

A changing climate

Home-Grown Cereals Authority
Annual Report & Accounts 2006/2007





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The 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.

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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.



Chairman's statement

Farming around the world is currently experiencing a rapidly growing demand for grain. With increasing pressure on UK, EU and world supplies, we have seen significant price rises which have helped increase the profitability of arable farming.

The large and growing new market for biofuels in the USA and expanding demand in the world economy have played a part in this, with falling stocks across most types of grain leading to increased volatility in the markets. Improving living standards in China and India are shifting grain demand from feeding humans towards feeding animals to produce meat. This trend is likely to continue, as more of the world's population demand higher quantities of protein in their diet.

Higher farm-gate prices for cereals in the past have always stimulated higher production. However, unfavourable weather in the last two years has produced poor harvests in some major grain growing areas of the world. The result has been reduced world reserves of grain which are now at a record low. With global weather patterns changing, there is a real question over the ability of farmers in Britain and around the world to meet the new combined demands for food, fuel and environmental goods while at the same time rebuilding stocks to more prudent levels. HGCA is supporting a study by Chatham House into the new patterns of supply and demand for grain in the world while working with Arvalis, our French counterpart, at understanding yield constraints in wheat.

HGCA also commissioned research to produce wheat varieties optimised for biofuel production. There is little doubt that biofuels can deliver carbon and greenhouse gas savings, so the UK is aiming to encourage biofuels which achieve good carbon savings from sustainably grown feedstock. HGCA continues to work with the low Carbon Vehicle Partnership to develop a carbon and sustainability reporting methodology. Agriculture has the opportunity to play a vital role in countering the threat from climate change.

The USA and Brazil are leading the way in the use of biofuels. As the EU follows their example spurred on by governmental action such as the UK's Renewable Transport Fuels Obligation,

we can expect to see further supply issues in the short to medium term and ongoing volatility in the marketplace. The successful development of a global biofuels industry will need a concerted supply response.

We have to meet the challenges of the significant investment in biofuel plants in the UK, addressing the supply issues these present with new logistical solutions. This might, for example, involve transporting grain to plants by train and coastal shipping, instead of by road, which is much less carbon-efficient.

Helping farmers adapt to change in agriculture is fundamental to the work that HGCA does. Last year saw an extensive events programme designed to prepare levy-payers for these changes. Farmers and representatives from the grain chain attended in greater numbers than ever before, reflecting their wish to develop their skills to cope with volatility in the market and understand the changes.

The new *HGCA R&D Strategy* was published in January 2007 and will serve the cereals and oilseeds sector for the next three to five years. Helping to support the biofuels industry and looking at novel uses for grain, while giving farmers the tools to farm with greater environmental sustainability, are key features of the new programme.

We believe that this new chapter in UK agriculture will enable Britain's food and farming industry to offer great benefits to its consumers and the environment while punching above its weight in reducing carbon emissions. The HGCA team will work tirelessly to support its industry in this endeavour.

John Page
Chairman, HGCA





Chief Executive's report

The Levy Boards Reform has now been underway for over two years and the new organisation, AHDB, is due to begin operating in April 2008. This is a long time for an organisation to operate against a background of uncertainty.

Despite this potential constraint, HGCA has adopted a policy of 'business as usual' and has worked hard to deliver a demanding programme of services and activities. As a result, the organisation has been extremely busy, with all staff motivated by the continuing requirement to adapt to the needs of our levy-payers.

HGCA has, over time, constantly redefined its priorities and is therefore no stranger to change. It has become a flexible structure capable of reacting quickly to any alteration in legislation or market environment. It is against these clear benchmarks that the cereals and oilseeds sectors will judge the future operations of the successor body.

Delivering optimum value to our levy-payers could not be achieved without the help and guidance from our Board and Committee members. With representation from across the industry they collectively perform a vital role in determining HGCA spend.

A clear focus of activity has centred on the promotion and development of the emerging biofuels market in the UK. For the past three years, we have made a significant contribution by way of workshops, research projects, work on carbon accreditation, and relevant consumer and industry publications. All of these initiatives have been designed to support the concept of biofuels as an alternative to existing fuel sources.

At the same time we have started the process of investigating biopolymers and the role that cereals and oilseeds can play in creating environmentally-friendly packaging and building materials. Biopolymers have the potential to be an additional market opportunity and as such we need to be ahead of the game.

Working in partnership with other organisations has always played a major part in HGCA strategic thinking. Exchanging ideas and sharing of knowledge is essential if maximum advantage is to be derived from scarce resources. Last year, we further developed our international links, particularly with GRDC in Australia and Arvalis in France.

The Cereals Industry Forum is one example that clearly demonstrates the impact that working with others can have. This grant-aided programme has comprehensively identified across the grain chain, areas and activities that require remedial action. To ensure that maximum value is delivered from this important work, HGCA will be reviewing all the recommendations and will establish a plan of action to disseminate best practice.

Finally, I am delighted to report that HGCA won a Public Reporting and Accountability award at the 2007 CIPFA Awards. The award was for the national organisation with an annual turnover of less than £50 million. It is particularly pleasing that HGCA's work in this area has received independent recognition.

Jonathan Cowens
Chief Executive, HGCA





Performance against targets 2006/07

Exploiting existing market opportunities

- Monitor and report on all markets
Continued delivery of weekly, fortnightly and monthly publications with increased use of electronic delivery
- Ensure a strong RL focus on markets
Focus maintained and strengthened. New information on biofuels in RL Guide
- Dissemination of results from CIF management studies
All CIF reports published on dedicated website. National CIF Conference plus several workshops and other presentations covering CIF output held
- Develop Phase II of CIF Strategy
Full appraisal undertaken of CIF results for new Strategy to be developed in 2007/08
- Establish stronger international links
Exploratory meetings held with similar organisations in Germany, France, Australia, New Zealand, Denmark and Ukraine
- Publish consumer reports based on dunhumby data
Four reports published, plus presentations and articles. Major paper at Milling Wheat Conference, Market Outlook Conference and several third party events

Developing new markets

- Ensure that Carbon Accreditation reflects DfT, Defra and farming's needs
Farm trials of potential procedures carried out
- Service supermarket requirements on biofuels
Conducted supermarket meetings and consumer research on consumer interest in biofuels
- Assess variety needs for biofuels and other industrial uses
Publication produced, and workshop held, on variety requirements for biofuels
- Develop strong industrial crop research programme
Five new research projects funded
- Strengthen links with Enterprise Award winning companies
Case studies published, Processor Conference held, Food from Britain fast-track offered and several have taken part in CIF projects



Meeting market needs cost - effectively

- Publish new Strategy for HGCA research and development
Strategy published January 2007
- Develop and integrate work on wheat disease management
Review completed and proposals being implemented
- Co-ordinate work on variety improvement
Barley breeders' workshop held in Dundee. Involvement in Defra genetic improvement networks
- Communicate safe, effective spray application techniques
12 successful workshops held throughout England and Scotland
- Communicate soil management strategies
Programme and website pages developed with the Applied Research Forum
- Incorporate Farm Income Monitor into CropBench project
Establishment of Arable Business Groups and Monitor Farms (Scotland) plus several presentations

Managing the business and market volatility

- Disseminate details of policy changes and their implications
Achieved through Prospects articles, web articles, Processor Conference workshop
- Report on the causes and persistence of market volatility, and define key issues for risk management purposes
Achieved through Prospects articles, web articles, Processor Conference workshop
- Assess risk management techniques in relation to their application to grain and oilseed markets
Publications produced and presentations made covering price relationships. Specialist courses and industry discussions held with AIC and UGP
- Build management skills activities into industry professional development programmes
Developed Risk Management project (ADS grant-supported) including discussions with Arable Business Groups
- Develop links with processors to establish their risk management needs
Presentations made to nabim and MAGB, Processor Conference workshop



Promoting grain within a healthy, balanced diet

- Continue to develop the wholegrain message
Developed new web pages, schools programme, links to Farmhouse Breakfast Week and extended into a new oat campaign
- Extend Farmhouse Breakfast into an annual, regional campaign for farming
Developed links to cereal manufacturers, Regional Food Groups and Year of Food and Farming preparations
- Publish guidelines to prevent Fusarium mycotoxins in wheat
Eight-page booklet published in time for the Cereals event

Securing funds and developing new partnerships

- Explore and identify new partnership opportunities
Seven trade development projects developed, along with three new supply chain partnerships
- Improve HGCA links with national, devolved, regional, international and commercial partners
Links developed with four regional agencies, with Scottish partners and with international agencies
- Develop and implement more effective collaboration with other sector organisations
Research, nutrition and environment cross-sector work has been augmented by extensive collaboration as part of the Levy Boards Reform
- Increase current levels of matched funding
Match funding of around £10 million has been achieved
- Secure additional outside funding
Additional outside funding 2006/07 amounted to £1 million



Developing better communication channels

- Continue to exploit use of web for operating and communications purposes
New areas included on website saw an increase of 44% in traffic
- Implement marcomms plans
Marcomms plans introduced across HGCA for all 2007/08 projects
- Review all internal and external communications
Future communications needs reviewed resulting in new structure in place to deliver integrated approach across departments
- Establish refreshed branding guidelines
New guidelines introduced across all communications material, both print and electronic
- Improve performance through customer feedback
Improvements introduced as a result of benchmark survey, activity evaluations and R&D Strategy review

Maintaining and improving HGCA operational efficiency

- Review financial reporting, budgeting and forecasting processes
Plan in place for change of accounting year to March 2008
- Recruit, retain and develop a highly-skilled, flexible team
VPN facilities expanded along with flexible working hours
- Monitor and recommend appropriate courses of action associated with the implementation of initiatives arising from the Levy Bodies Review
Accenture provided with operational and financial information relating to Fresh Start
- Carry out reviews of audit processes
Levy collection procedures enhanced and additional funds generated
- Produce value statement for all relevant HGCA projects
New cross-departmental value model developed



Exploiting existing market opportunities

Ensuring that growers are best placed to meet the needs of established markets is a priority for HGCA. Although new markets can offer new opportunities, exploiting existing markets to gain maximum benefit underpins the arable industry.

