Meeting market needs cost-effectively

- Incorporate disease risk module into RLPlus
Module incorporated in RLPlus and is available on website and RL CD
- Fund development of genetic material with valuable traits
Genetic traits for improved pest and disease resistance and food/industrial end-use qualities being assessed
- Deliver environmental benefits with profitable production
Partnerships included LEAF farm walks and a LINK project on non-cropped land environmental benefits
- Ensure projects address cross-compliance and environmental schemes
Soil management research evaluated and guidelines on margin management well received.
- Hold conference on the global context of national and EU markets
Successful Grain Outlook Conference had record 330 audience which included 33 EU Management Committee delegates
- Promote HGCA Farm Income Monitor (FIM)
FIM placed prominently on HGCA website and is being well used in CIF CropBench programme
- Understand sustainable development and its impact on the cereals industry
Played leading role in Applied Research Forum (ARF) soil/water workshops and environmental projects

Managing the business and market volatility

- Publish articles on elements of risk management
Key subjects comprehensively covered in six Prospects articles and the media
- Publish details of CAP Reform and its implications
Regular articles published in Prospects and conference papers produced
- Assess risk management methods for grain markets
Eight reports published and assessment of USA risk management methods undertaken
- Identify pricing needs and develop risk management techniques
HGCA risk management training programme, part-funded by Defra is progressing well
- Use CIF to assess role of risk management in supply chain
CIF supply chain projects and new Arable Business Groups highlighted importance of risk management
- Link HGCA activities to professional development initiatives
HGCA activities recognised by BASIS & NRoSO and risk management training provides CPD opportunities

Promoting grain within a healthy balanced diet

- Evaluate and publish nutritional profile of grain *Wholegrain goodness campaign based on British Nutrition Foundation report successfully rolled out*
- Support the production of safe grain and grain products *New safety monitoring programme established, extensive mycotoxin research undertaken and knowledge transfer achieved*
- Develop cross-levy board approach on nutrition *New joint website for schools launched with good response from teachers*
- Improve nutritional understanding of grain *Farmhouse Breakfast campaign achieved record coverage and 'Good Health Game' for schools successfully launched*
- Conduct research on consumer attitudes to wholegrains *Ongoing research carried out in conjunction with dunnhumby Academy*
- Assess grower awareness of HGCA's role in nutrition *Topic Breakfast discussions and grower survey indicated strong support for HGCA's nutrition work*

Securing funds and developing new partnerships

- Identify opportunities for generating non-levy income *Several successful funding opportunities were identified (eg Defra, DTI, IATC, RDAs & commercial sponsorship)*
- Secure additional outside funding *Additional outside 2005/06 funding amounted to £1m and a further £1m has been secured for 2006/07*
- Maximise levels of matched funding for HGCA *Matched funding of £10m per annum achieved for R&D programme and Crop Marketing attracted £400k*
- Develop partnerships with Rural Development Agencies (RDAs) *HGCA has been an active partner with all nine RDAs*
- Examine opportunities for international collaboration *Partnerships developed with France, Germany, new EU member states and EU Commission*
- Assess benefits of levy board collaboration *Cross-sector partnerships have been established (eg ARF, nutrition, soil management & Enterprise Awards)*

Developing better communication channels

- Ensure strategic communications planning is part of all project strategy *Communications planning tool developed and being implemented for Annual Business Plan (ABP) activities*
- Refresh branding guidelines to ensure consistency *Brand guidelines reviewed, refreshed and implemented for all HGCA publications*
- Identify and use HGCA corporate messages *Corporate messages identified and disseminated*
- Upgrade contact database to improve segmentation *New contact database installed with company/contact profiling abilities*
- Improve performance through customer feedback *Annual grower benchmarking survey and events/publications feedback used to improve HGCA performance*
- Ensure events content reflects HGCA strategic objectives *Events content devised to achieve ABP objectives*

Maintaining and improving operational efficiency

- Conduct simulation of disaster recovery systems and procedures *Procedures successfully tested throughout the year*
- Integrate finance & project management systems *New customer relationship database will enable full integration to take place*
- Integrate Annual Business Plan and Team Operating Plans across HGCA *Integration achieved - new 'Access'-based system developed in-house*
- Ensure Risk Register is a key element of HGCA planning and awareness *Updated Risk Register process introduced following consultation with auditors*
- Establish the meaning of 'value' for HGCA activities *Draft guidelines established using internal value group*
- Develop IT systems to ensure efficiency and accuracy *Network speed improved by new cabling and anti-virus software upgrade*

Exploiting existing market opportunities

Growers need to be competitive in current markets

While new markets offer chances to diversify and expand into new areas, ensuring that the requirements of established markets are met remains a priority.

Setting the scene for the year ahead, the annual HGCA Market Outlook Conference provides the industry with timely pointers for the coming season. This year's messages focused on the good quality of the available UK crop, the unpredictable state of the market, and the continued heavy surplus in new EU Member States. The industry was warned that world stocks would decline this season leaving the market vulnerable to any major crop problem ahead, a development that has looked increasingly likely as the season progressed.

This year's Market Outlook Conference was attended by representatives from the EU Cereals Management Committee as part of a special visit to mark the UK's Presidency of the EU.

To ensure that its market reporting is up to date, the HGCA developed a new *Market Report*, combining *mi-saturday*, *mi-oilseeds* and the weekly *bulletin*. The report offers subscribers information in a more concise format. It ensures that a detailed market commentary takes place in a cost-effective manner. Feedback to the change has been positive and the number of subscribers has increased (*Chart 1*).

The premium offered for milling wheat, to justify the decision to grow it, was debated at the Milling Wheat Conference in February. The conference examined the industry from farmer through to miller. It emphasised the need for all growers to understand and monitor the costs of growing milling wheat.

The conference highlighted that a concern for all in the industry was a lack of trust between parties in the



chain. To address this, HGCA facilitated special Cereal Liaison Group discussions between representatives of all sectors in the milling wheat chain including nabim, AIC and NFU. These discussions aimed to resolve some of the problems and areas of misunderstanding that lead to the current lack of trust. The industry needs more trust and transparency, as only then can we expect to see a reduction in disputes and greater collaboration. The report of these discussions has been published.

The HGCA Variety Survey was carried out for the first time this year and, together with the HGCA Planting Survey, provided excellent information on the varietal breakdown of wheat and barley (*Chart 2*) and the likely availability of particular wheat groups. This gives the industry a better understanding of the regional supply availability and the grower a better basis for marketing decisions. It provides vital information in gauging the likely availability of wheat for export.

The *ukp* and *uks* export brands continue to grow in strength. These were developed to facilitate easy discussion about the available quality of UK wheat against the expectations of overseas buyers. They allow overseas customers to be sure that the wheat they are buying will have the right baking qualities for their requirements. The variable size and quality of the UK crop has made it hard in previous years for the UK to commit to exports in advance



of harvest. *ukp* and *uks* help establish, in advance, the quality of the wheat we have to offer, putting the UK in a stronger position when cereals are available to export.

UK wheat was sold against the *uks* export brand for the first time this year with a shipment to Morocco. This sale, together with UK exporters reporting a steady increase in enquiries referring to UK wheat by brand, indicates the gathering momentum of *ukp* and *uks* as brands.

Changes in consumer trends and servicing the customer were also explored in the third HGCA Processor Conference. This annual event looks at the important role that consumer demand has on the arable industry. Delegates heard the latest information on food trends and the resulting opportunities for suppliers and manufacturers in the food service and retail sectors.

It is important that the arable industry is able to exploit the market opportunities that already exist. The success in achieving this is driven by the ability to meet the demands of the customer whether overseas buyer, miller, maltster or other processor, representing the eventual consumer.



Chart 1: Increase in number of subscriptions to Market Reports

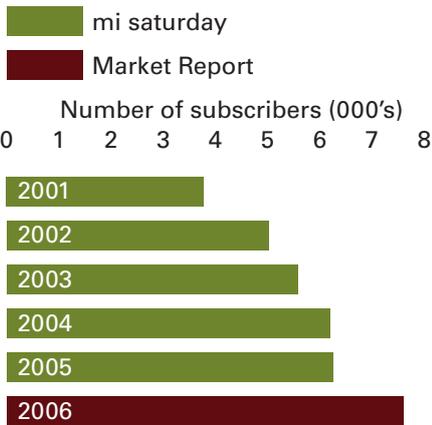
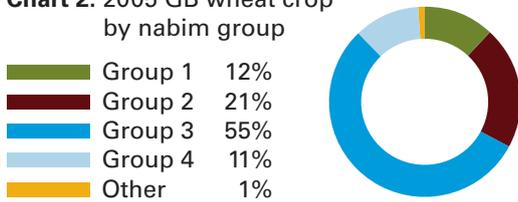


Chart 2: 2005 GB wheat crop by nabim group



Developing new markets

Potential new biofuels markets offer agriculture a major new opportunity

The arable industry needs to ensure that it is well placed to embrace potential new markets. HGCA has been at the forefront in providing the industry with capability to take up this challenge.

The emergence of biofuels provides agriculture with the opportunity for a potential new domestic market. UK agriculture needs to meet this challenge and HGCA has been actively working to help develop this new market for the past three years.

This year, HGCA held its first biofuels conference which included representatives from Government, the arable industry and major players in the fuels business. The message was loud and clear that the introduction of a Renewable Transport Fuel Obligation (RTFO) was crucial to developing a sustainable new market for biofuels in the UK.

In November 2005, the UK Government announced the RTFO, showing a major commitment to the biofuels industry. This has the potential to create a major new market for UK cereals and oilseeds (*Chart 1*) that was not previously available. This new demand has already led to the establishment of a UK biofuel plant to take advantage of the global changes taking place within the energy industry. Other factories are being planned.

Underpinning this new market is the need to ensure the environmental credentials of this type of fuel. HGCA commissioned an outline carbon accreditation scheme, designed to do just this, and to provide a system for measuring carbon savings. The scheme aims to monitor carbon levels through the production process from the farm to the pump. The data is fed into a Greenhouse Gas Calculator (developed by Imperial College with HGCA funding) which works out the carbon savings (*Chart 2*). The next step is to develop an appropriate industry standard.



HGCA also commissioned carbon assurance field trials which have already been piloted. These address how UK producers report into the RTFO. Using the existing assurance procedures to provide the infrastructure and skills to conduct the verification process, farms can become carbon-certified with little additional administration.

Developing varieties to meet this new market, the 'GREEN grain' project is looking at wheat as an energy source for feed, potable alcohol or bioethanol, where high-energy, low-protein grain is advantageous. The project will assess whether wheat genotypes with low nitrogen storage in stems and grains have reduced fertiliser requirements whilst producing grain of higher value for the feed and bioethanol industries.

A possible new market for any low-value grain is being investigated by HGCA, in partnership with the Rural Energy Trust. A project has been launched to assess the feasibility of using grain as a biomass fuel. The project will review biomass heating systems and assess which are suitable to utilise grain and grain co-products as a fuel at times of low prices.

HGCA encouraged new industrial uses of cereals and oilseeds through its non-food Enterprise Awards. The quality of the applications is rising and this year winners included peat-free compost and building blocks made from straw. Overall the Enterprise Awards have now supported a wide range of innovative uses for grain from



renewable packaging to straw mulches and Teddy Bears. The Enterprise Awards have also been helping to promote innovative food ideas for cereals and oilseed products using UK grain.

Developing overseas markets is another way to expand the UK's cereals outlets. British Cereal Exports' activities, in particular the International Bread Baking Workshops, have made progress in getting overseas customers to understand that UK wheat can be used for bread and not just for biscuits or feed. By establishing the quality and suitability of UK cereals for overseas use, the UK puts itself in a strong position to export when quality cereals are available.

HGCA held its first milling wheat seminar in Tunisia in March. Tunisian representatives who had previously attended the International Bread Baking Workshop presented their results to local millers and buyers. They used a significant proportion of *uks* in the bread wheat they baked and stated that there was an opportunity for UK wheat to take a share of Tunisia's annual one million tonne import requirement, particularly in light of the intended liberalisation of their market. This could open another new market for UK grain.

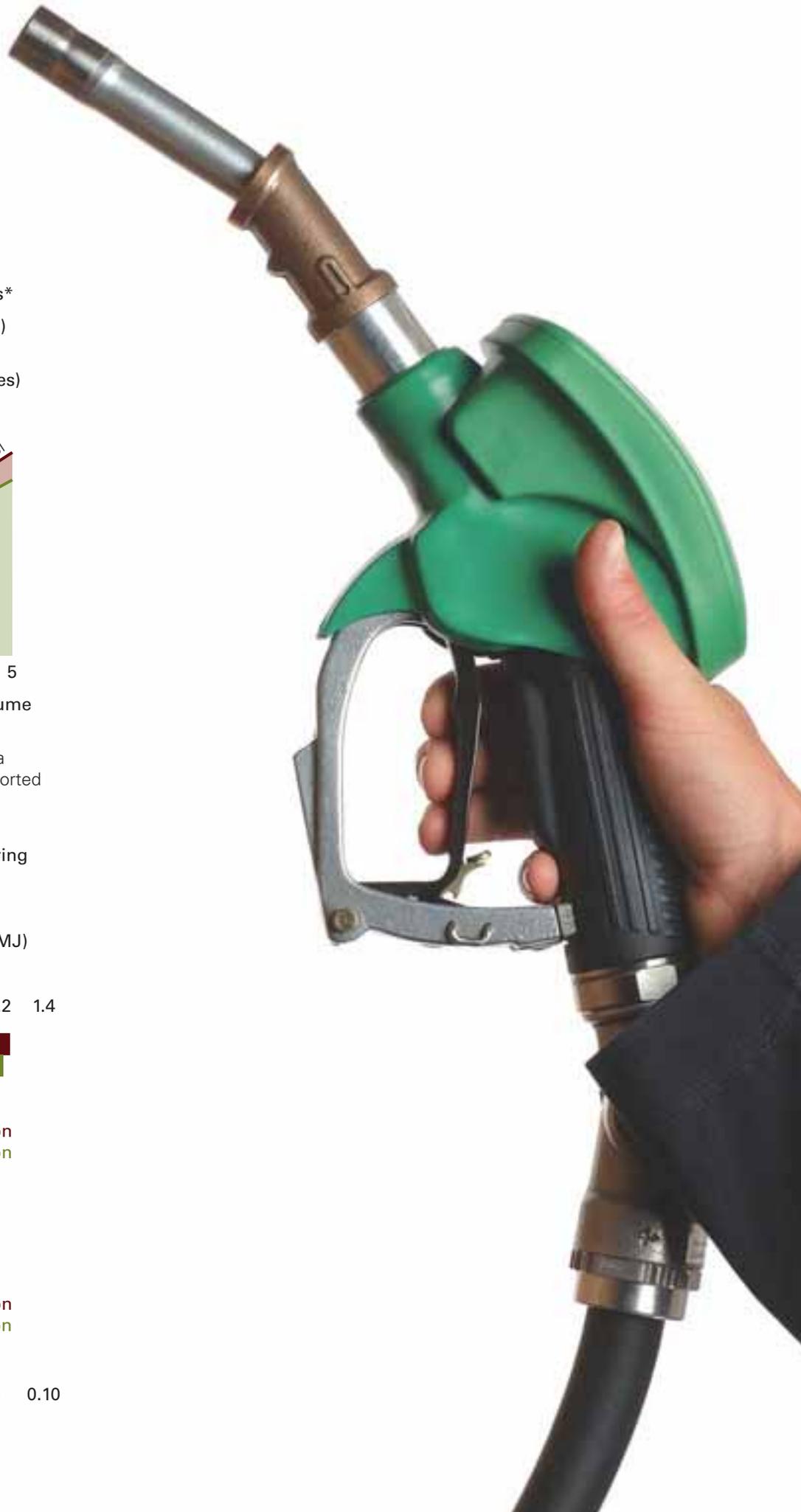
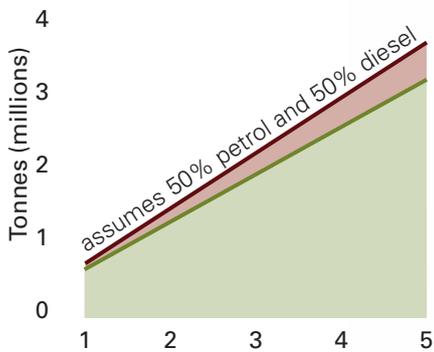


Chart 1: Potential biofuel feedstock requirements*

- Wheat potential (tonnes)
- Vegetable oil needs, expressed as OSR (tonnes)



RTFO inclusion rates % of volume

* following the economics, actual requirements will be met from a variety of sources including imported biofuel or grains

Chart 2: Carbon and energy saving benefits of biofuels

- Energy input (MJ/unit)
- CO₂ emissions (kg CO₂/MJ)

MJ/unit production

0.0 0.2 0.4 0.6 0.8 1.0 1.2 1.4



Conventional diesel



Biodiesel from OSR



Conventional petrol



Bioethanol from wheat

0.0 0.02 0.04 0.06 0.08 0.10

kg CO₂/MJ

Meeting market needs cost-effectively

Balancing agronomic decision-making with environmental considerations

Growing crops to give maximum yield of the right quality to meet the needs of the market is vital to all farmers. Balancing profitable farming with environmental care can be a complex exercise.

Choosing the right variety is crucial to success in arable farming. The *HGCA Recommended Lists* provide 'must have' information to help make this decision. This year, 11 new varieties achieved the necessary qualities to be added to the Lists, while 13 were withdrawn. New additions included a Group 2 winter wheat, two winter barleys and four winter oilseed rape varieties.

A new disease and lodging risk module was added to *RLPlus*, the interactive version of the *HGCA Recommended Lists* (Chart 1). This enables growers to select criteria specific to their farm, for example geography and soil type, and compare and contrast different varieties for their susceptibility to disease and lodging.

HGCA published the *Wheat disease management guide* to help growers in their decision-making on key aspects of wheat disease management. UK farmers can produce high wheat yields of good quality due to the climate, but diseases reduce yield and quality significantly every year and therefore, increase unit production costs. The guide helps with decisions on using fungicides only when they are economically justified.

Input costs need to be balanced against output, both in terms of yield and quality, for maximum profit. Varietal resistance provides opportunities for considerable savings on fungicide use, but yield and quality can suffer if sub-optimum inputs are applied. To optimise use, the *Appropriate fungicide dose tool* was



updated to help growers determine product choice and effective dose. This includes a section looking at new products for tackling diseases such as mildew and gives an update on triazole drift in terms of sensitivity to Septoria.

The barley growth guide, also published this year, aims to help barley growers identify where production may be falling short of potential. The guide draws on detailed analysis of high-yielding winter barley crops grown across the UK over a number of seasons and includes sections examining all stages of growing barley, from establishment to final yield and quality.

With new EU limits on mycotoxin levels for cereals entering the food chain introduced in July 2006, HGCA has devoted resources to ensuring growers are armed with the knowledge they need to comply with the changes in legislation. Working in partnership with the Food Standards Agency, a five-year project is looking at reducing the risk of Fusarium mycotoxins. Variety choice and agronomic decisions can affect the potential mycotoxin content of wheat. *Topic Sheet 91* alerted growers to key project findings as well as the new legal limits to ensure that growers are best placed to control the risk.

The HGCA post-harvest investigation gives a good indication of Fusarium mycotoxin levels present in the

season's cereals crops (Chart 2). Results to date indicate that only a very low percentage of samples are likely to exceed the legal limits. The investigation plays an important role in retaining confidence in the safety of UK wheat.

Building on previous HGCA research, which confirmed that an automatic sampler fitted to the bucket of a front-loader can provide a representative sample of a lorry-load of wheat or barley, HGCA is funding a project that could streamline grain testing by using samples collected on the farm. This has the potential to improve efficiency at the mill or malting. Initially, sampling this way would benefit the farmer, and in time it is hoped it would be accepted by commercial end-users.

Events have been held throughout the year to give growers the most up-to-date information on aspects of growing cereal and oilseed crops. Workshops focused on grain storage, oilseed rape and managing cereals were held across the country, while the biennial HGCA R&D Conference looked at 'Crop protection and the environment'.

To ensure that HGCA continues to fund a research programme that addresses both current and future concerns, consultation started on putting together the new R&D strategy which will be published in 2007.

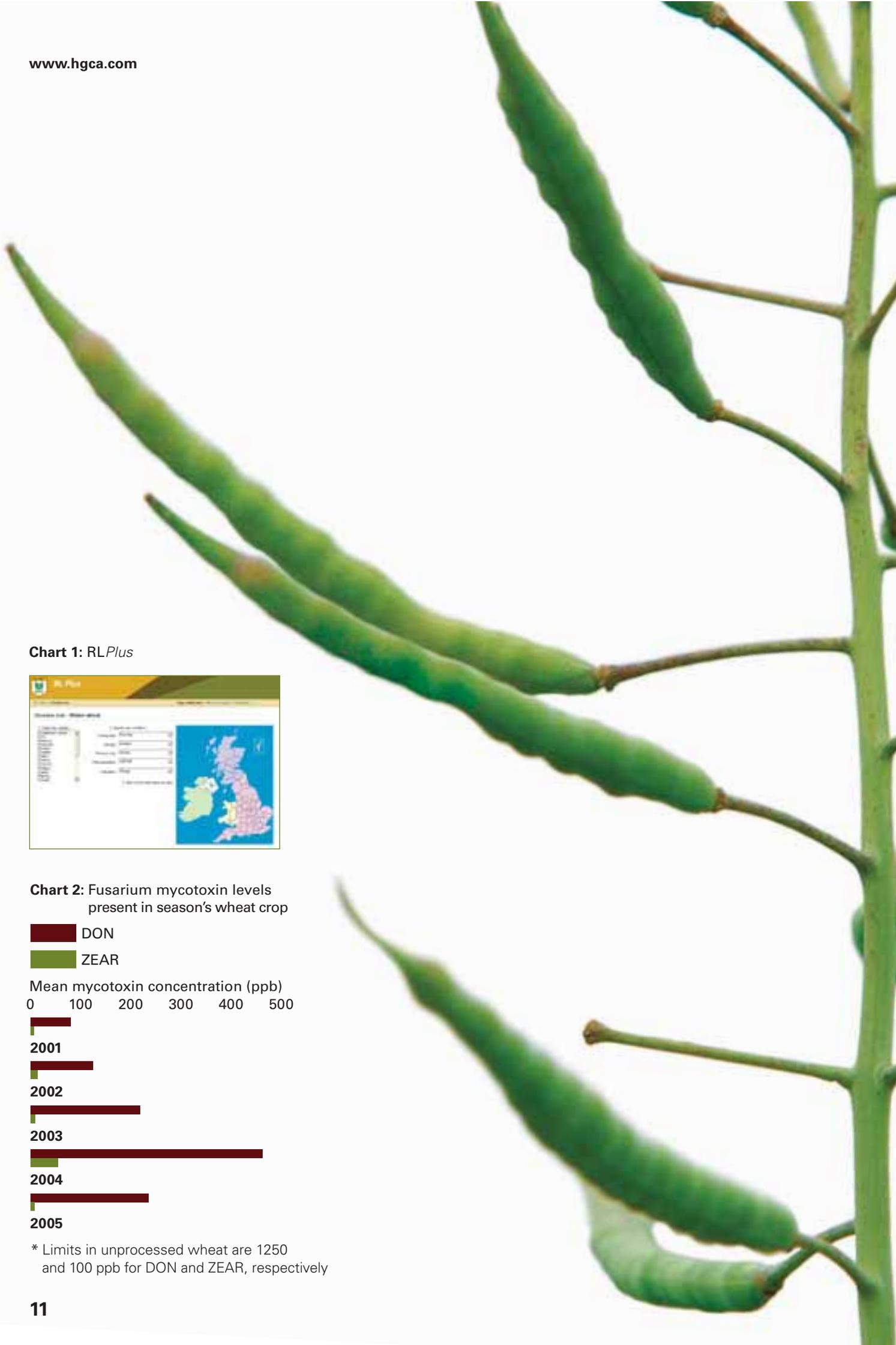
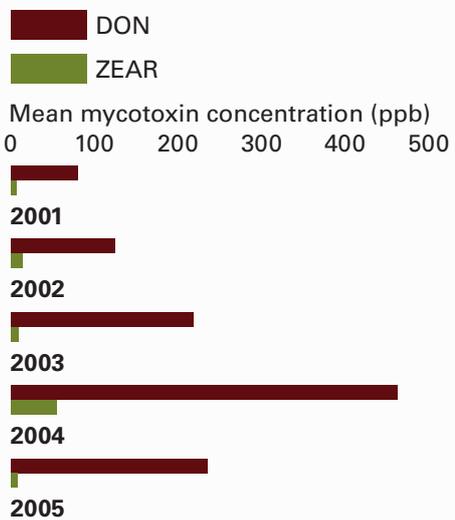