In October, the annual HGCA Grain Market Outlook Conference, which provides the industry with timely indicators as to what the year ahead might hold, took place in London. Predictions of volatility and possible impact on price, and the effect that the emerging biofuels market might have, were key topics.

This year's Conference was held in conjunction with the first ever HGCA Cereals Industry Forum (CIF) Conference. This half-day event was designed to relay the key findings from the work carried out under the CIF programme funded by Defra and DTI. Presentations looked at meeting the needs of consumers, improving business practice and adding value to cereal supply chains.

The second CIF project, which will reach its conclusion this year, aimed to improve the competitiveness of the cereals supply chain from seed to the retail shelf. It has been a major undertaking to complete the necessary research and to engage with commercial companies.

Value Chain Analysis, benchmarking and Masterclass projects were carried out on 70 businesses to provide the post-farm gate research. These identified the main issues affecting the industry including ex-farm quality sampling, poor communication up and down the supply chains, particularly between growers and consumers, and a slow cycle of new product development.

For the next phase, HGCA will publicise the results of the work and identify the assistance or procedures needed to help address relevant areas highlighted by the research. ADS funding has made an important and valuable contribution towards a greater understanding of the issues affecting the industry.



Linking up the supply chain and focusing on the important role that consumer demand has on the arable industry was addressed in the fourth HGCA Processor Conference. This event, even more important following the findings from the CIF work, is a vital tool in addressing the need for connection between the arable supply chain and consumers. It focused on encouraging innovation and looked at adding value, developing the brand, and current and future consumer trends.

With this in mind, HGCA is helping to fund the dunnhumby Academy; a project looking at the trends behind 12 million supermarket shoppers' purchasing habits. The Academy was set up to give growers and small food producers access to consumer insights and help drive innovation in different food and drink sectors (*Figure 1*).

So far, the dunnhumby project has generated 15 requests for further research from the cereals and oilseeds sector, covering oat products, bread and oil. The consumer information is able to help identify a target market, taking into account the regional spread of product buying habits across the UK and the age and lifestyle of the potential customer base.

Focusing on the demands of the customer is also key to the work undertaken by HGCA's British Cereal Exports. In particular, the export brands *ukp* and *uks* have not only proved themselves at international events but are also performing well in the commercial arena.



Shipments of *uks* wheat have been favourably received by Portugal, Spain, Morocco and Italy (*see below*). *Ukp* was recently received by the Italian market, for the first time, and feedback was very positive. The growing reputation of *ukp* and *uks* brands has been further helped by recent coverage in publications based in the UK, Germany and Italy.

The success in exploiting existing market opportunities is driven by the ability to meet the demands of the customer, whether processor, miller or overseas buyer. Developing strong communication links up and down the supply chain is therefore vital to maintain existing markets.

Figure 1: Likelihood to buy porridge by consumer lifestyle (12 weeks, 25 March 2007 to 17 June 2007)



“We use *ukp* and *uks* and the quality is good.” Buyer from Spain

“We normally use *uks* but now we are experimenting more with *ukp*.” Buyer from Portugal



Developing new markets

New markets offer the opportunity to diversify and expand into new areas. HGCA is at the forefront in providing the arable industry with the information it requires to maximise the potential from such opportunities.

The emergence of biofuels, to be reinforced in April 2008 by the introduction of the Renewable Transport Fuel Obligation, provides agriculture with the opportunity for a new domestic market. HGCA has been actively working in support of this market.

The biofuels market has created much debate over the last twelve months, some of it based on legitimate arguments and some of it wildly speculative. *Making Sense of Biofuels*, a new HGCA factsheet, presented the information and aimed to correct some of the misconceptions about biofuel production. The publication addressed issues of land use, food versus fuel, effects on the price of food and greenhouse gas savings (*Figure 2*).

This new market is underpinned by the need to ensure the environmental credentials of biofuels. To this end, HGCA launched a calculator to help growers work out the greenhouse gas savings that can be made by growing wheat and oilseed rape for bioethanol and biodiesel production respectively. The calculator takes account of variables such as soil type and field management and includes information on biodiesel produced from oilseed rape.

On-farm carbon audits were conducted during the first half of 2007 and the results of these will be published in autumn 2007. These trials will contribute to a greater understanding of the factors which influence greenhouse gas emission from arable farming. This information, linked to work by the CLA and others, will be used to continue to support the development of the biofuels industry.

With wheat likely to become a major biofuel crop in the UK, HGCA published a new *Project Progress* sheet focusing on the varietal and agronomic issues in growing for this market (*Figure 3*). This gave growers the latest information from HGCA-funded research and suggested that growers looking to supply this market should select a soft-milling, high-yielding variety.



As well as commissioning research to support growers wanting to grow for the biofuels markets, HGCA also funded work looking into other emerging markets. Ongoing projects are looking at the possibilities of manufacturing packaging from wheat starch or straw. Light-weight eco-material has potential in a broad range of applications in different sectors including the construction industry. Other industrial application research being funded includes creating biolubricants from oilseed rape. These processes all have the opportunity to replace current products with environmentally-friendly ones.

HGCA encourages new industrial uses of cereals and oilseeds through its Industrial Uses Enterprise Awards. Five awards were made this year including projects supporting the development of high-quality paper pulp made from straw and novel food pellets made from grain.

The latest results from a project investigating the use of grain as a biomass fuel in small-scale heating systems concluded that grain has the potential to be a cost-effective source of fuel. The HGCA project, in partnership with the Rural Energy Trust, is investigating a range of combinable crop materials including wheat, oats, oilseed rape and straw pellets. Data from the study will be used to evaluate the environmental impact of grain as fuel.

Climate change is providing the impetus to look again at the way energy is used. Agriculture has a part to play in developing new environmentally-friendly processes that reduce carbon emissions and can help towards developing renewable energy sources.



Figure 2: Message biofuel should advertise – last three years

Question – If the manufacturers of biofuel were to advertise, which one of the following messages do you think would be the strongest to use in the promotion of biofuel?

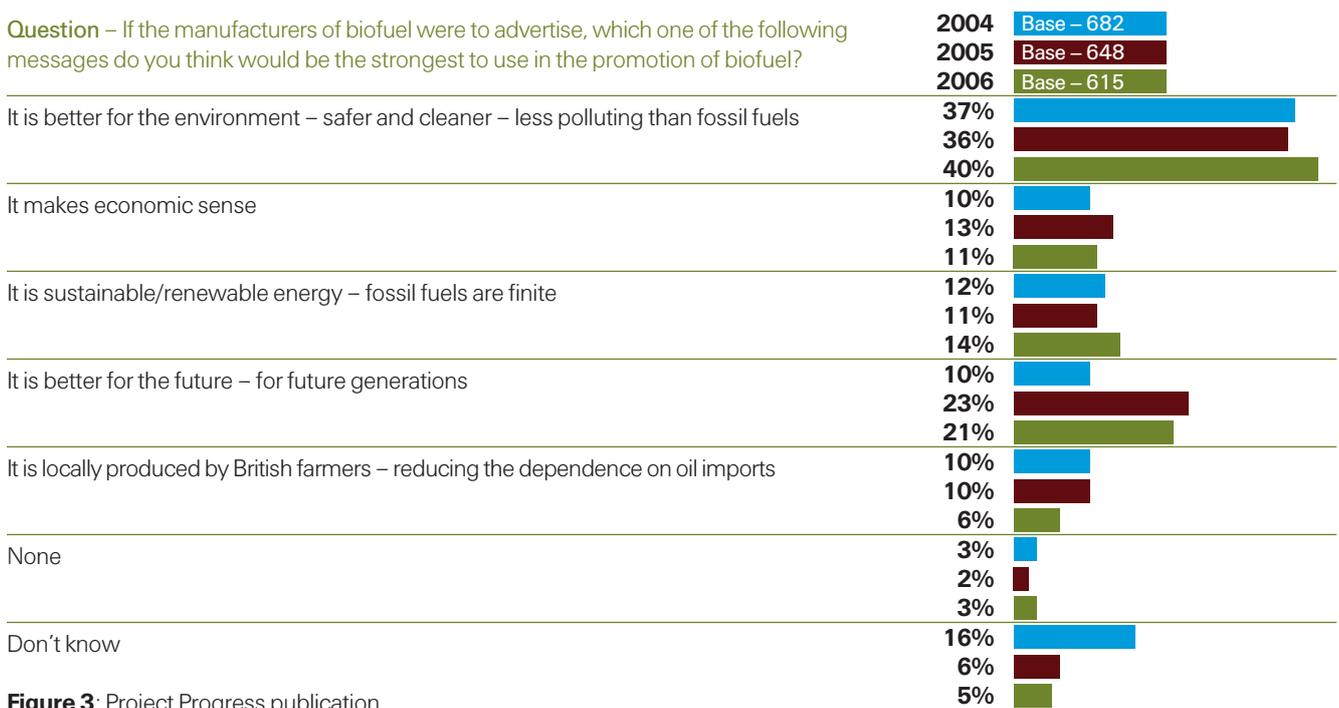


Figure 3: Project Progress publication





Meeting market needs cost-effectively

It is vital that the research and development undertaken for the cereals and oilseeds industry meets the needs of farmers, dealers, and processors. Following extensive consultation through stakeholder meetings and a postal and internet survey, the new *HGCA R&D Strategy* was launched in January.