Chart 1: RLPlus



Chart 2: Fusarium mycotoxin levels present in season's wheat crop



* Limits in unprocessed wheat are 1250 and 100 ppb for DON and ZEAR, respectively

Managing the business and market volatility

Understanding the relationship between the farm and the market will give your business an advantage

Agriculture operates in a global market place and managing price volatility is increasingly important to maximise returns. Knowing your costs of production and understanding risk management strategies can help the grower position the business to get the right returns.

The HGCA risk management programme was given a vital boost this year when HGCA was awarded a £500,000 grant to improve price risk management within the arable industry. The funding for the three-year project was agreed by Defra through the Agricultural Development Scheme (ADS).

Promoting the benefits of price risk management has long been a priority for HGCA and the award will enable the expansion of the existing programme to increase the understanding of price risk management and reach a much larger audience. Combined with industry 'in-kind' contributions, the project will, over three years, help to establish a number of new initiatives designed to bring about a greater understanding of these business management techniques.

Over 100 workshops designed specifically for growers are planned. These events started this year and, to date, 22 have been held across the country reaching an audience of over 200 growers. The half-day workshops aim to get to grips with risk management strategies to help combat increasing market uncertainty. The sessions are interactive ensuring that growers have the opportunity to test their own pricing strategies as well as to ask questions. More advanced workshops will be held next autumn.

Combined with this project is CropBench, the subject of another ADS award to HGCA made last year.



This is an online tool to enable businesses to compare production costs. CropBench provides the foundations for a more cost-effective arable sector. It allows farmers to compare cost and efficiency factors with each other to enhance long-term competitiveness and sustainability. Establishing production costs is fundamental to running an efficient business. It is only by understanding them that growers can decide on the price they need to generate a profit margin. CropBench enables growers to be confident about their costs, that in turn allows them to decide on the risk management strategies that will work for them.

Fifteen Arable Business Groups, each with 10-20 cereal growers, have already been set up to enable participants to benchmark growing costs and improve their prospective businesses through increased collaboration. These groups allow farmers to regularly get together and share ideas and concerns, and are a new concept that has proved a popular initiative. Further groups are currently in development including one for organic growers.

These groups operate on an entirely confidential basis. Each group can decide whether to share their information on a group or individual basis. Once the data is entered, the grower can view the results and compare his own costs both against the rest of the group and



against averages drawn from all the information stored on the CropBench database.

The HGCA website has been developed to offer visitors a complete source of market information (*Chart 1*). The new section is dynamic and interactive and is frequently updated with the latest market prices and relevant graphs together with market news and in-depth commentary. The new service launched in June replaced the existing HGCA daily closing report and provides a more useful and cost-effective way of disseminating information. It also contains links to the new HGCA Knowledge Centre.

The HGCA Knowledge Centre (*Chart 2*) has been developed to provide relevant knowledge in a user-friendly format. The Centre contains modules that focus on applying risk management techniques, current market conditions and EU cereals policy. Another online tool designed to help growers monitor the impact of changing market prices on their business is the Farm Income Monitor. Providing a choice of different farm types, this tool helps to identify points at which forward prices might offer the opportunity for profitable action. It tracks price movements and shows the effect on net farm income.

Chart 1: HGCA website
Market Information



Chart 2: HGCA website
Knowledge Centre



Promoting grain within a healthy balanced diet

A healthy balanced diet will help ensure a healthy future

Explaining the nutritional benefits of cereal and oilseed products as part of a healthy, balanced diet encourages consumption and promotes the role of agriculture in providing food for the nation.

The theme of this year's Farmhouse Breakfast campaign, 'Make Time For It', focused on the nutritional value and importance of starting the day with a healthy, balanced breakfast, and highlighted the quality and diversity of sourcing regional and local breakfast produce.

The campaign was launched with the results from a national YouGov breakfast survey, commissioned by HGCA and the Association of Cereal Manufacturers. This assessed people's morning activities and included statistics on the number of people who make time for breakfast (*Chart 1*). This was followed by over 1500 events held across the country, enlisting the help of 78 partner organisations.

A 'breakfast champion' national competition was held to celebrate the Farmhouse Breakfast campaign and attracted a good number of entries from schools and businesses around the country. The competition promoted the importance of breakfast and entrants were judged on healthy, delicious and locally-sourced produce.

This year's week was the widest and most successful to date. The campaign brought together many areas of the food industry from cereal growers to small producers, farmers markets, caterers and retail outlets.

Research suggests that eating wholegrains are a low priority in the UK, with nine out of ten adults eating less than the three servings a day recommended in the US. With this in mind, HGCA launched its Wholegrain Goodness campaign in 2005. The campaign, designed to re-ignite



consumer interest in wholegrains, coincided with high profile and extensive advertising in using wholegrains to sell cereal products which manufacturers have been using to great effect.

As part of the campaign, HGCA published a topic sheet *Oilseed rape: more than a pretty yellow flower*. This outlines the benefits of oil pressed from the seeds, which has a nutritional profile similar to olive oil.

HGCA also published a series of topic sheets on health and nutrition during the year. Covering a range of topics from healthy heart and blood pressure to weight management, they explained the benefits of including wholegrains in the diet.

The 'Food - a fact of life' website was launched. This is a new resource aimed at teachers to provide a central store of information on different aspects of food and nutrition. This joint levy body initiative has proved very popular and in the 6 months to May 2006, the website had received over two million hits with over 7,000 schools signed up for email updates from the site.

Complementing the website, and in a joint venture with the Flour Advisory Bureau, HGCA published a range of education resources designed to help children make the link from the food on their plate to fields and the farm. *Let's bake and party*, a party-planners pack and *Let's bake and celebrate*, a fun cookery resource for after-school

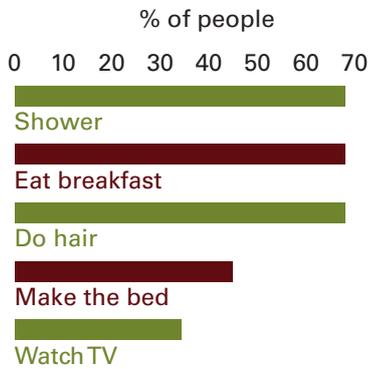
clubs, are designed to help explain the benefits of a healthy diet including cereal products.

As part of a Food Chain Centre initiative, HGCA also supported the dunnhumby Academy, a joint project between dunnhumby and Kent Business School, which provides UK farmers and levy-payers with insights into the shopping behaviour of over 12 million UK consumers.

This covers research into the areas that are likely to benefit cereal and oilseed suppliers and processors. The information from the analysis can be used to develop brands of cereal or oilseed-derived products, and answer questions about potential customers and the likely size of a market. The findings from the breakfast cereals report reveal a growing demand in the sector, with the value of hot cereal products eg porridge, health and organic brands showing the highest levels of growth (*Chart 2*).

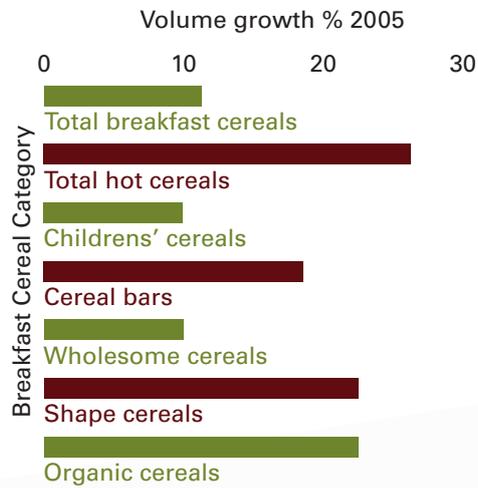
The products successful in HGCA Enterprise Awards for food are all designed to meet the increasing demand for healthy products and reinforce the HGCA campaign to promote the goodness of wholegrain in the diet.

Chart 1: National YouGov survey results



What do you do before leaving the house in the morning?

Chart 2: Growth of breakfast cereals in supermarket shopping using dunhumby data



Breakfast cereal category



Securing funds and developing new partnerships

Adding value to levy income to ensure maximum benefit for levy-payers

HGCA is able to use levy funds to access funding from other sources. Building effective partnerships and working with all parts of the grain chain to ensure a sustainable future for UK agriculture are key to our success.

In 2005/06 HGCA secured funding of £1 million from non-levy sources. For the period 2001 to 2008, projects worth £8.1 million have been initiated with HGCA business development funding (*Chart 1*).

HGCA is now halfway through a Cereals Industry Forum programme which commenced in January 2005. The projects will improve the competitiveness of the cereals chain between seed and the retail shelf. Defra and DTI funding of over £2.5 million is being used to good effect to directly benefit businesses that use home-grown cereals in their food production processes.

To date, four of the planned eight Value Chain Analysis projects have been completed covering biscuits, beer, bread flour and animal feed. These projects provide companies with a transparent map of their supply chains. The performance of the supply chain is then measured and steps are identified to develop a better-functioning chain.

More than 20 post-farm gate businesses have benefited from Promoting Business Excellence (PROBE) work which concentrates on benchmarking companies' performance and processes against a world-class model (*Chart 2*). It provides companies with a validated assessment of their current performance as well as a ranked list of strengths and weaknesses. Factory floor processes have been made more efficient in six companies who have participated in the Masterclass programme. These



aim to improve product flow and improve a measurable aspect of quality, cost or service.

It is estimated that over 700 businesses involved in the grain chain have benefited directly from the work of the Cereals Industry Forum. In addition, HGCA has been active in rolling out the generic lessons learned by the work to the industry as a whole.

Having gained the status of a DTI Accredited Trade Organisation, HGCA is eligible to apply for government support for its export activities. This has been a valuable source of funding for British Cereal Exports projects. In the current year, £66,000 has been secured for activities in Egypt, Morocco, Europe and for the export branding project. Funding has also been secured for the joint project with MAGB to develop the Assured UK Malt brand.

The external funding does not include income generated for research projects. Currently, for every £1 of levy income spent on R&D projects an additional £3 is obtained from non-levy sources. On an annual basis, this equates to an investment of £4 million generating £12 million funding, ensuring that research is in place to protect the future of the industry.

Such projects as the new UK-wide initiative to monitor grain for potential contaminants has benefited from



a joined-up approach involving funding and expertise from HGCA, BRi, MAGB, nabim and AIC. This enabled the project to cover all aspects of grain contamination and provide answers to benefit the whole industry.

As well as securing funding from outside sources, HGCA has strengthened its programme of sharing knowledge and working with new and existing partners. HGCA has also profited from exchanging ideas and sharing experience with comparable organisations in France and Germany.

Central government's drive to move responsibility and funding to the English regions has increased the importance of working effectively with Regional Development Agencies. With this in mind, new contacts have been developed. Links with partners in Scotland, Wales and Northern Ireland have also been improved.

HGCA has also stepped up its collaboration with the other sector bodies. The Applied Research Forum, which brings together all seven of the agricultural and horticultural levy bodies, held a workshop on soil management. The event was the second joint workshop and several areas for increased collaboration were identified as a result. The levy bodies are also working together on various aspects of nutrition including launching the 'Food – a fact of life' website.



Chart 1: Value of projects secured through HGCA business development
 (phased over eight years from 2001/02 as at 30 June 2006)

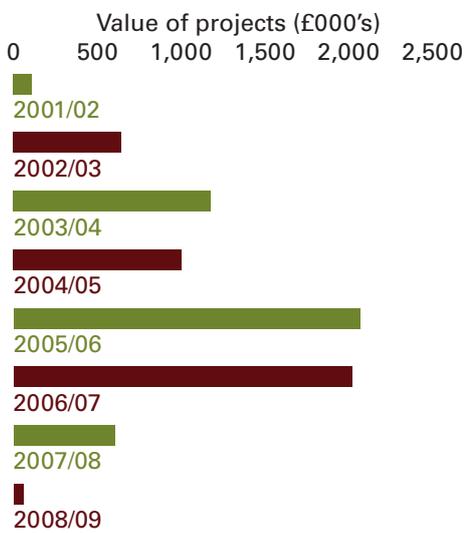
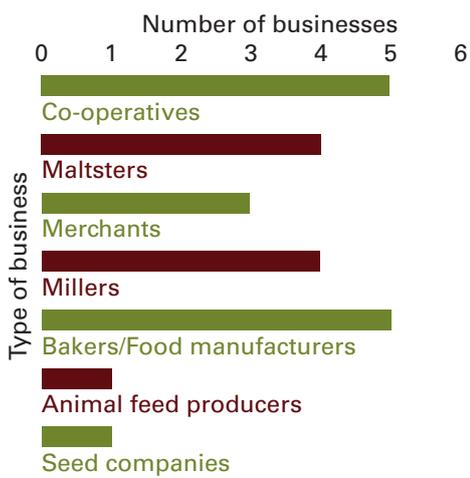


Chart 2: Post-farm gate businesses involved with PROBE 2005/06



Developing better communication channels

Market information and research results are of little use if levy-payers are not kept informed.

Ensuring that HGCA activities are communicated to our levy-payers is key to our success. HGCA cannot make a difference if the messages are not effectively disseminated to those they are designed to help.

HGCA has an ongoing programme of improving our customer details. A new database will allow us to profile our customers and enable us to build a robust data store to help in more effective targeting of our information.

This year, marketing communications plans were introduced to the organisation. Each plan focuses on a particular activity and forms part of an overall communications strategy that will offer increased value for levy-payers. Each activity will have quantifiable objectives and will be assessed against agreed criteria to ensure that it has performed successfully.

New HGCA style guidelines will ensure consistency in the various publications, email updates and presentations that HGCA delivers. The branding refresh will offer levy-payers a clearer, modern look that is recognisable as HGCA. The style guidelines have been developed to incorporate all of HGCA's audiences including export markets and consumers.

HGCA places great emphasis on the need to get out and meet our levy-payers and has, this year, offered an extensive events programme. Face-to-face meetings enable staff to engage with our audience which promotes a better understanding on both sides. This year we have reached a combined audience of 13,286.

Grower feedback has shown that the format that works best for them is half-day workshops in small groups that are strong on interactive audience



involvement. With this in mind, HGCA offered a series of workshops covering growing oilseed rape, managing cereals in challenging times and grain storage. The very popular Topic Breakfast format was developed ensuring that HGCA can address specific areas on request and offer good regional coverage.

E-communications has grown this year with a malting barley e-conference, a new family of e-newsletters and the Wheat Disease Management Guide designed specifically for e-format. The use of email has overtaken fax and is now the most widely-used form of communication after post (*Chart 1*). Electronic feedback forms have been developed to ensure that HGCA responds to customer comments.

The HGCA Knowledge Centre, a web-based, teach-yourself aid, covers a variety of areas with particular focus on risk management strategies. This will be further developed next year to incorporate information on many HGCA activities.

The award-winning HGCA website has been further developed and now features a variety of new tools. Helping growers keep on top of drying and cooling grain in the store, the Safe Storage Time Calculator, is a new feature on the website. The tool uses information on the moisture and temperature levels for stored grain to assess risks from mould and mycotoxin development, loss

of germination and the potential risk of attack by insects and mites. It operates a system of alerts to show the grower when risks become critical.

Other improvements on the website include updated appropriate fungicide dose information, and the newly-designed Market Data Centre and markets webpage. The numbers of visitors to the site has continued to increase (*Chart 2*) and HGCA will continue to exploit the web for communications purposes and operational efficiencies. An online booking form is planned for next year.

As well as improving external communications, HGCA has developed a new intranet to help build internal communications. This improves the sharing of information amongst staff and is particularly important in keeping staff up to date when working away from the office.

Chart 1: Recognition of receipt of HGCA information via fax or email

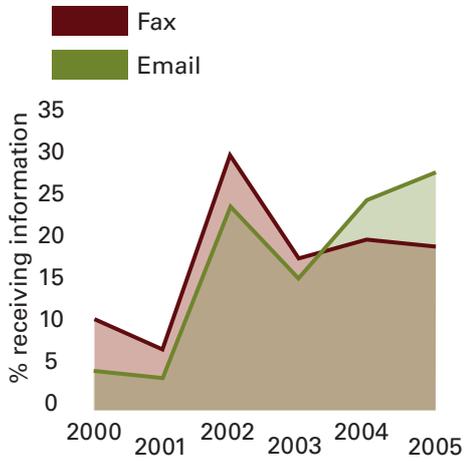
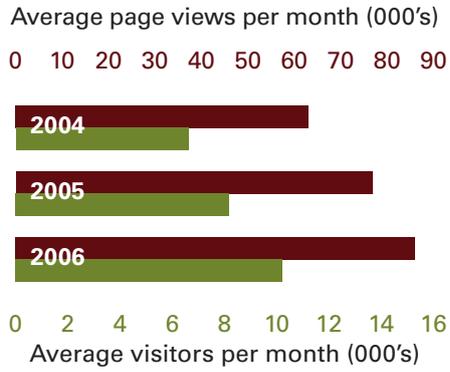


Chart 2: Monthly averages for traffic to HGCA website

■ Average page views per month
■ Average visitors per month



Maintaining and improving operational efficiency

Ensuring that levy funds are spent effectively to give best value for money

HGCA is constantly working to ensure that all our activities are carried out as cost-effectively as possible.

To ensure that HGCA adopts a robust risk management strategy, a risk register has been put together that identifies possible threats to the business. This covers a variety of scenarios including key personnel leaving, non-levy funding being withdrawn and reduced crop size resulting in reduced income. The risk management system has now been fully integrated into the running of HGCA.

As part of this process, HGCA has put measures in place to ensure that the business could be run without access to the office building. A key part of this is the Virtual Private Network which enables staff to access all information when they are working from home, in the regions or abroad. This has enabled greater flexibility in working practices.

To ensure that all income is spent effectively and that HGCA's programme of activities addresses the needs of our levy-payers, the annual Farmer Benchmarking Survey was conducted. This year's results showed that the promotion of non-food uses of grain and providing information to improve farm profitability were the most important categories to farmers and that they would like more information on the work that HGCA is doing in these areas (*Chart 1*).

HGCA is constantly appraising its activities to ensure that we are offering best value to our levy-payers. With this in mind, a group has been established to place a value on all HGCA activities to ensure that there is a consistent process of evaluating everything that we do, both at the planning stage and when evaluating results. The process included



consultation with growers and traders and results will be incorporated into future publications and marketing communications planning.

Part of this process is the targeting of information so that only those who need to know receive the information. As part of our customer relationship management, a new database has been installed that allows us to profile levy-payers and be more flexible in segmenting different groups by their interests. This will ensure that HGCA is better able to effectively target its information. It will also enable HGCA to introduce online ordering offering an easier process to customers while saving time and money.

The HGCA Recommended Lists database was brought in-house this year. This will bring about significant cost savings over previous arrangements. It also ensures that this valuable asset, which contains detailed data on all the Recommended Lists trials is held by HGCA on behalf of levy-payers. HGCA will have easy access to the wealth of data which will now be stored in a format that is backed by up-to-date software.

An external consultancy agency was used to conduct this year's staff survey. They introduced a new web-based form for feedback and the response rate increased to 91 per cent. Levels of satisfaction showed improved results across the organisation (*Chart 2*).



This year, HGCA was accredited with 'Investors in People' status for another three years, recognising the importance HGCA places on staff and their development through experience and training. A quote from the IiP assessment reads 'HGCA continues to display a highly professional culture, tightly focused on bringing benefits to levy-payers and willing to continually evaluate its progress in so doing'.

In order to ensure that the levy system is fair, all those that should pay need to do so, and considerable time and energy has been devoted to ensuring that anyone trading or processing grain has paid the levy. HGCA has worked with the trade to identify companies that should be registered.

Chart 1: Top 5 HGCA activities of importance to growers in 2005

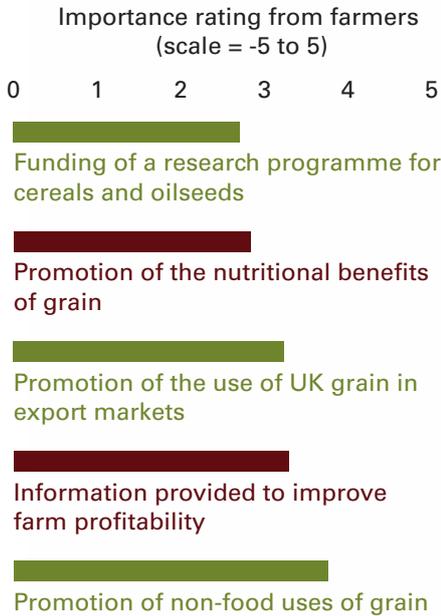
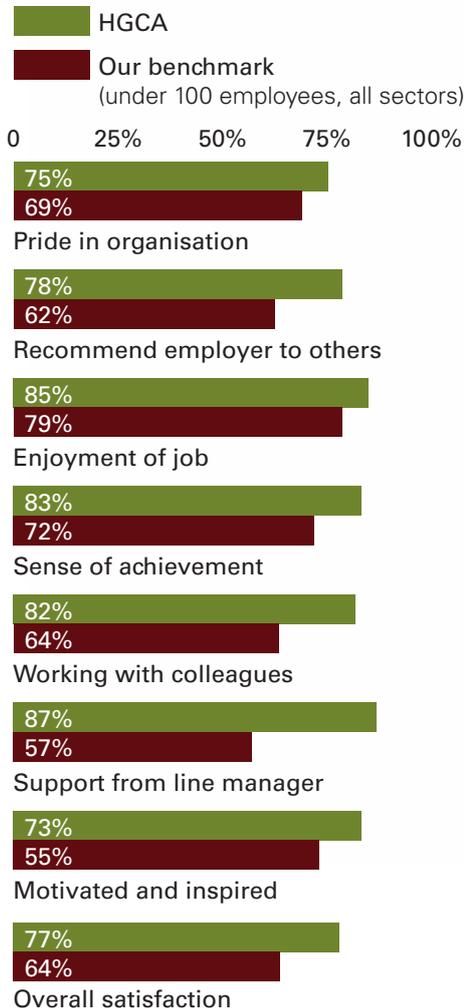


Chart 2: HGCA employee satisfaction ratings 2005



'HGCA continues to display a highly professional culture, tightly focused on bringing benefits to levy-payers and willing to continually evaluate its progress in so doing'.