The *Strategy* takes a fresh look at the industry's R&D needs over the next three years. Under the headings, 'increased competitiveness', 'equipped for change', 'improved environment' and 'new market opportunities', it lays out the priority areas for funding to help ensure a sustainable future for the arable industry (*Figure 4*).

Choosing the right variety is vital to success and the *HGCA Recommended Lists* provide all the information required to make this decision. This year 22 varieties were added to the *HGCA Recommended Lists*, while 12 were removed. Additions included five winter wheat, six winter barley and six oilseed rape varieties.

Building on the success of *RL Plus*, the interactive version of the *HGCA Recommended Lists*, *Crop Oracle* was released this year. The CD combines all the HGCA technical information on cereals and oilseeds in one place and provides essential support for growers throughout the season (*Figure 5*). As well as interrogating the variety information, users can access over 20 HGCA Guides, 60 *Topic Sheets* and many of HGCA's agronomy tools.

Included on *Crop Oracle* is the new *Wheat Disease Encyclopaedia*. This provides information on all the major diseases of wheat. It includes a life-cycle for each pathogen, a section on control and an extensive photo gallery showing symptoms.

The area of research covering wheat disease management was reviewed and changes to the administration of these projects will be implemented next year. By comparing the appropriate fungicide dose curves produced from this research, growers and advisers can assess the performance of individual active ingredients as an aid to making decisions about disease control programmes. Updated curves are published yearly on the HGCA website.



New HGCA guidelines on managing take-all in winter wheat were published in October 2006. These summarised current knowledge, including results from recent research on fungicides and rotations. It is estimated that half of UK wheat crops are affected by take-all and that they suffer average yield losses of 5–20% with an overall cost to farming of up to £60 million a year. The guidelines include results from HGCA-funded trials comparing available seed treatment fungicides and their efficacy against take-all.

In July 2006 new legal limits were introduced for mycotoxins produced by various *Fusarium* species. The legal limits apply to grain intended for human consumption but guidance values apply to some feed grains as well. HGCA has been working to ensure that growers have the information they need to comply with the legislation and this culminated in a new set of guidelines to minimise the risk of mycotoxins in cereals. The publication designed to help growers identify the risk factors. It includes a down-to-earth risk assessment to show when testing for mycotoxins may be appropriate.

The guidelines summarise the incidence of fusarium mycotoxins in UK cereals over recent years, showing that UK grain is generally well below the legal limits. It will be required reading for the Assured Combinable Crops Scheme, which will also request growers to work through the risk assessment.



Events were held throughout the year to ensure that growers had the opportunity to hear the most up-to-date information direct from those carrying out the research. This year, three series of workshops focused on safe and effective spray application, rotation planning and wheat disease management.

HGCA, through the Applied Research Forum, has been involved in helping to communicate to growers the challenges and opportunities that climate change might bring. Balancing profitable farming with today's concerns over greenhouse gas emissions and climate change continues to underpin the research programme.

Figure 4: HGCA R&D Strategy: Top ten topics

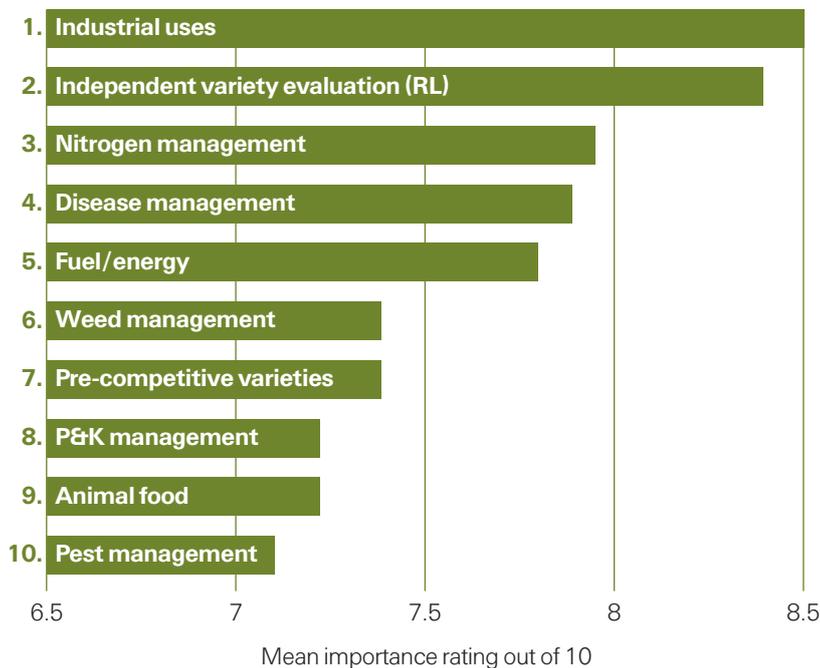
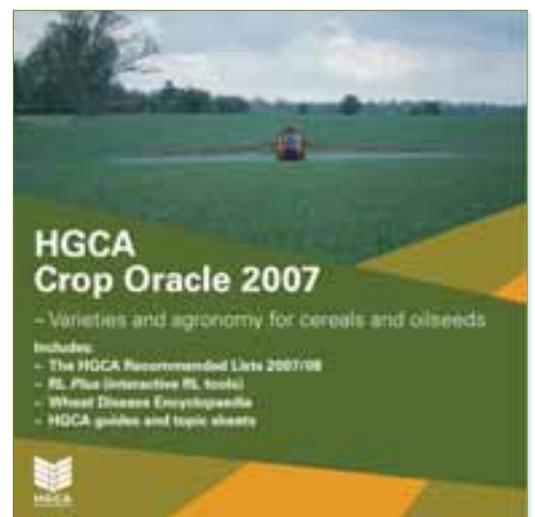


Figure 5: HGCA Crop Oracle 2007 CD





Managing the business and market volatility

Knowing the costs of production and understanding risk management strategies can help a farmer manage the business in a changing and volatile market place. Understanding the relationship between the farm and the market can be the difference between poor performance and success.

Local Arable Business Groups, an HGCA initiative funded by Defra through the Cereals Industry Forum, were established to help growers better understand their costs of production and the risk management strategies available to them (*Figure 6*). This year the total number of Arable Business Groups rose to 36. These groups, usually of 15 to 20 farmers, are designed to provide a forum to allow regular discussion of ideas and concerns. Particular concerns that were addressed by groups this year included variety selection, machinery cost management, establishment and crop rotation.

CropBench, an online tool to enable businesses to compare production costs, was upgraded this year. An improved data capture and reporting system has been available to users since December. CropBench is an important part of HGCA's business management programme and provides the foundations for a more cost-effective arable sector. Establishing costs of production is vital to any business, and contrasting them with comparable enterprises enables a better understanding of efficiencies and areas of concern. All Arable Business Groups are encouraged to use CropBench as it provides them with the greatest opportunity of tackling business issues.

There are now 380 registered users of CropBench and feedback has been very positive. The next phase of the project is to link CropBench to other HGCA agronomy and marketing tools to help growers act on their benchmark results. When it was set up, CropBench was only available to local groups, but following demand from individual growers wanting to benefit from the database of information, five 'virtual' groups were established this year.

A new project to improve the business performance of Scottish arable farms was launched this year, in partnership with Scottish Executive and Scottish Enterprise. The initiative



will establish two Arable Monitor Farms and six Arable Business Groups to encourage information sharing and benchmarking practices in Scotland. The project will deliver price risk management strategies and supply chain development initiatives for Scottish growers.

Promoting the benefits of price risk management to growers has been a priority for HGCA for several years. Following the Defra award of £500,000 last year, the initiative commenced this year with messages reaching many new growers. The recent violent market fluctuations re-emphasised the need for this work.

Over 50 risk management workshops designed specifically for growers have been held, with over 800 growers attending (*Figure 7*). These events covered introductory and intermediate levels with advanced workshops planned for later in the year. The half-day events aim to promote risk management strategies to attendees to ensure that they are in the best position to exploit market volatility.

A grower's guide to risk management, a CD and a risk management e-newsletter are all available from HGCA to enable growers to keep up to date with the latest information and to try out strategies learnt at these events.



Regular publications, particularly the *Market Report* and *Prospects*, offer readers the latest information on the changing conditions of the market. The reports cover headline news items to more in-depth analysis, and sit alongside other e-newsletters in getting as much useful information to levy-payers and subscribers as fast as possible. The publications play an important role in disseminating information on the causes and persistence of market price movements. This year, the number of subscriptions to these publications again increased.

Understanding how the market works and how the business operates within that market can help create an efficient business. The range of tools and information available through the HGCA business management programme puts growers in the best possible place to control their future.