Performance targets 2006/07



Exploiting existing market opportunities

- Monitor and report on all markets
- Ensure a strong RL focus on markets
- Dissemination of results from CIF management studies
- Develop Phase II of CIF Strategy
- Establish stronger international links
- Publish consumer reports based on dunhumby data

Developing new markets

- Ensure that Carbon Accreditation reflects DfT, Defra and farming's needs
- Service supermarkets requirements on biofuels
- Assess variety needs for biofuels and other industrial uses
- Develop strong industrial crop research programme
- Strengthen links with Enterprise Award winning companies

Meeting market needs cost-effectively

- Publish new strategy for HGCA research and development
- Develop and integrate work on wheat disease management
- Co-ordinate work on variety improvement
- Communicate safe, effective spray application techniques
- Communicate soil management strategies
- Incorporate Farm Income Monitor into CropBench project

Managing the business and market volatility

- Disseminate details of policy changes and their implications
- Report on the causes and persistence of market volatility, and define key issues for risk management purposes
- Assess risk management techniques in relation to their application to grain and oilseed markets
- Build management skills activities into industry professional development programmes
- Develop links with processors to establish their risk management needs



Promoting grain within a healthy balanced diet

- Continue to develop the wholegrain message
- Extend Farmhouse Breakfast into an annual, regional campaign for farming
- Publish guidelines to prevent Fusarium mycotoxins in wheat



Securing funds and developing new partnerships

- Explore and identify new partnership opportunities
- Improve HGCA links with national, devolved, regional, international and commercial partners
- Develop and implement more effective collaboration with other sector organisations
- Increase current levels of matched funding
- Secure additional outside funding



Developing better communication channels

- Continue to exploit use of web for operating and communications purposes
- Implement marcomms plans
- Review all internal and external communications
- Establish refreshed branding guidelines
- Improve performance through customer feedback



Maintaining and improving operational efficiency

- Review financial reporting, budgeting and forecasting processes
- Recruit, retain and develop a highly-skilled, flexible team
- Monitor and recommend appropriate courses of action associated with the implementation of initiatives arising from the Levy Bodies Review
- Carry out review of audit processes
- Produce value statement for all relevant HGCA projects

Financial statements 2005/06



Contents

Financial review of the year	26
Remuneration report	28
Audit certificate and report	29
Consolidated income and expenditure account	30
Consolidated balance sheet	31
Balance sheet	32
Consolidated cash-flow statement	33
Consolidated reserves	34
Notes to the accounts	35
Performance against key financial targets	44
HGCA Financial statistics	45

Financial review of the year

Introduction

The Home-Grown Cereals Authority (HGCA), established by the Cereals Marketing Act 1965 has, with its subsidiary company, a remit to improve the production and marketing of cereals and oilseeds grown in the UK.

Financial results

HGCA's result for the year, before the surplus on disposal of the long term investments, shows a surplus of £0.8 million (2004/05 surplus £0.1 million), attributable to cost savings made against budget and above budget income. An accumulated surplus on the General Reserve (Income and Expenditure Account) of £4.9 million is carried forward.

For the third year HGCA has fully implemented the Pension Accounting Standard FRS 17. The effect has been to create a provision for pension liabilities of £0.5m. Designated Reserves have been reduced by the same amount to £3m. Consequently the amount available to contribute to outstanding commitments should HGCA be wound up, is maintained at £3.5m, by this combination of pension provision and Designated Reserves. Again this year, expenditure has been reported on an activity basis to provide better information to stakeholders on the allocation of funds.

Payment policy

It is the policy of HGCA to pay accounts according to suppliers' payment terms or, where such terms are not specified, to pay within 30 days of agreement of the amount invoiced.

Employees

HGCA is supported by a dedicated team of permanent staff. The executive directors meet regularly and are charged with disseminating policy to staff through a system of team briefing and departmental meetings. HGCA has a policy of equal opportunities and offers employment to a suitably qualified person whenever vacancies occur.

Details of the key functions of HGCA, its Board members, committees and senior management are shown on pages 46 and 47. HGCA's future plans and activities are shown on pages 22 and 23 of the Annual Report.

Crop Evaluation Limited

A wholly owned subsidiary company, Crop Evaluation Limited manages the *HGCA Recommended Lists* of varieties for cereals and oilseeds.

Grant assisted projects

A major achievement this year has been our success in securing further project funding from non-levy sources, including the Cereals Industry Forum projects valued at £5.4m and substantially funded by Defra/DTI grants. Whenever possible these large projects are managed by the HGCA core complement of staff; however, where this is not possible, additional staff are recruited and funded from project income.

Research projects

The total value of research projects managed by HGCA at 30 June 2006 stood at £50.8m (2005 £43.5m). This comprised funding within the Sustainable Arable LINK programme (and other LINK programmes) attracting industry and governmental financial support totalling £37.5m (2005 £31.0m), together with HGCA funding of £13.3m (2005 £12.5m), over the lives of the projects.

Statement of responsibilities

HGCA is required to keep proper accounts and to prepare statements of account for each financial year in such form as the 'Ministers*', with the approval of the Treasury, may direct. A copy of their direction is shown on page 17 of the 1996/97 Annual Report and Accounts or can be obtained from HGCA.

In preparing these financial statements, HGCA's objectives have been to:

- give a true and fair view of the financial affairs of HGCA
- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- follow applicable accounting standards, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis.

Corporate governance

HGCA is governed by members of the Board who are appointed by the Ministers. The Board's Chairman and Deputy Chairman are independent and the other Board members represent the interests of producers, traders and processors.

In keeping with the combined code on corporate governance, the Board has appointed three committees namely, Audit, Finance and Remuneration and has set up advisory committees from the industry for each of the services it provides. Ministers appoint Board members and determine their salaries. Board members are corporately responsible for the overall operation of HGCA and stewardship of its funds. The day-to-day management of HGCA is in the hands of full-time executive directors, led by the Chief Executive. The Chief Executive has responsibility for managing HGCA's business and, with the Director of Finance and Business Services, for the control and security of HGCA's assets, preparation of the accounts and compliance with the *Standing Orders* and *Standing Financial Instructions* laid down by the Board.

Auditor

HGCA's external auditor is the Comptroller and Auditor General. Services are limited to the statutory audit. Items over and above this are by arrangement. During 2005/06 HGCA requested the NAO to carry out a review of the HGCA levy audit procedures. A sum of £4,600 was paid for this service.

* Ministers

The Secretary of State for Environment, Food and Rural Affairs
The Scottish Minister for Environment and Rural Development
Minister for Environment, Planning and the Countryside, National Assembly for Wales
The Northern Ireland Department of Agriculture and Rural Development

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of HGCA's policies, aims and objectives, approved by the Departments' Ministers, whilst safeguarding the public funds and HGCA's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Government Accounting*.

I attend with the HGCA Chairman twice-yearly liaison meetings with invited representatives from the UK agriculture departments. These meetings review HGCA's progress in key areas, eg service delivery and risk management, and enable agriculture departments to comment on performance and accountability arrangements.

Purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on a continuing process designed to determine the organisation's appetite for risk before identifying and prioritising the risks to the achievement of HGCA's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in HGCA for the year ended 30 June 2006 and up to the date of approval of the *Annual Report and Accounts* and accords with Treasury guidance.

Capacity to handle risk

Strategic leadership on risk management issues comes from the Audit Committee, which is able to draw on the expertise of the Board with experience of the private sector and other government bodies.

The risk and control framework

The Risk Register, established in 2004, ranks risks in terms of probability and impact; appropriate actions have been identified and risk owners appointed for each risk.

A formal risk management review process has been established internally and is reviewed by the Directors on a quarterly basis and by the Audit Committee on a six monthly basis.

The prime area of risk identified was 'Change in Status of HGCA'. Measures implemented to reduce this risk included proactive co-operation with the Levy Body Reviewer, and continuing collaboration with the other Levy Bodies and Defra.

The second most significant risk is act of terrorism. HGCA has a Disaster Plan which was implemented effectively as a result of the two recent incidents of terrorism in London. The Directors have since initiated a review of business continuity plans in order to minimise the impact of such events on service delivery.

This year an internal audit review of the Risk Management system was carried out by Moore Stephens. Following their recommendation and assistance, a Risk Policy was produced together with an action plan covering the next 12 months for further improvements to the Risk Management processes. This was reviewed and approved by the Audit Committee in August 2006.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive Directors and managers within HGCA who have responsibility for the development and maintenance of the internal control framework, and comments made by the National Audit Office in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

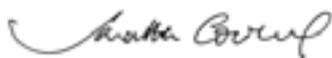
HGCA embraces the principles and requirements of good corporate governance and has established the following processes in maintaining and reviewing the effectiveness of the system of internal control:

- a non-executive Board which meets five times per annum to consider planning and strategic direction
- an executive Directors' Group which meets monthly to develop strategy and the plans for its delivery and to monitor progress via regular management reports
- comprehensive budgeting systems with an annual budget which is reviewed and approved by the Finance Committee and the Board of HGCA and submitted to Agricultural Departments throughout the UK
- regular reviews by HGCA's Finance Committee of periodic and annual financial reports against forecasts
- regular reports from the Board of HGCA's subsidiary, Crop Evaluation Limited, relating to business internal control
- six-monthly reports from the Audit Committee to the Board relating to internal and external audit, internal control, and risk management
- maintenance of an organisation risk register
- maintenance of a disaster recovery plan

The Audit Committee appointed Moore Stephens LLP to undertake the internal audit function, which is conducted in accordance with the Government Internal Audit Standards. They submit regular reports, which include their independent opinion on the adequacy and effectiveness of HGCA's system of internal control together with recommendations for improvement.

Disclosure of audit information to the Comptroller and Auditor General

So far as the Accounting Officer is aware, there is no relevant audit information of which the Comptroller and Auditor General is unaware. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Comptroller and Auditor General is aware of that information.



Jonathan Cowens
Chief Executive & Accounting Officer
20 September 2006

Remuneration report

Membership of the Remuneration Committee

The Members of the Remuneration Committee are non-executive Board Members appointed by the Board. It consists of a Chairman and at least three Board Members. The Chairman of the Board is the Chairman of the Committee. Membership at 30 June 2006 consisted John Page (Chairman), Douglas Morrison, Ivor Murrell, Sotiris Pappasolomontos and Christopher Ritson.

Membership is reviewed every three years or on termination of a Member's appointment. With the exception of the Chairman of the Board, Members may serve on the Committee for a maximum of six consecutive years. The Chairman of the Board will serve on the Committee for the duration of his or her appointment as Chairman of the Board.

Policy on the remuneration of the Board and Chief Executive

The remuneration of the Chairman of the Board is determined by Defra. The current remuneration is £26,673 per annum.

The remuneration of Board Members is determined by Defra. The current remuneration is £4,590 per annum.

The Chief Executive's salary and conditions of service are determined by the Chairman of the Board. The salary is reviewed annually with adjustments taking account of performance. The most recent review was in September 2005, when the Remuneration Committee recommended that the annual salary of the Chief Executive should increase by 2.13% with effect from 1 October 2005.

The Committee considers all aspects of remuneration and determines the specific remuneration packages including service contracts, basic annual salaries, bonus schemes and benefits in kind for all HGCA staff.

Methods used to assess whether performance conditions are met

The Committee considers and, if appropriate, approves the Chairman of the Board's recommendation concerning the salary and incentive scheme for the Chief Executive on an annual basis.

In order to achieve this, the Committee is provided with a report summarising public sector guidelines and a schedule detailing outturn against Defra approved targets.

On this basis, the Remuneration Committee recommended a bonus for the Chief Executive for the year ended 30 June 2006 of £2,000

Proportion of remuneration which is subject to performance conditions

None of the remuneration of any Board Member is subject to performance conditions.

Policy on duration of contracts and notice periods and termination payments

Ministers have the right to terminate the appointment of any Board Member for any of the reasons specified in the 1965 Act (Schedule 1, paragraph 4). Board Members may resign by notice given in writing to the Secretary of State or other Ministers, if appropriate. No notice period is required and no termination payments apply.

The notice period for the Chief Executive is determined by the Board. The Chief Executive's service contract is terminable by either party, and requires 6 months notice. No termination payments apply.

Pension arrangements

The Chief Executive is entitled to a percentage of his basic annual salary to be paid into the HGCA Pension Plan which is a (non contributory) defined benefit scheme. The pension arrangements are the same as those for all other employees who are members of the scheme. Employer's contributions of 14.125% (average for the year) of gross salary were paid during the year (2004-05 11%).

Benefits in kind

The Chief Executive is entitled to private medical insurance of £614pa (2004-05 £284pa)

Remuneration of the Board and Chief Executive

This, together with information on accrued pension benefits (Chief Executive only) is detailed in Note 6 to the Accounts.

Board Member/Chief Executive	Appointment	Completion	
John Page	3 June 2004	2 June 2007	
Christopher Ritson	3 June 2000	2 June 2007	
John Best	3 June 2003	2 June 2009	
Andrew Davies	3 June 2005	2 June 2008	
Ian Douglas	3 June 2005	2 June 2008	
David Halligan	7 July 2004	2 June 2007	
Peter Knight	3 June 2005	2 June 2008	
Rad Thomas	3 June 2005	2 June 2008	
Julian Hasler	3 June 2002	2 June 2008	
Douglas Morrison	3 June 2000	2 June 2009	
Sotiris Pappasolomontos	3 June 1999	2 June 2008	
Ivor Murrell	3 June 2004	2 June 2007	
Michael Sheppard	3 June 1999	2 June 2008	
Jonathan Tipples	3 June 2001	2 June 2007	
Stewart Vernon	3 June 2005	2 June 2008	
Ted Wright	3 June 2006	2 June 2009	
Jonathan Cowens	1 October 2004	not applicable	 Jonathan Cowens Chief Executive & Accounting Officer 20 September 2006

The certificate and report of the Comptroller and Auditor General to the Houses of Parliament and the Scottish Parliament

I certify that I have audited the financial statements of HGCA for the year ended 30 June 2006 under section 21(2) of the Cereals Marketing Act 1965 as amended by the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of HGCA, the Chief Executive and auditor

HGCA and the Chief Executive are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with section 21(2) of the Cereals Marketing Act 1965 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of responsibilities on page 26.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with section 21(2) of the Cereals Marketing Act 1965 and HM Treasury directions made thereunder.

I also report whether, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if HGCA has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on page 27 reflects HGCA's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of HGCA's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Annual Report, the unaudited part of the Remuneration Report and the Management Commentary. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited.

It also includes an assessment of the significant estimates and judgments made by HGCA and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to HGCA's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with section 21(2) of the Cereals Marketing Act 1965 and directions made thereunder by HM Treasury, of the state of HGCA's affairs as at 30 June 2006 and of its surplus for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with section 21(2) of the Cereals Marketing Act 1965 and HM Treasury directions made thereunder; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.



John Bourn
Comptroller and Auditor General
3 November 2006

National Audit Office
157-197 Buckingham Palace Road
Victoria, London
SW1W 9SP

Consolidated income and expenditure account for the year ended 30 June 2006

	Notes (p35-43)	2006 £'000	2005 £'000
Expenditure			
Service delivery - what we did			
Research & Development and variety evaluation		3,648	4,090
Export and market development		1,560	1,488
Market services		642	712
Grant assisted projects		745	455
Strategy - Board, CEO and business development		434	476
		7,029	7,221
Communications - delivering the message	2	1,384	1,385
Support costs - making the operation work	3	1,718	1,501
		10,131	10,107
Income			
Revenue sources which fund our services			
Levy income	4	9,495	9,362
Grant assisted projects		827	383
Other income including grants	5	610	458
		10,932	10,203
Operating surplus for the year before tax		801	96
Notional cost of capital		(285)	(259)
Taxation	10	(14)	(3)
Net operating surplus/(deficit) after tax		502	(166)
Reversal of the notional cost of capital		285	259
Result for the year		787	93
Surplus on disposal of long term investments		342	539
Surplus for the year after taxation		1,129	632

The notes on pages 35 to 43 form part of these accounts.
All income and expenditure relates to continuing operations.

Consolidated balance sheet

as at 30 June 2006

	Notes (p35-43)	2006 £'000	2005 £'000
Reserves			
General reserve		4,930	3,721
Designated reserves	12	2,963	3,021
		7,893	6,742
Fixed assets and long-term investments			
Fixed assets	13	169	130
Investments	14	-	3,664
		169	3,794
Current assets			
Debtors			
Levy income receivable		2,178	2,122
Other debtors and prepayments		842	515
		3,020	2,637
Cash and short-term investments		7,683	3,570
		10,703	6,207
Less: Current liabilities			
Provision for taxation	10	28	14
Project cost creditors		1,300	1,398
Other creditors and accruals	15	889	1,168
		(2,217)	(2,580)
Net current assets		8,486	3,627
Total assets less current liabilities			
Provisions for liabilities and charges	16	(225)	(200)
Net assets excluding pension liabilities		8,430	7,221
Pension liabilities	17	(537)	(479)
Net assets		7,893	6,742

The notes on pages 35 to 43 form part of these accounts.

Approved by the Board on 20 September 2006 and signed on its behalf by:

John Page:
Chairman

Jonathan Cowens:
Chief Executive & Accounting Officer

Gordon Bennett:
Director of Finance & Business Services





Balance sheet (excluding subsidiary company) as at 30 June 2006

	Notes (p35-43)	2006 £'000	2005 £'000
Reserves			
General reserve		4,930	3,721
Designated reserves	12	2,963	3,021
		7,893	6,742
Fixed assets and long-term investments			
Fixed assets	13	169	130
Investments	14	-	3,664
		169	3,794
Current assets			
Debtors			
Levy income receivable		2,178	2,122
Other debtors and prepayments		842	515
		3,020	2,637
Cash and short-term investments		7,683	3,570
		10,703	6,207
Less: Current liabilities			
Provision for taxation	10	28	14
Project cost creditors		1,122	1,167
Due to subsidiary		239	283
Other creditors and accruals	15	828	1,116
		(2,217)	(2,580)
Net current assets		8,486	3,627
Total assets less current liabilities		8,655	7,421
Provisions for liabilities and charges	16	(225)	(200)
Net assets excluding pension liabilities		8,430	7,221
Pension liabilities	17	(537)	(479)
Net assets		7,893	6,742

The notes on pages 35 to 43 form part of these accounts.

Approved by the Board on 20 September 2006 and signed on its behalf by:

John Page:
Chairman



Jonathan Cowens:
Chief Executive & Accounting Officer



Gordon Bennett:
Director of Finance & Business Services



Consolidated cash-flow statement for the year ended 30 June 2006

	2006 £'000	2005 £'000
Cash inflow/(outflow) from operating activities	408	(25)
Returns on investments and servicing of finance Interest received	248	159
Fixed assets investment Realisation	4,006	-
Capital expenditure Purchase of tangible fixed assets	(249)	(149)
Pension benefits Special contribution payment	(300)	(300)
Increase/(decrease) in cash	4,113	(315)

Notes to consolidated cash-flow statement

1 Reconciliation of operating surplus before tax to cash outflow from operating activities

Operating surplus before tax	801	96
Retirement benefits	80	65
Increase in debtors	(383)	(576)
(Decrease)/increase in creditors	(77)	346
Depreciation of tangible fixed assets	210	203
Dilapidation provision	25	-
Investment income	(248)	(159)
Cash inflow/(outflow) from operating activities	408	(25)

	Cash Flows £'000	30.6.06 £'000	30.6.05 £'000
2 Analysis of changes in net funds Cash at bank and in hand	4,113	7,683	3,570

Consolidated reserves as at 30 June 2006

Reserve movements incorporating the Statement of total recognised gains and losses

	General reserve		Designated reserve	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
At 1 July	3,721	3,024	3,021	3,008
Reverse pension scheme liabilities charged to designated reserve	(479)	(492)	479	492
	3,242	2,532	3,500	3,500

Statement of total recognised gains and losses

Surplus for the year after tax	1,129	632	-	-
Special contributions 2004 and 2005	-	600	-	-
FRS 17 - Retirement Benefits: Actuarial gains/(losses) on pension scheme	22	(522)	-	-
Total recognised gains and losses	1,151	710	-	-
Total before reallocation	4,393	3,242	3,500	3,500
Pension scheme liabilities reallocated	537	479	(537)	(479)
Reserves at 30 June	4,930	3,721	2,963	3,021

Notes to the accounts

1 Statement of direction and main accounting policies

These Financial Statements have been prepared in the form that the Secretary of State, the Scottish Minister, the Minister for Environment, Planning and the Countryside, National Assembly for Wales and the Northern Ireland Department of Agriculture and Rural Development, have, with the approval of the Treasury, directed under Section 21(2) of the Cereals Marketing Act 1965.

Accounting policies

i) The Financial Statements are prepared in accordance with best commercial practice which includes complying with the Statements of Standard Accounting Practice and the Financial Reporting Standards issued by the Accounting Standards Board and, although HGCA is not a company, where appropriate, the provisions of the Companies Act 1985.

ii) The accounts have been prepared under the historical cost convention as modified by the revaluation of fixed asset investments to market value.

iii) Income has been dealt with on an accruals basis.

iv) Depreciation is provided on fixed assets on the following bases:

a) fixed assets costing not more than £5k – in full in the year of acquisition

b) fixed assets costing more than £5k – in equal amounts over a 3 to 5 year period

Surpluses arising on the sales of assets are set off against the depreciation so charged.

v) HGCA operates a pension scheme providing benefits based upon final pensionable salary. The assets of the scheme are held separately from those of HGCA, being invested with insurance companies in managed funds. The contributions are determined by a qualified actuary with reference to the triennial valuations. HGCA has fully implemented the Pension Accounting Standard FRS 17. The cost of benefits accruing during the year in respect of current and past service is charged against operating profit. The expected return on the scheme's assets and the increase in the present value of the scheme's liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses. Any overall deficit is allocated to the designated reserve. The scheme assets are valued at market value; the scheme liabilities are actuarially calculated and discounted to present value using a sterling AA rated bond index; according to the difference, a pension scheme asset or liability is shown on the balance sheet.

vi) Investments: Fixed asset investments are included in the balance sheet at market value.

Current asset investments are stated at the lower of cost or market value.

vii) A notional average cost of capital employed during the year is shown on the income and expenditure account, in accordance with the Treasury Accounts Guidance. The prescribed rate of interest during the year was 3.5%.

viii) Other policies are, where applicable, disclosed in the relevant Notes to the Accounts.