Figure 6: Price Risk Management Grower workshops by region November 2005 – June 2007

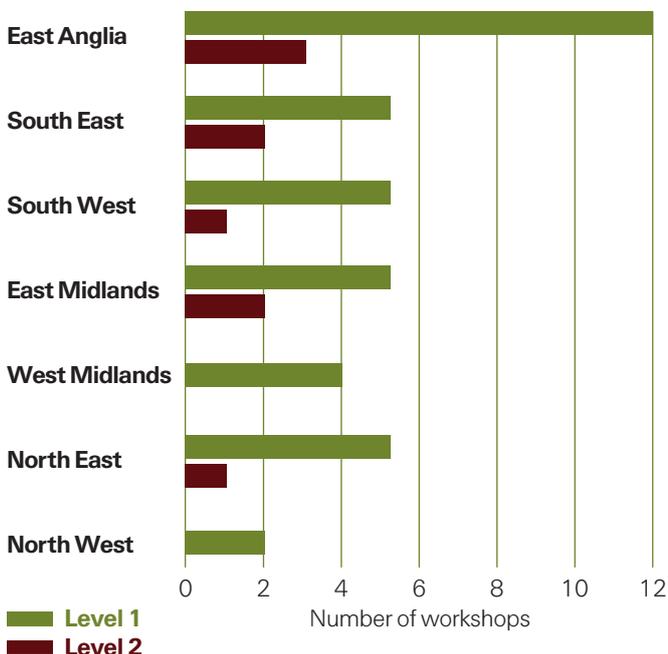


Figure 7: Grower Guide publication





Promoting grain within a healthy balanced diet

HGCA encourages the consumption of cereals by providing independent and authoritative data about the role of cereals in the diet.

Market research suggests that eating wholegrains are a low priority in the UK and consumers are therefore missing out on the benefits that they provide.

The Wholegrain Goodness campaign, designed to stimulate consumer interest in wholegrains, has gathered momentum coinciding with high profile advertising using wholegrains in many cereal products. In November last year a new recipe booklet was launched. *Wholegrain Goodness – Live Healthier!* (Figure 8) highlights the nutritional benefits of consuming wholegrains and contains tasty and easy-to-prepare recipes designed to help address barriers to consumption.

However, despite the success of the campaign, independent research into consumer behaviour suggests that 56% of those questioned did not know that oatcakes contained wholegrain and 44% were unaware that porridge oats were a wholegrain.

To help communicate the key messages, a radio campaign was undertaken which led to coverage secured on 19 regional radio stations with an estimated reach of nearly 1.5 million (Figure 9). During May the campaign featured twice on GMTV. A new website was launched in November, including pages featuring why wholegrains should be eaten, how to eat wholegrains, recipes and a media section.

Oilseed Rape – more than a pretty yellow flower, a new *Topic Sheet* was published. This outlines the nutritional benefits of culinary rapeseed oil. Further research into this area was commissioned with the aim to identify key messages and help develop the growing market for high quality rapeseed oil as an alternative to olive oil.

Work also started, in collaboration with Scottish oat processors, to devise a marketing and communication plan to present the nutritional benefits of oats. Plans include a website, oat recipes, *Topic Sheets* and a competition for Scottish schools.



This year's Farmhouse Breakfast campaign 'Make Time For It' was the most successful to date. Focusing on the quality of regionally-produced breakfast foods and the importance of cereal as part of a healthy, balanced diet, over 1,500 regional events were held across the country. Third party partners included schools, supermarkets, farmers' markets, NFU, WFU, regional food groups and hotels, all united in promoting breakfast as the most important meal of the day.

Highlights of this year's campaign included the combined efforts of HGCA, NFU and the Territorial Army to create a new world record for the largest bowl of porridge. There was also a campaign recipe booklet with contributions from many leading chefs and events taking place at all 320 Asda stores in the UK. The campaign continues to strengthen and improve the links in the food industry between cereal growers, processors, caterers and consumers. It is important that external regional funding for this campaign is maintained.

HGCA's Flour and Grain Education Programme encourages healthy eating through publications and events aimed at children. In the spring and summer of 2007, HCGA attended 23 regional shows encouraging children to learn about UK cereals through hands-on activities including bread baking, making oatcakes, grain art and the 'Balance of Good Health' game. The activities and publications are all linked to the school curriculum to provide teachers with ideas.



The 'Food – a Fact of Life' website is such a resource aimed at teachers, to provide a central store of information on all aspects of food and nutrition. It is a joint Levy Boards initiative. The website received over 4 million hits this year, with over 100,000 schools signed up to receive email updates. New recipes, podcasts, and video downloads were added to the site.

As part of its Flour and Grain Education Programme, HGCA signed up as a sponsoring partner for the Year of Food and Farming. This is a consumer campaign, organised by Farming and Countryside Education and backed by Defra, starting in September 2007. It aims to educate children about farm life, from food production to living in the countryside. This will further reinforce HGCA's commitment to help inform the next generation about the benefits of UK cereals and farming.

Figure 8: *Wholegrain Goodness Live Healthier!* publication



Figure 9: Media coverage summary for Farmhouse Breakfast Week

	Number of cuttings	Advertising Equivalent Value £k	Opportunities to read/hear/watch	Time/length
Press 2007	723	1,318	163,289,175	326 metres
Press 2006	485	1,000	195,782,614	216 metres
Radio 2007	121	1,249	105,295,100	9 hours
Radio 2006	163	1,119	103,772,000	11h 21 mins
TV 2007	16	748	47,246,000	32 mins
TV 2006	10	254	14,562,000	19 mins
Total 2007	860	3,314	315,830,275	
Total 2006	658	2,373	314,116,614	



Securing funds and developing new partnerships

Establishing new partnerships and strengthening existing relations are key to delivering maximum value to levy-payers. Accessing additional funding by using the levy to secure money from other sources enables HGCA to deliver the best possible returns.

In 2006/07, HGCA secured funding of £1 million from non-levy sources. For the period 2001 to 2008, projects worth £8.6 million were initiated with funding secured by HGCA's business development activities (*Figure 10*).

In addition to this, by engaging with other partners, HGCA attracted research and development co-funding of £10 million in the 2006/07 financial year. A similar amount of outside funding has already been secured for the 2007/08 R&D programme (*Figure 11*). For every £1 of levy income spent on R&D projects, an additional £2.60 is obtained from non-levy sources.

HGCA investment of £4 million in current LINK projects has helped to attract additional outside funding of £37 million over an eight-year period.

HGCA has been successful in establishing new partnerships with regional development agencies. Central government's drive to move responsibility and funding to the English regions has increased the importance of working effectively with them. As well as developing good working relations with agencies in the South East, East Midlands, Yorkshire and the North East, HGCA secured £140,000 from the East of England Development Agency to help fund supply chain and export work for the region. This funding has helped HGCA provide conferences, topic breakfasts and export trade development visits, all designed to help growers in the east of England maximise their market opportunities.

Scottish Executive and Scottish Enterprise approved £78,000 to help establish two arable monitor farms and to develop a network of arable business groups in Scotland. The business management programme, established in England with Defra funding, has been very successful in bringing farmers together



to discuss best practice in all areas of farming, and HGCA is very pleased to have the opportunity to establish a similar programme in Scotland.

As well as establishing links within Britain, HGCA has been working to develop relations overseas. Sharing knowledge and exchanging experience with comparable organisations in France, Germany and Australia has been of great benefit to both sides. Links between the HGCA research department and organisations in New Zealand and Denmark have also delivered real benefit with knowledge shared on issues such as mycotoxins and the potential biopolymers market.

This year, HGCA was able to gain further financial support for its export activities. Department of Trade and Industry funding and support from the International Agri-Technology Centre (IATC) were used to help fund work on the export brands, wheat quality testing and HGCA's attendance at the Euro Bourse. These activities help further relations with established markets such as Spain and Italy, and develop market opportunities with countries such as Morocco and Egypt.

HGCA is an active member of the Applied Research Forum (ARF), which brings together the agricultural Levy Boards, to promote cross-sector research opportunities that maximise the benefits of levy investment. The forum has two major ongoing projects; one looking at soil management and the other focusing on climate change.



The soil management project is drawing together research from across the Levy Boards to ensure that all the information is held in one place. Findings and research results will be available on the ARF website together with case studies focusing on the specific agricultural areas.

In June 2006, a joint bid between Forum for the Future, the NFU and the ARF was awarded £172,000 from Defra's Climate Change Fund to raise awareness of climate change amongst farmers and land managers. Focusing on the likely direct and indirect effects of climate change on agriculture, the project has already delivered a press campaign, a website and a series of case studies addressing these issues. HGCA is co-ordinating the ARF contributions to the project.

Figure 10: Value of projects secured through HGCA business development (phased over six years since 2001/02)

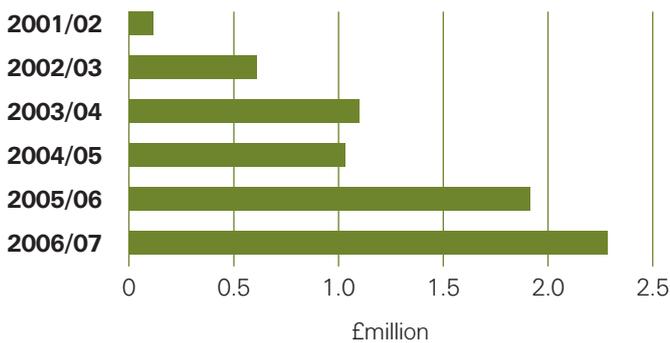
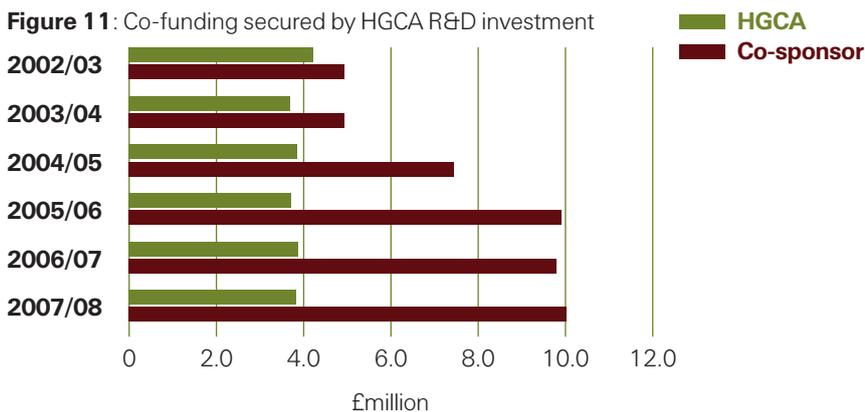


Figure 11: Co-funding secured by HGCA R&D investment





Developing better communication channels

It is very important that HGCA information and activities are effectively communicated to our levy-payers. Market information and research results are of little benefit if levy-payers are not kept informed. HGCA works to constantly improve its communication channels and ensure that its messages are disseminated.