Notes to the accounts

2 Communications costs - delivering the message

	2006 £'000	2005 £'000
Research & Development knowledge transfer	421	464
Website, customer database and IT support	506	496
Events, seminars and publications	457	425
	<hr/> 1,384	<hr/> 1,385

3 Support costs - making the operation work

	2006 £'000	2005 £'000
Finance, Human Resources and Facilities Management	533	577
Rents, rates and office maintenance	514	463
Depreciation	210	203
Legal, other fees and expenses	179	91
Insurances	46	51
Audit fees and expenses - external	16	18
Audit fees and expenses - internal	61	16
FRS 17 additional pension cost to be absorbed	159	82
	<hr/> 1,718	<hr/> 1,501

Notes to the accounts

4 Levy income

On 1 August 1987 the Home-Grown Cereals Authority Levy Scheme (Approval) Order 1987 (SI 1987/671) came into force. This was later amended with effect from 1 July 1990 by the Home-Grown Cereals Authority Levy (Variation) Scheme (Approval) Order 1990 (SI 1990/1316) and with effect from 1 July 1991, by the Home-Grown Cereals Authority Levy (Variation) Scheme (Approval) Order 1991 (SI 1991/1302), and with effect from 1 July 1997 by the Home-Grown Cereals Authority Levy (Variation) Scheme (Approval) Order 1996 (SI 1996/2843), and with effect from 1 August 2001 by Home-Grown Cereals Authority Levy (Variation) Scheme (Approved) Order 2001 (SI 2001/2687). The 1987 Scheme, as amended, provides for the imposition of levies on growers, dealers and processors of cereals. The Home-Grown Cereals Authority Oilseeds Levy Scheme (Approval) Order 1990 (SI 1990/1317) came into force on 1 July 1990 and provides for the imposition of levies on growers and dealers in oilseeds.

Levy rates were set by the Home-Grown Cereals Authority (Rate of Levy) Order 2005 (SI 2005/1380) which specified a cereal grower levy of 40p (2004/05 40p) per tonne, a cereal dealer levy of 43.3p (2004/05 43.3p) per tonne, processor (animal feed) levy of 4.0p (2004/05 4.0p) per tonne and a processor (other) levy of 8.25p (2004/05 8.25p) per tonne on deliveries of cereals as specified in the Order in the period 1 July 2005 to 30 June 2006. It also specified an oilseeds grower levy of 65p (2004/05 65p) per tonne and an oilseeds dealer levy of 65p (2004/05 65p) per tonne for the same period on deliveries of oilseeds as specified in the Oilseeds Levy Scheme. In the case of the dealer levies in relation to oilseeds and cereals, the dealer is entitled to recover from the grower from whom he has made the purchases a sum equal to the respective grower levy.

Levy rates and income are stated exclusive of VAT.

	Cereal		Processors		Oilseeds	Total	Total
	Growers	Dealers	Feed	Other	Growers	2006	2005
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Levy income							
Cereals levy: Grower	6,840	-	-	-	-	6,840	7,160
Dealer	-	565	-	-	-	565	591
Processor (feed)	-	-	237	-	-	237	234
Processor (other)	-	-	-	615	-	615	576
Oilseeds levy: Grower	-	-	-	-	1,280	1,280	1,019
Correction to prior year provision of final quarter out-turn	177	15	8	99	32	331	176
Income from levy gross	7,017	580	245	714	1,312	9,868	9,756
Commission paid to dealers for levy collection	(345)	(28)	-	-	-	(373)	(394)
Income from levy net	6,672	552	245	714	1,312	9,495	9,362
Tonnes – millions	17.6	17.6	6.2	8.7	2.0		
Levy rates – pence per tonne	40	3.3	4	8.25	65		

5 Other income

	2006	2005
	£'000	£'000
Publications and miscellaneous income	98	104
Defra services	109	109
Bank interest gross	248	159
Other grants	76	69
Other finance income	79	17
	610	458

Notes to the accounts

6 Remuneration

a) Directors' emoluments	Age at 30 June 2006	Joined HGCA	2006 £'000 Remuneration
Board members			
John Page <i>Chairman</i>	65	3 June 04	26
Professor Christopher Ritson <i>Deputy Chairman</i>	61	3 June 00	9

The remaining Board members received emoluments not exceeding £4,482 each.

The charge for Board members' remuneration £160k (2005 £137k) also includes the emoluments £18k (2005 £18k) of the Chairman and Directors of Crop Evaluation Limited, and of the Advisory Committee Chairmen whose combined emoluments amounted to £13k (2005 £19k). Board and Committee members' travel and subsistence expenses amounted to £49k (2005 £48k).

	Age at 30 June 2006	Joined HGCA	Salary £'000	Increase in accrued pension for year to 30 June 2006 £	Accrued annual pension entitlement at 30 June 2006 £
Executive Directors					
Jonathan Cowens <i>Chief Executive</i>	49	1 Nov 04	98	1,929	2,785
Gordon Bennett <i>Finance & Business Services</i>	59	5 Oct 98	69	1,384	8,282
Alastair Dickie <i>Crop Marketing</i>	59	1 Aug 99	81	1,590	9,035
Professor Graham Jellis <i>Research & Development</i>	59	1 Jun 99	71	1,642	8,308
Dr Alan Almond <i>Business Development</i>	48	1 Jun 88	64	1,878	18,349

Salary includes gross salary, bonuses, and any other benefits subject to UK taxation. Executive directors participate as normal members of HGCA pension scheme (note 17).

b) Staff employment costs	2006 £'000	2005 £'000
Salaries	2,086	1,945
Social security costs	172	179
	2,258	2,124
Short term contracts	60	70
Pension costs	409	564
	2,727	2,758

The above staff employment costs include costs relating to staff taken on to carry out project work funded by grant income.

Notes to the accounts

7 Staff numbers

	2006	2005
Average number of employees by activity (whole-time equivalents)		
Research & Development and variety evaluation	11	9
Export and market development	8	7
Market services	13	11
Grant assisted projects	3	2
Strategy - Board, CEO and business development	4	3
Communications - delivering the message	16	19
Support activities - making the operation work	10	10
	65	61

8 Research & Development project expenditure

Expenditure is charged against income in the year in which the work is undertaken. As at 30 June 2006 commitments for contracted projects amounted to £8.3 million (2005 £9.8 million).

9 Crop Marketing project expenditure

Expenditure is charged against income in the year in which the work is undertaken. As at 30 June 2006 commitments for contracted projects amounted to £0.6 million (2005 £0.7 million).

10 Taxation

Corporation tax is chargeable on interest receivable and the net trading income which accrues from the trading functions of HGCA.

	Group and Company	
	2006	2005
	£'000	£'000
Corporation tax at 30% (2005 30%)	14	3
Taxation charged to income and expenditure account	14	3

Tax reconciliation

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30%. The actual tax charge for the current and previous year differs from the standard tax rate for the reasons explained below:

	Group and Company	
	2006	2005
	£'000	£'000
Surplus on ordinary activities before tax	801	396
Tax at 30%	240	119
The tax effect of:-		
Income not chargeable for tax purposes	(3,132)	(2,972)
Expenses not deductible for tax purposes	2,906	2,856
Current tax charge	14	3

Notes to the accounts

11 Profit of parent company

HGCA's income and expenditure account is not presented as part of these accounts. HGCA's surplus for the year amounted to £1,129k (2005 £632k). HGCA's results for the year are identical to the group's consolidated results because Crop Evaluation Limited reported neither profit nor loss for the year – expenditure of the subsidiary was equally matched by sales revenue. (2005 CEL nil result).

12 Designated reserves

Should the Group be wound up there would be considerable outstanding liabilities stretching over a number of years for contractual commitments. It was agreed with Defra that a reserve fund of £3.5m be maintained to contribute towards covering such liabilities. Following the adoption of FRS 17 - retirement benefits, the pension fund liability, of £537k, has been charged to these reserves.

13 Fixed assets

	Group and Company	
	2006	2005
	£'000	£'000
Furniture and equipment		
Cost at 1 July 2005	1,420	1,332
Additions	249	149
Disposals	(61)	(61)
Cost at 30 June 2006	1,608	1,420
Depreciation provision at 1 July 2005	1,290	1,148
Charge for the year	210	203
Disposals	(61)	(61)
Depreciation provision at 30 June 2006	1,439	1,290
Net book value at 30 June 2006	169	130

14 Investments

	Group and Company	
	2006	2005
	£'000	£'000
Fixed asset investments		
Market value at 1 July 2005	3,664	3,125
Surplus on sale	342	-
Disposal proceeds	(4,006)	-
Market value adjustment	-	539
Market value at 30 June 2006	-	3,664
Historical cost	3,502	3,502

No tax is chargeable on the surplus arising from the disposal of the investments.

Subsidiary undertaking

HGCA, the company, holds a £1 nominal value ordinary share in a subsidiary undertaking, which represents 100% of the issued share capital of Crop Evaluation Limited (CEL). CEL, registered in England and operating in the United Kingdom, is working to produce the annual HGCA Recommended Lists for cereals and oilseeds.

Notes to the accounts

15 Other creditors and accruals

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Other taxes and social security costs	178	236	231	288
Pension augmentation	-	300	-	300
Sundry creditors and accruals	711	632	597	528
	889	1,168	828	1,116

16 Provisions for liabilities and charges

	Group and Company	
	2006 £'000	2005 £'000
Provision at 30 June 2005	200	200
Additional provision	25	-
Provision at 30 June 2006	225	200

Under the terms of the Caledonia House lease and on its expiry in 2007, HGCA is required to re-instate the office premises to their original condition. In accordance with Financial Reporting Standard 12 on provisions, HGCA has recognised and capitalised the full cost of this re-instatement as part of the cost of fixed assets. This cost is being depreciated over the remaining period of the lease, giving rise to an additional depreciation charge of £29k per year. This means that by the expiry of the lease HGCA will have charged the Income and Expenditure account with the full expected cost of re-instatement.

17 Pension scheme

HGCA operates a non-contributory pension scheme providing defined benefits to its members based on final pensionable salary. The assets of the scheme are held separately from those of HGCA, being invested with Insurance companies. The scheme has provision for pensions in payment to be increased by 5% per annum or the percentage shown in the Pension Increases Order if lower. If the percentage shown in the Order exceeds 5% per annum there is provision in the scheme for pensions in payment to be increased beyond 5% per annum at HGCA's discretion. Contributions to the scheme are charged to the income and expenditure account and are determined by a qualified Actuary on the basis of triennial valuations using the projected unit method.

The most recent triennial valuation date was 1 April 2005 and the report was issued to the Trustees in March 2006. At that date, the Actuary valued the scheme's assets at £7.96m and the liabilities were calculated at £8.56m. (Liabilities refer to the benefits accrued in respect of past service and based on projected Pensionable Salaries). The Actuary, taking account of HGCA's £300k lump sum contribution in October 2005, recommended an employer contribution rate of 23.6% which was agreed and implemented with effect from 1 April 2006. The next triennial valuation is expected in December 2008 based on a valuation date of 1 April 2008.

The contributions made by HGCA in the period 1 July 2005 to 30 June 2006 were at the rate of 11% for the first nine months and thereafter at 23.6% of pensionable salaries. In addition HGCA paid the costs of Group Life Insurance insured with Canada Life. The only contributions from the members were additional voluntary contributions. The pension charge for the year was £417k including £7.7k in respect of Group Life Insurance cost. (2005 £572k including Group Life £7.8k).

Notes to the accounts

17 Pension scheme (continued)

For purposes of FRS 17 disclosure, the Actuary has prepared a valuation as at 1 April 2005, updated to 30 June 2006. The Actuary has calculated a scheme deficit at 30 June 2006 of £537k (2005 deficit £479k) having used the following assumptions to assess the present value of the scheme's liabilities:

	30.6.06	30.6.05	30.6.04
Rate of inflation	2.8%	2.7%	2.9%
Salary escalation	4.3%	4.2%	4.4%
Increase to pensions in payment	2.8%	2.7%	2.7%
Statutory revaluation	2.8%	2.7%	2.9%
Discount rate (pre and post retirement)	5.2%	4.9%	5.7%

The fair value of the assets held in the scheme at 30 June with the expected rate of return for each category of asset is shown in the table below.