This year several new mini-sites were added to the award-winning HGCA website. New areas were developed to cover the latest information on the 'Wholegrain Goodness' campaign and to enable interested parties to easily register their interest in the Farmhouse Breakfast Week. A *Wheat Disease Encyclopaedia* (Figure 12) was added to the research tools available and an on-line seed cost calculator was developed to help growers decide whether to use farm-saved seed or to buy certified seed. The website is an increasingly important tool in communicating with our audience. This year the number of visitors to the site increased by 44% (Figure 13).

Online feedback was introduced for selected publications this year. This will be followed by the implementation of online ordering and payment for event bookings along with publication requests and subscriptions. This will provide an improved platform for customers to communicate with HGCA.

The HGCA Knowledge Centre, a web-based, teach-yourself aid was developed to include a wide range of information on many areas of activity. New topics were added to the market modules this year and information on agronomy and research issues will soon be included.

E-communication continues to grow, as it provides a cost-effective and popular way of delivering information. HGCA's e-newsletters are designed to provide targeted and time-specific information to niche markets. The malting barley and milling wheat newsletters have both seen a rise in circulation, and new e-mail updates were introduced for growers interested in biofuels and risk management.



New HGCA style guidelines were introduced last year to ensure consistency in publications, newsletters and presentations. Positive feedback has been received for the brand with new-look publications showing much improved recognition ratings in the annual grower benchmarking survey. The style guidelines were also introduced for the HGCA Recommended Lists' publications and tables.

The HGCA events programme is a vital area of work as it enables direct interaction with our customers. This year an extensive programme of conferences, workshops and topic breakfasts, reached a combined total audience of 5,023 people (excluding the Cereals event).

In response to grower feedback, most of our events are half-day, small, interactive workshops. This places less constraint on grower time, and enables an informal exchange of ideas. This year, a series of workshops were held covering rotations, spray application, disease management, risk management and marketing. Topic breakfast events again proved very popular. These events are designed to offer levy-payers the opportunity to request meetings that will cover specific areas of interest. They also enable HGCA to offer good regional coverage.

The crop-specific annual conferences continue to grow in popularity attracting audiences that represent all stages of the supply chain. This year's Oilseeds Conference was the most



well attended to date, and numbers were also high for the Milling Wheat Conference. All presentations from this year's conferences were uploaded to a new past events area on the website to ensure that as many people as possible could access the papers.

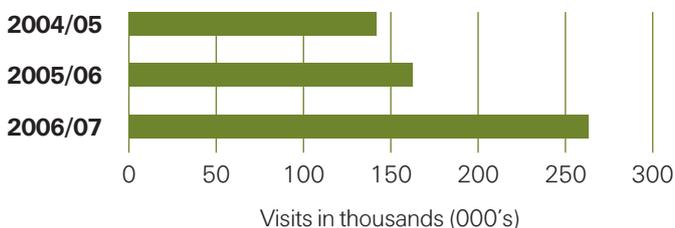
These activities are all underpinned by a communications strategy. This year, in order to provide a co-ordinated range of services that link department activities, the strategy was refocused. The Research and Crop Marketing departments are operating a joined-up approach to communications, designed to offer increased value to the levy-payer. This will result in relevant messages being delivered to a targeted audience.

The new HGCA database, now fully operational, allows segmentation of the audience and customer profiling. This will help HGCA target our customers and deliver timely and relevant information.

Figure 12: New web-based research tool



Figure 13: Visits to www.hgca.com per year





Maintaining and improving operational efficiency

HGCA is constantly working to ensure that funds are spent effectively to give levy-payers best value for money.

With AHDB due to be operational from April 2008, HGCA has been working with Defra and the other Levy Boards to ensure that the transition to the new structure will be as smooth as possible. Discussions have taken place to minimise the disruption in services to levy-payers and to establish a sound basis for procedures such as the continuing collection of the levy.

This year HGCA introduced an enhanced system for levy collection. To ensure that the levy system is fair, anyone who should be paying must do so. This robust procedure is more able to target companies and individuals who should be registered but have, so far, failed to do so.

Each year HGCA undertakes a survey of cereal growers to assess levy-payer satisfaction and the level of importance they give to HGCA activities. This provides vital information in ensuring that levy income is spent effectively. The results from this year showed that, in general, grower satisfaction levels have improved. In particular, growers were most satisfied with HGCA activities in the areas of 'funding a research programme for cereals and oilseeds', 'information provided by publications to help agronomy decisions' and 'promotion of the use of UK grain on the export markets'.

The largest increases in satisfaction from last year's results, were in 'development of non-food uses of grain' (which was also regarded as the most important area of activity), and 'provision of value for money services'.

To ensure that HGCA is able to offer maximum operational efficiency, IT systems were enhanced this year to offer more flexible and remote working. Capacity for those needing to work away from the office but still access the full IT system has doubled and improvements were made so that the infrastructure is in place to effectively support HGCA's growing range of services. Measures are now in place to ensure that the business could run without access to the building; a key requirement of HGCA's risk register. Modern, efficient IT systems are vital for good services to levy-payers.

...en indicate your agreement with each statement by circling a number (to agree).

	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree
accumulating	5	4	3	2	1
allowed to that	5	4	3	2	1
tax m...	5	4	3	2	1
entirely needs.	5	4	3	2	1
me...	5	4	3	2	1
and listened	5	4	3	2	1

The risk register, reviewed on a regular basis, identifies possible threats to the business. This covers a variety of scenarios including the implications of a reduced national crop yield, key personnel leaving and acts of terrorism. The risk register is fully integrated in the running of HGCA.

The HGCA Recommended Lists' database, brought in-house last year, has delivered significant cost savings. The database was very successfully developed and allowed the production of the RL *Plus* interactive Recommended Lists four months earlier than in previous years. The new software also incorporated several enhancements. Access to an industry standard statistical analysis package allowed the system to adopt a better statistical model and give more meaningful data on averages for each variety.

This year's staff survey showed that levels of satisfaction improved across all departments of the organisation (*Figure 14*). The web-based, confidential survey had an excellent response rate with 93% of those eligible to take part completing the questionnaire. Ninety-five percent of staff understand how the work they do contributes to the aims of HGCA.

HGCA was proud to win a Public Reporting and Accountability award at the CIPFA Annual Conference (*Figure 15*). The award, for the national organisation with an annual turnover of less than



£50million, made special mention that the HGCA website was clear and easy to use and that a model set of Annual Report & Accounts had been laid before Parliament.

The awards are sponsored by CIPFA and PricewaterhouseCoopers LLP and seek to recognise and promote best practice in public reporting and accountability across the public services.

Figure 14: HGCA Staff Survey

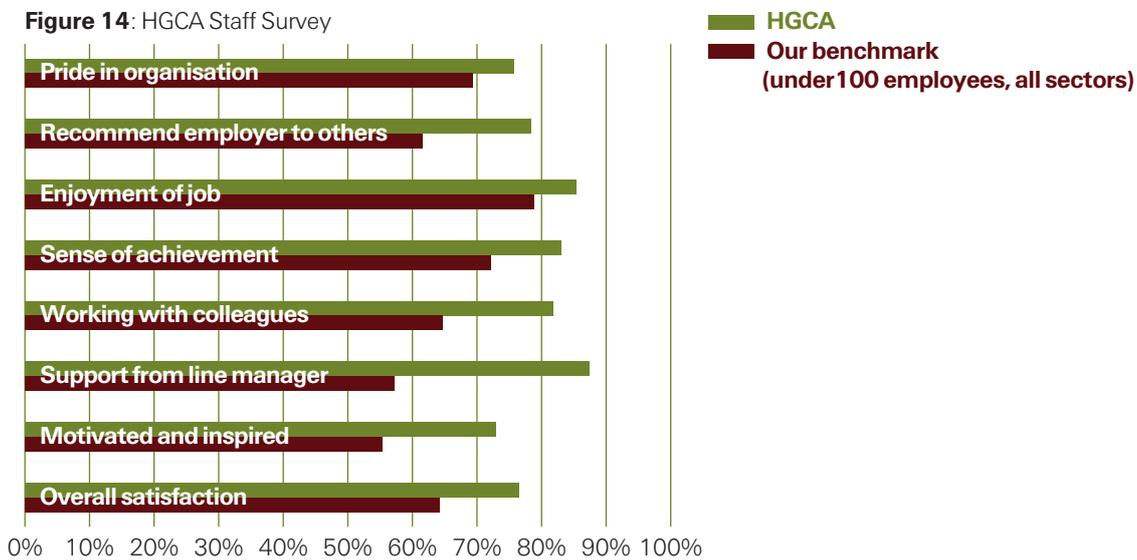


Figure 15: Public Reporting and Accountability Award





Performance targets 2007/08

Managing the process of Levy Board Reform

- Ensure a smooth transition from HGCA to HGCA Ltd
- Manage HR strategy on behalf of HGCA and its staff in an appropriate manner
- Maintain relationship with government agencies, agricultural departments and stakeholders
- Provide support for new AHDB Board and Shadow HGCA Ltd Board
- Co-ordinate with Defra Whole Government Accounting Team and National Audit Office

Exploiting existing market opportunities

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

Developing new markets

- Proactively commission new research focused on biopolymers and biofuels
- Develop Carbon Accreditation procedures for industry's needs
- Service supermarket requirements on biofuels
- Assess variety needs for biofuels and other industrial uses
- Develop biopolymers programme and industry requirements
- Develop strong industrial crop research programme
- Strengthen links with Enterprise Award winning companies
- Review HGCA's 'Innovation' support package



Producing cost-effectively to meet market needs

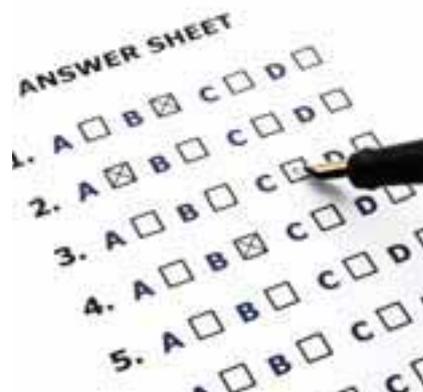
- Communicate the challenges and opportunities of climate change to the industry
- Develop work on crop nutrition, in line with revised Defra Fertiliser Recommendations
- Publish barley disease management guide
- Further develop CropMonitor as an effective tool for disseminating agronomy information
- Focus on improving the productivity and profitability of oilseed rape

Managing business risk 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

- Help the industry to minimise chemical residues and toxins in grain through focused research, monitoring and knowledge transfer
- Continue to develop the wholegrain message
- Develop oilseed rape message
- Extend Farmhouse Breakfast into an annual, regional campaign for farming
- Link HGCA education and food campaigns with the Year of Food and Farming
- Publish guidelines to prevent Fusarium mycotoxins in wheat



Securing external additional 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
- Sustain and increase current levels of matched funding
- Secure additional outside funding

Developing more effective communication

- Segment customer contact data to ensure the delivery of requested HGCA information
- Conduct grower benchmarking survey on HGCA services and delivery of information
- Evaluate events according to take-up and attendees recall of message
- Undertake comprehensive review of HGCA publications to improve co-ordination, maximise cost-savings and improve marketing

Maintaining and improving HGCA operational efficiency

- Monitor 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 Reform
- Maintain/improve IT system security
- Produce value statement for relevant HGCA projects







Financial statements 2006/07



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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.

Going concern

In accordance with the Defra Levy Bodies Reform, on 31 March 2008 substantially all of the functions of HGCA are expected to be transferred to the successor non-departmental public body and HGCA will be abolished. As the functions will continue, it is appropriate to prepare the accounts on a going concern basis. All transfers of assets, rights and liabilities will be made at book value and consequently no adjustment is required to the value of assets and liabilities in the accounts.

Financial results

HGCA's result for the year, before the surplus on disposal of the long term investments, shows a deficit of £0.2m (2005/06 surplus £0.8m) compared to a budgetted deficit of £0.8m and attributable to a special contribution to the HGCA pension fund of £0.3m less cost savings made against budget of £0.1m and above budget income of £0.8m. An accumulated surplus on the General Reserve (Income and Expenditure Account) of £4.7m is carried forward.

For the fourth year, HGCA has fully implemented the Pension Accounting Standard FRS 17. The pension plan actuary has calculated a plan liability at 30 June 2007 of £1k (2006 £537k). In these accounts the actuary's calculation has been revised to take account of the HGCA's special contribution of £300k which was paid into the plan in July 2007; accordingly a pension asset of £299k has been created and a pension reserve established. 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 briefings 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 54 and 55. HGCA's future plans and activities are shown on pages 26 and 27 of the Annual Report.

Crop Evaluation Limited

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

Grant assisted projects

HGCA continued its success in securing project funding from non-levy sources. New funding from EEDA, SEERAD and Scottish Enterprise has supplemented support from Defra, DTI and IATC. Projects valued at £8.6 million have benefited from this additional funding in the last six years.

Research projects

The total value of research projects managed by HGCA at 30 June 2007 stood at £59.4m (2006 £50.8m). This comprised funding within the Sustainable Arable LINK Programme (and other LINK programmes) attracting industry and governmental financial support totalling £42.8m (2006 £37.5m), together with HGCA funding of £16.6m (2006 £13.3m), 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 HGCA Annual Report and Accounts (1996/97) 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
- disclose all relevant information to the auditors of HGCA

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.

*Ministers

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

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 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 liaison meetings with invited representatives from the UK Agriculture Departments as required. 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 2007 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 is established within HGCA 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 major incidents of terrorism in London. The Directors regularly review business continuity plans in order to minimise the impact of such events on service delivery.

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.

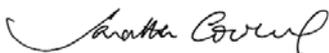
HGCA embraces the principles and requirements of good corporate governance and has established the following processes in maintaining and reviewing the effectiveness of the system of internal control:

- 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 and Accounting Officer
25 October 2007

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 2007 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 (audited)

The remuneration of the Board is determined annually by Defra. With effect from April 2007 the Chairman receives £27,367 (April 2006 £26,673), the Deputy Chairman £9,464 (April 2006 £9,224) and remaining Board Members £4,710 (April 2006 £4,590).

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 on 20 September 2006, when the Remuneration Committee recommended that the annual salary of the Chief Executive should increase by 5% with effect from 1 October 2006.

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 2007 of £10,000 (2006 £5,000).

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 six months' notice. No termination payments apply.

Pension arrangements (audited)

The Chief Executive is a member of 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 23.6% (average for the year) of gross salary were paid during the year (2005/06 14.125%).

Benefits in kind (audited)

The Chief Executive is entitled to private medical insurance of £436 p.a. (2005/06 £614 p.a.)

Remuneration of the Board and Chief Executive (audited)

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	31 March 2008
Christopher Ritson	3 June 2000	31 March 2008
John Best	3 June 2003	31 March 2008
Andrew Davies	3 June 2005	31 March 2008
Ian Douglas	3 June 2005	31 March 2008
David Halligan	7 July 2004	31 March 2008
Peter Knight	3 June 2005	31 March 2008
Rad Thomas	3 June 2005	31 March 2008
Julian Hasler	3 June 2002	31 March 2008
Douglas Morrison	3 June 2000	31 March 2008
Sotiris Pappasolomontos	3 June 1999	31 March 2008
Ivor Murrell	3 June 2004	31 March 2008
Michael Sheppard	3 June 1999	31 March 2008
Jonathan Tipples	3 June 2001	31 March 2008
Stewart Vernon	3 June 2005	31 March 2008
Ted Wright	3 June 2006	31 March 2008
Jonathan Cowens	1 October 2004	not applicable



Jonathan Cowens
Chief Executive and Accounting Officer
25 October 2007

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 the Home-Grown Cereals Authority for the year ended 30 June 2007 under section 21 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 Balance Sheet (excluding subsidiary company); the consolidated Income and Expenditure Account, Balance Sheet, Cash-flow Statement and Reserves Movement incorporating the 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. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Home-Grown Cereals Authority, Chief Executive and auditor

The Home-Grown Cereals Authority and Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, the Remuneration Report and the Financial Statements in accordance with the Cereals Marketing Act 1965 and directions made thereunder by Ministers and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Home-Grown Cereals Authority and Chief Executive's Responsibilities.

My responsibility is to audit the Financial Statements and the part of the Remuneration Report to be audited 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 the Cereals Marketing Act 1965 and directions made thereunder by Ministers. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Financial Review of the Year and the Board and Committee Structure 2006/07, is consistent with the Financial Statements. 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.

In addition, I report to you if the Home-Grown Cereals Authority 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 HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Home-Grown Cereals Authority compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Home-Grown Cereals Authority 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. 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 the Home-Grown Cereals Authority and Accounting Officer in the preparation of the Financial Statements, and of whether the accounting policies are most appropriate to the Home-Grown Cereals Authority'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.

Audit opinion

In my opinion:

- the Financial Statements give a true and fair view, in accordance with the Cereals Marketing Act 1965 and directions made thereunder by Ministers, of the state of the Home-Grown Cereals Authority affairs as at 30 June 2007 and of its deficit 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 the Cereals Marketing Act 1965 and directions made thereunder by Ministers; and
- information given within the Annual Report, which comprises the Financial Review of the Year and the Board and Committee Structure 2006/07, is consistent with the Financial Statements.

Audit opinion on regularity

In my opinion, 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.

Report

I have no observations to make on these Financial Statements.



John Bourn
Comptroller and Auditor General
30 October 2007

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

Consolidated income and expenditure account

for the year ended 30 June 2007

	Notes (p43-53)	2007 £'000	2006 £'000
Expenditure			
Service delivery - what we did			
Research, development and variety evaluation		3,848	3,648
Export and market development		1,695	1,560
Market services		723	642
Grant assisted projects		804	745
Strategy - Board, CEO and business development		553	434
		7,623	7,029
Communications - delivering the message	2	1,793	1,384
Support costs - making the operation work	3	1,802	1,718
		11,218	10,131
Income			
Revenue sources which fund our services			
Levy income	4	9,459	9,495
Grant assisted projects		831	827
Other income including grants	5	766	610
		11,056	10,932
Operating (deficit)/surplus for the year before tax		(162)	801
Notional cost of capital*		(310)	(285)
Taxation	10	(40)	(14)
Net operating (deficit)/surplus after tax		(512)	502
Reversal of the notional cost of capital		310	285
Result for the year		(202)	787
Surplus on disposal of long term investments		-	342
(Deficit)/surplus for the year after taxation		(202)	1,129

* calculated at 3.5% p.a.