Scheme surplus calculation	2006 £'000		2005 £'000		2004 £'000	
Bonds	4,331	4.7%	4,072	4.5%	3,545	4.6%
Equities	4,345	7.6%	3,629	8.4%	3,069	8.4%
Annuity contracts	643	5.2%	648	4.9%	630	5.7%
Cash and other net assets	649	4.5%	839	4.5%	478	3.9%
Property	57	7.8%	51	7.7%	67	7.3%
Total market value of assets	10,025		9,239		7,789	
Present value of liabilities	(10,562)		(9,718)		(8,281)	
Pension liability	(537)		(479)		(492)	

The effect of retirement benefits calculated in accordance with FRS 17 is included in the financial statements as follows:

	2006 £'000	2005 £'000
Amounts charged to income and expenditure		
Current service cost	409	264
Total operating charge	409	264
Analysis of credit to other finance income		
Expected return on pension scheme assets	558	484
Interest on pension scheme liabilities	(479)	(467)
Net return	79	17
Amounts recognised in statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	225	552
Experience gains and losses arising on the scheme liabilities	(187)	76
Changes in assumptions underlying the present value of the scheme liabilities	(16)	(1,150)
Actuarial gain/(loss) recognised in STRGL	22	(522)
Movement in deficit during the year		
Deficit in scheme at beginning of the year	(479)	(492)
Movement in year:		
Current service cost	(409)	(264)
Contributions	250	782
Other finance income	79	17
Actuarial gain/(loss)	22	(522)
Deficit in scheme at end of the year	(537)	(479)

Notes to the accounts

17 Pension scheme (continued)

History of experience gains and losses

	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Difference between the expected and actual return on scheme assets					
Amount £'000	225	552	81	(371)	(934)
Percentage of scheme assets	2.2%	6.2%	1.0%	(5.0%)	(12.5%)
Experience gains and losses on scheme liabilities					
Amount £'000	(187)	76	(168)	17	20
Percentage of the present value of the scheme liabilities	1.8%	0.8%	(2.0%)	0.2%	0.3%
Total amount recognised in statement of total recognised gains and losses:					
Amount £'000	22	(522)	311	(990)	(1,318)
Percentage of the present value of the scheme liabilities	0.2%	(5.4%)	3.8%	(12.2%)	(18.4%)

18 Related parties

HGCA undertakes commercial transactions with the following related parties:

Defra is the principal sponsor Department for HGCA. As separately identified within the sources of income on page 37, Defra paid contributions of £109k (2004/05 £109k) for services provided. These comprised £105k (2004/05 £105k) for the provision of market information; £2k (2004/05 £2k) for the reporting of cereal price information to the European Commission; and £2k (2004/05 £2k) in reimbursement of certain costs associated with the corn returns. Defra also paid ADS (Agricultural Development Scheme) grants to HGCA £827k (2004/05 £383k). At 30 June 2006 the amount owing to HGCA from Defra was £397k.

Food from Britain (FFB) is a non-departmental public body sponsored and substantially funded by Defra. HGCA and FFB undertake joint projects in respect of the promotion of British food abroad. Payment in respect of joint projects was £36k (2004/05 £22k). At 30 June 2006 HGCA had no amounts owing to or from FFB.

Central Science Laboratory (CSL) is an Executive Agency of Defra. HGCA has contributed £136k to specific CSL projects during the year (2004/05 £281k). At 30 June 2006 HGCA had no amounts owing to or from CSL.

19 Operating leases

HGCA has a 10 year lease on two floors in Caledonia House, with 1 year remaining. The amounts payable for rent and service charges for the forthcoming year are estimated to be £250k (2005 £250k) and £106k (2005 £114k) respectively.

20 Financial instruments

FRS 13 - Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

Because of the nature of its activities and the way in which HGCA is financed, it is not exposed to the degree of financial risk faced by other business entities. Moreover, financial instruments play a much more limited role than would be typical of the listed companies to which FRS 13 mainly applies.

Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing HGCA in undertaking its activities, or for trading. The fair values of all its financial assets and liabilities approximate to their net book values. In line with FRS 13, short term debtors and creditors (those which mature or become payable within 12 months from the balance sheet date) have been excluded from these disclosures.

Performance against key financial targets

	2006 Actual £'000	2006 Budget £'000	2006 Variance £'000
Expenditure			
Service delivery - what we did			
Research, development and variety evaluation	3,648	3,960	312
Export and market development	1,560	1,651	91
Market services	642	660	18
Grant assisted projects	745	826	81
Strategy - Board, CEO & business development	434	537	103
Communications - delivering the message	1,384	1,527	143
Support costs - making the operation work	1,559	1,294	(265)
FRS17 additional pension cost	159	-	(159)
	10,131	10,455	324
Income			
Revenue sources which fund our services			
Levy Income	9,495	9,153	342
Grants	903	986	(83)
Investment income	248	105	143
Publications and miscellaneous income	98	49	49
Defra services	109	110	(1)
Other finance income	79	-	79
	10,932	10,403	529

HGCA Financial statistics

	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000
Balance sheets					
Assets employed					
Fixed assets and long-term investments	2,991	2,861	3,309	3,794	169
Net current assets	2,960	3,154	3,415	3,627	8,486
	5,951	6,015	6,724	7,421	8,655
Financed by					
General reserve	2,251	2,315	3,024	3,721	4,930
Designated reserve	3,500	2,784	3,008	3,021	2,963
Pension liabilities	-	716	492	479	537
Provision for liabilities and charges	200	200	200	200	225
	5,951	6,015	6,724	7,421	8,655
Operating accounts					
Income					
Levy income	7,672	9,925	9,096	9,362	9,495
Grant income	15	378	629	452	903
Investment income	224	111	127	159	248
Other income	185	224	252	230	286
	8,096	10,638	10,104	10,203	10,932
Expenditure					
Service delivery - what we did	7,659	8,071	7,012	7,221	7,029
Communications - delivering the message	1,296	1,146	1,435	1,385	1,384
Support services - making the operation work	1,124	1,245	1,456	1,501	1,718
	10,079	10,462	9,903	10,107	10,131
Operating (deficit)/surplus before tax	(1,983)	176	201	96	801
Notional cost of capital	(468)	(335)	(250)	(259)	(285)
Taxation	(31)	(4)	-	(3)	(14)
Net (deficit)/surplus after tax	(2,482)	(163)	(49)	(166)	502
Credit of notional cost of capital	468	335	250	259	285
Result for the year	(2,014)	172	201	93	787
Movement in value of long term investments	(373)	(124)	421	539	342
Transfer to/(from) reserves	(2,387)	48	622	632	1,129
FRS 17 net costs reallocated to designated reserve	-	16	87	65	80
General reserve	2,251	2,315	3,024	3,721	4,930

Board and Committee structure 2005/06

The HGCA Board, whose Members are appointed by the UK Agriculture Ministers, is responsible for HGCA's strategic direction. A register of Members' interests is kept by the Personal Assistant to the Chief Executive and is available for inspection at HGCA by prior appointment.

Membership of Advisory Committees is approved by the Board, following nominations by industry representative bodies.

HGCA Board Members

John Page *Chairman* Independent
Professor Christopher Ritson *Deputy Chairman* Independent
Noel Bartram *bpc retired 2/6/05*
John Best NFU
Andrew Davies NFU
Ian Douglas AIC
Julian Hasler NFU
David Halligan GAFTA
Peter Knight nabim
Douglas Morrison NFUS
Ivor Murrell MAGB
Dr Sotiris Papolomontos AIC
Michael Sheppard UGP
Rad Thomas NFU
Jonathan Tipples NFU
Stewart Vernon NFU
Edward Wright *bpc appointed 3/6/06*

HGCA Board Committees

Audit

Professor Christopher Ritson *Chairman*
John Best
Ian Douglas
Julian Hasler
Stewart Vernon

Finance

John Page *Chairman*
David Halligan
Douglas Morrison
Professor Christopher Ritson
Jonathan Tipples

Remuneration

John Page *Chairman*
Douglas Morrison
Ivor Murrell
Dr Sotiris Papolomontos
Professor Christopher Ritson

HGCA Advisory Committees

Crop Marketing

British Cereal Exports (BCE)

BCE drives forward the export promotion of UK wheat, barley and oats.

BCE Advisory Committee

as at 30/6/06

Simon Browne *Chairman* NFU
Michael Adams AIC
Richard Beldam NFU
Steve Bumstead NFU
David Cater UGP
Keith Davies GAFTA
David Doyle GAFTA
George Forbes *Vice Chairman* NFUS
Paul Foxtan NFU *resigned 8/2/06*
Mike Giffin NFU *appointed 27/4/06*
Kevin Littleboy NFU
David McCreath GAFTA/AIC
David Sheppard AIC *appointed 1/10/05*
Jonathan Tipples Board representative

Market Development (MD)

MD stimulates increases in the consumption of UK grain through product innovation and the provision of information on the role of grain in a healthy balanced diet.

MD Advisory Committee

as at 30/6/06

Julian Gibbons *Chairman* NFU
Allan Coxon NFU *appointed 1/10/05*
Janet Godfrey Education Adviser
Tamara de Grassi nabim *resigned 30/9/05*
Mark Isaacson AIC *appointed 1/10/05*
Henry Johnston *Vice Chairman* UFU
Tim Pollock AIC *resigned 30/9/05*
Glen Sanderson NFU *retired 30/9/05*
David Wallington nabim *retired 30/9/05*
Alex Waugh nabim *appointed 1/10/05*
Duncan West NFU *appointed 1/10/05*
Ian Whiteford NFUS
Professor Christopher Ritson Board representative
David McNair FFB Export representative

Market Information

Market Information provides daily independent data and analysis to assist the industry in marketing and processing cereals and oilseeds to become more profitable.

Market Information Cereals

Committee as at 30/6/06

Dr Sotiris Papolomontos *Chairman*
Alex Clothier Defra *resigned 28/6/06*
Brian Cole Frontier *appointed 28/6/06*
Guy Gagen NFU
Stephen Game Amylum *appointed 28/6/06*
Angela Gibson Glencore Grain
Lindsay Holmes Defra
Robin Manning Defra
Charlotte May nabim
Ivor Murrell MAGB
Cecilia Pryce Louis Dreyfus
Robin Reid Bowmans
Paul Rooke AIC
Nigel Stevenson Centaur Grain
Damian Testa nabim
Heather Wheeler Defra *appointed 28/6/06*

Research & Development (R&D)

Research & Development manages a programme of near-market research and communicates the results to improve the production, storage and utilisation of cereals and oilseeds.

R&D Advisory Committee

as at 30/6/06

Bryan Collen *Chairman* NFU
James Arbuckle NFUS
Philip Bennion NFU *appointed 1/10/05*
Mark Charlton nabim
Roger Clark-Monks bpc
Andrew Cragg NFU
Nigel Davies MAGB
David Ellerton AIC *appointed 1/10/05*
Graham Furey UFU
Anthony Hornshaw *Vice Chairman* NFU
Dr Clifford Lister AIC/UGP *retired 30/9/05*
Adrian Peck NFU
Andrew Perry UGP *appointed 1/10/05*
Michael Sheppard AIC/UGP *retired 30/9/05*
Daniel Squier NFU
Steve Stokes GAFTA
Stewart Vernon NFU
Duncan West NFU *retired 30/9/05*
Norman Wisely NFUS
Dr David Cooper Defra observer
Julian Hasler Board representative

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Further information about HGCA is contained within the following free publications (copies can be obtained from Publications on +44 (0)20 7520 3920)

Corporate Plan 2003/04 – 2007/08

Annual Business Plan July 2006 – June 2007

*Citizen's Charter document
Our commitment to quality*

*Levies for Cereals and Oilseeds
2006/2007*

Glossary

AIC	Agricultural Industries Confederation
bpc	British Poultry Council
BRi	Brewing Research International
Defra	Department for Environment, Food and Rural Affairs
DTI	Department of Trade and Industry
GAFTA	The Grain and Feed Trade Association
MAGB	The Maltsters' Association of Great Britain
nabim	The Incorporated National Association of British and Irish Millers
NFU	National Farmers' Union of England and Wales
NFUS	National Farmers' Union of Scotland
R&D	Research and Development
RL	Recommended Lists
UFU	Ulster Farmers' Union
UGP	United Grain Producers

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