The notes on pages 43 to 53 form part of these accounts.

All income and expenditure relates to continuing operations.

Consolidated balance sheet

as at 30 June 2007

	Notes (p43-53)	2007 £'000	2006 £'000
Reserves			
General reserve		4,703	4,930
Designated reserves	12	3,500	2,963
Pension reserve		299	-
		8,502	7,893
Fixed assets and long-term investments			
	13	111	169
Current assets			
Debtors			
Levy income receivable		2,245	2,178
Other debtors and prepayments		611	842
		2,856	3,020
Cash and short-term investments		7,775	7,683
		10,631	10,703
Less: Current liabilities			
Provision for taxation	10	51	28
Project cost creditors		1,397	1,300
Other creditors and accruals	14	866	889
		(2,314)	(2,217)
Net current assets		8,317	8,486
Total assets less current liabilities			
Provisions for liabilities and charges	15	(225)	(225)
Net assets excluding pension asset/(liability)		8,203	8,430
Pension asset/(liability)	16	299	(537)
Net assets		8,502	7,893

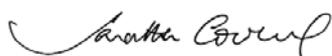
The notes on pages 43 to 53 form part of these accounts.

Approved by the Board on 19 September 2007 and signed on its behalf on 25 October 2007 by:

John Page:
Chairman

Jonathan Cowens:
Chief Executive and Accounting Officer

Gordon Bennett:
Director of Finance and Business Services


Balance sheet (excluding subsidiary company)

as at 30 June 2007

	Notes (p43-53)	2007 £'000	2006 £'000
Reserves			
General reserve		4,703	4,930
Designated reserves	12	3,500	2,963
Pension reserve		299	-
		8,502	7,893
Fixed assets and long-term investments			
	13	111	169
Current assets			
Debtors			
Levy income receivable		2,245	2,178
Other debtors and prepayments		611	842
		2,856	3,020
Cash and short-term investments		7,775	7,683
		10,631	10,703
Less: Current liabilities			
Provision for taxation	10	51	28
Project cost creditors		1,190	1,122
Due to subsidiary		204	239
Other creditors and accruals	14	869	828
		(2,314)	(2,217)
Net current assets		8,317	8,486
Total assets less current liabilities			
Provisions for liabilities and charges	15	(225)	(225)
Net assets excluding pension asset/(liability)		8,203	8,430
Pension asset/(liability)	16	299	(537)
Net assets		8,502	7,893

The notes on pages 43 to 53 form part of these accounts.

Approved by the Board on 19 September 2007 and signed on its behalf on 25 October 2007 by:

John Page:
Chairman

Jonathan Cowens:
Chief Executive and Accounting Officer

Gordon Bennett:
Director of Finance and Business Services





Consolidated cash-flow statement

for the year ended 30 June 2007

	2007 £'000	2006 £'000
Cash (outflow)/inflow from operating activities	(170)	408
Returns on investments and servicing of finance		
Interest received	394	248
Fixed assets investment		
Realisation	-	4,006
Capital expenditure		
Purchase of tangible fixed assets	(115)	(249)
Taxation	(17)	-
Pension benefits		
Special contribution payment	-	(300)
Increase in cash	92	4,113

Notes to consolidated cash-flow statement

1 Reconciliation of operating (deficit)/surplus before tax to cash (outflow)/inflow from operating activities

Operating (deficit)/surplus before tax	(162)	801
Retirement benefits	(25)	80
Decrease/(increase) in debtors	179	(383)
Increase/(decrease) in creditors	74	(77)
Depreciation of tangible fixed assets	173	210
Dilapidation provision	-	25
Investment income	(409)	(248)
Cash (outflow)/inflow from operating activities	(170)	408

	Cash flows £'000	30.6.07 £'000	30.6.06 £'000
2 Analysis of changes in net funds			
Cash at bank and in hand	92	7,775	7,683

Consolidated reserves

as at 30 June 2007

Reserve movements incorporating the statement of total recognised gains and losses

	General reserve		Designated reserve	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
At 1 July	4,930	3,721	2,963	3,021
Reverse pension scheme liabilities charged to designated reserve	(537)	(479)	537	479
	4,393	3,242	3,500	3,500

Statement of total recognised gains and losses

(Deficit)/surplus for the year after tax	(202)	1,129	-	-
Special pension contribution 2007	300	-	-	-
FRS 17 - Retirement Benefits: Actuarial gains on pension scheme	511	22	-	-
Total recognised gains and losses	609	1,151	-	-
Total before reallocation	5,002	4,393	3,500	3,500
Pension scheme liabilities reallocated	-	537	-	(537)
Reserves at 30 June	5,002	4,930	3,500	2,963

General reserve analysis

General reserve	4,703
Pension reserve	299
	5,002

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 for Environment, Food and Rural Affairs, the Cabinet Secretary for Rural Affairs and the Environment (The Scottish Government), the Minister for Rural Affairs (National Assembly for Wales) and the Minister for the Department of Agriculture and Rural Development, Northern Ireland have, with the approval of HM Treasury, directed under Section 21(2) of the Cereals Marketing Act 1965.

Accounting policies

- i) The accounts are prepared in accordance with generally accepted accounting practice in the United Kingdom (UK GAAP) and the Companies Act requirements, and the accounting and disclosure requirements given in *Government Accounting* and in the *Financial Reporting Manual (FRM)*, insofar as these are appropriate to HGCA and are in force for the financial year for which the accounts are prepared.
- ii) The accounts have been prepared under the historical cost convention. The financial effect of re-valuing fixed assets was considered to be immaterial and therefore they have been disclosed at their historical cost value.
- iii) Income has been accounted for 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 periodSurpluses 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 surplus arising will be held to pension reserve; any overall liability is charged 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

	2007	2006
	£'000	£'000
Research and Development knowledge transfer	713	421
Website, customer database and IT support	554	506
Events, seminars and publications	526	457
	<hr/>	<hr/>
	1,793	1,384
	<hr/>	<hr/>

3 Support costs - making the operation work

	2007	2006
	£'000	£'000
Finance, Human Resources and Facilities Management	616	533
Rents, rates and office maintenance	503	514
Depreciation	173	210
Legal, other fees and expenses	104	179
Insurances	41	46
Audit fees and expenses - external	23	16
Audit fees and expenses - internal	12	61
Special pension contribution	300	-
FRS 17 additional pension cost to be absorbed	30	159
	<hr/>	<hr/>
	1,802	1,718
	<hr/>	<hr/>

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 2006 (SI 2006/1357) which specified a cereal grower levy of 40p (2005/06 40p) per tonne, a cereal dealer levy of 43.3p (2005/06 43.3p) per tonne, processor (animal feed) levy of 4.0p (2005/06 4.0p) per tonne and a processor (other) levy of 8.25p (2005/06 8.25p) per tonne on deliveries of cereals as specified in the Order in the period 1 July 2006 to 30 June 2007. It also specified an oilseeds grower levy of 65p (2005/06 65p) per tonne and an oilseeds dealer levy of 65p (2005/06 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	2007	2006
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Levy income							
Cereals levy:							
Grower	6,931	-	-	-	-	6,931	6,840
Dealer	-	572	-	-	-	572	565
Processor (feed)	-	-	229	-	-	229	237
Processor (other)	-	-	-	614	-	614	615
Oilseeds levy:							
Grower	-	-	-	-	1,236	1,236	1,280
Correction to prior year provision of final quarter out-turn	98	8	3	45	103	257	331
Income from levy gross	7,029	580	232	659	1,339	9,839	9,868
Commission paid to dealers for levy collection	(351)	(29)	-	-	-	(380)	(373)
Income from levy net	6,678	551	232	659	1,339	9,459	9,495
Tonnes – millions	17.6	17.6	5.8	8.0	2.1		
Levy rates – pence per tonne	40	3.3	4	8.25	65		

5 Other income

	2007	2006
	£'000	£'000
Publications and miscellaneous income	132	98
Defra services	109	109
Bank interest gross	409	248
Other grants	61	76
Other finance income	55	79
	766	610

Notes to the accounts

6 Remuneration

a) Directors' emoluments

	Joined HGCA	2007 £'000 Remuneration
Board members		
John Page <i>Chairman</i>	3 June 04	27
Professor Christopher Ritson <i>Deputy Chairman</i>	3 June 00	9

The remaining Board members received emoluments not exceeding £4,590 each.

The charge for Board members' remuneration £145k (2006 £160k) also includes the emoluments £19k (2006 £18k) of the Chairman and Directors of Crop Evaluation Limited, and of the Advisory Committee Chairmen whose combined emoluments amounted to £24k (2006 £13k). Board and Committee members' travel and subsistence expenses amounted to £45k (2006 £49k). CEL Board and Committee members' travel and subsistence expenses amounted to £37k (2006 £41k).

	Joined HGCA	Salary £'000	Increase in accrued pension for year to 30 June 2007 £	Accrued annual pension entitlement at 30 June 2007 £
Executive Directors				
Jonathan Cowens <i>Chief Executive</i>	1 Nov 04	115	1,780	4,565
Gordon Bennett <i>Finance and Business Services</i>	5 Oct 98	80	1,471	9,753
Alastair Dickie <i>Crop Marketing</i>	1 Aug 99	94	1,705	10,740
Professor Graham Jellis <i>Research and Development</i>	1 Jun 99	85	1,618	9,926
Dr Alan Almond <i>Business Development</i>	1 Jun 88	74	1,831	20,180

Salary includes gross salary, bonuses (paid and accrued), and any other benefits subject to UK taxation. Executive Directors participate as normal members of HGCA pension scheme (note 16).

b) Staff employment costs

	2007 £'000	2006 £'000
Salaries	2,331	2,086
Social security costs	203	172
	2,534	2,258
Short term contracts	68	60
Pension current service costs	463	409
Special pension contribution	300	-
	3,365	2,727

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

	2007	2006
<i>Average number of employees by activity (whole-time equivalents)</i>		
Research, development and variety evaluation	12	11
Export and market development	9	8
Market services	14	13
Grant assisted projects	3	3
Strategy - Board, CEO and business development	4	4
Communications - delivering the message	18	16
Support activities - making the operation work	10	10
	70	65

8 Research and Development project expenditure

Expenditure is charged against income in the year in which the work is undertaken. As at 30 June 2007 commitments for contracted projects amounted to £7.4 million (2006 £8.3 million).

9 Crop Marketing project expenditure

Expenditure is charged against income in the year in which the work is undertaken. As at 30 June 2007 commitments for contracted projects amounted to £1.5 million (2006 £0.6 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	
	2007	2006
	£'000	£'000
Corporation tax at 19% (2006 19%)	40	14
Taxation charged to income and expenditure account	40	14

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	
	2007	2006
	£'000	£'000
(Deficit)/surplus on ordinary activities before tax	(162)	801
Tax at 30%	(49)	240
The tax effect of:-		
Income not chargeable for tax purposes	(3,155)	(3,132)
Expenses not deductible for tax purposes	3,267	2,914
Small companies rate	(23)	(8)
Current tax charge	40	14

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 deficit for the year amounted to £202k (2006 Surplus £1,129k). 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. (2006 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. The FRS 17 pension fund valuation at 30 June 2007 calculated a pension liability of £1k. The special contribution of £300k accrued in these accounts has transformed the liability into a pension asset of £299k. Accordingly there is no pension liability to charge to the designated reserves (2006 £537k).

13 Fixed assets and long-term investments

	Group and Company	
	2007	2006
	£'000	£'000
Furniture and equipment		
Cost at 1 July 2006	1,608	1,420
Additions	115	249
Disposals	(55)	(61)
Cost at 30 June 2007	1,668	1,608
Depreciation provision at 1 July 2006	1,439	1,290
Charge for the year	173	210
Disposals	(55)	(61)
Depreciation provision at 30 June 2007	1,557	1,439
Net book value at 30 June 2007	111	169

Subsidiary undertaking

HGCA 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

14 Other creditors and accruals

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Other taxes and social security costs	168	178	203	231
Pension augmentation	300	-	300	-
Sundry creditors and accruals	398	711	366	597
	866	889	869	828

15 Provisions for liabilities and charges

	Group and Company	
	2007 £'000	2006 £'000
Provision at 30 June 2006	225	200
Additional provision	-	25
Provision at 30 June 2007	225	225

Under the terms of the Caledonia House lease, on its expiry in 2017, 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.

16 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. In view of the transfer of HGCA functions on 31 March 2008, the next valuation has been brought forward by one year and will instead be based on a valuation date of 1 April 2007.

HGCA paid contributions for the year to 30 June 2007 at the rate of 23.6% of pensionable salaries; a special contribution of £300k, accrued in these accounts, was paid in July 2007. 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 £471k including £8.2k in respect of Group Life Insurance cost. (2006 £417k including Group Life £7.7k).

Notes to the accounts

16 Pension scheme (continued)

For purposes of FRS 17 disclosure, the Actuary has prepared a valuation as at 1 April 2005, updated to 30 June 2007. The Actuary has calculated a scheme surplus at 30 June 2007 of £299k (2006 deficit £537k) having used the following assumptions to assess the present value of the scheme's liabilities:

	30.6.07	30.6.06	30.6.05
Rate of inflation	3.4%	2.8%	2.7%
Salary escalation	4.9%	4.3%	4.2%
Increase to pensions in payment	3.4%	2.8%	2.7%
Statutory revaluation	3.4%	2.8%	2.7%
Discount rate (pre and post retirement)	5.8%	5.2%	4.9%

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	2007 £'000		2006 £'000		2005 £'000	
Bonds	4,771	5.4%	4,331	4.7%	4,072	4.5%
Equities	5,557	8.1%	4,345	7.6%	3,629	8.4%
Annuity contracts	603	5.8%	643	5.2%	648	4.9%
Cash and other net assets	353	5.1%	649	4.5%	839	4.5%
Property	-	-%	57	7.8%	51	7.7%
Total market value of assets	11,284		10,025		9,239	
Present value of liabilities	(10,985)		(10,562)		(9,718)	
Pension asset/(liability)	299		(537)		(479)	

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

	2007 £'000	2006 £'000
Amounts charged to income and expenditure		
Current service cost	463	409
Total operating charge	463	409
Analysis of credit to other finance income		
Expected return on pension scheme assets	605	558
Interest on pension scheme liabilities	(550)	(479)
Net return	55	79
Amounts recognised in statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	223	225
Experience gains and losses arising on the scheme liabilities	127	(187)
Changes in assumptions underlying the present value of the scheme liabilities	161	(16)
Actuarial gain recognised in STRGL	511	22
Movement in deficit during the year		
Deficit in scheme at beginning of the year	(537)	(479)
Movement in year:		
Current service cost	(463)	(409)
Contributions	733	250
Other finance income	55	79
Actuarial gain	511	22
Surplus/(deficit) in scheme at end of the year	299	(537)

Notes to the accounts

16 Pension scheme (continued)

History of experience gains and losses

	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Difference between the expected and actual return on scheme assets:					
Amount £'000	223	225	552	81	(371)
Percentage of scheme assets	2.0%	2.2%	6.2%	1.0%	(5.0%)
Experience gains and losses on scheme liabilities:					
Amount £'000	127	(187)	76	(168)	17
Percentage of the present value of the scheme liabilities	1.2%	(1.8%)	0.8%	(2.0%)	0.2%
Total amount recognised in statement of total recognised gains and losses:					
Amount £'000	511	22	(522)	311	(990)
Percentage of the present value of the scheme liabilities	4.7%	0.2%	(5.4%)	3.8%	(12.2%)

17 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 (2005/06 £109k) for services provided. These comprised £105k (2005/06 £105k) for the provision of market information; £2k (2005/06 £2k) for the reporting of cereal price information to the European Commission; and £2k (2005/06 £2k) in reimbursement of certain costs associated with the corn returns. Defra was also charged with ADS (Agricultural Development Scheme) grants and other Defra grants due to HGCA £811k (2005/06 £827k). At 30 June 2007 the amount owing to HGCA from Defra was £243k (2006 £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 £71k (2005/06 £36k). At 30 June 2007 HGCA had no amounts owing to or from FFB.

Central Science Laboratory (CSL) is an Executive Agency of Defra. HGCA has contributed £445k to specific CSL projects during the year (2005/06 £136k). At 30 June 2007 HGCA had £58k owing to CSL.

18 Operating leases

HGCA has a 10 year lease on two floors in Caledonia House, with 10 years remaining. The amounts payable for rent and service charges for the forthcoming year are estimated to be £265k (2006 £250k) and £84k (2006 £106k) respectively. Rent commitment within 2 to 5 years is £1,060k (nil) and then subject to rent review.

19 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.

20 Post balance sheet events

HGCA's Financial Statements are laid before the Scottish and Westminster Parliaments, the Northern Ireland Assembly and placed in the Library of the Welsh Assembly. FRS 21 requires HGCA to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are dispatched by HGCA to appropriate Ministers. The authorised date for issue is Thursday 15 November.

Notes to the accounts

21 Performance against key financial targets

	2007 Actual £'000	2007 Budget £'000	2007 Variance £'000
Expenditure			
Service delivery - what we did			
Research, development and variety evaluation	3,848	4,069	221
Export and market development	1,695	1,696	1
Market services	723	725	2
Grant assisted projects	804	631	(173)
Strategy - Board, CEO & business development	553	827	274
Communications - delivering the message	1,793	1,697	(96)
Support costs - making the operation work	1,772	1,397	(375)
FRS17 additional pension cost	30	-	(30)
	11,218	11,042	(176)
Income			
Revenue sources which fund our services			
Levy Income	9,459	8,936	523
Grants	892	876	16
Investment income	409	294	115
Publications and miscellaneous income	132	30	102
Defra services	109	110	(1)
Other finance income	55	-	55
	11,056	10,246	810

Notes to the accounts

22 Financial statistics

	2003 £'000	2004 £'000	2005 £'000	2006 £'000	2007 £'000
Balance sheets					
Assets employed					
Fixed assets and long-term investments	2,861	3,309	3,794	169	111
Net current assets	3,154	3,415	3,627	8,486	8,317
Pension asset	-	-	-	-	299
	6,015	6,724	7,421	8,655	8,727
Financed by					
General reserve	2,315	3,024	3,721	4,930	4,703
Designated reserve	2,784	3,008	3,021	2,963	3,500
Pension reserve	-	-	-	-	299
Pension liabilities	716	492	479	537	-
Provision for liabilities and charges	200	200	200	225	225
	6,015	6,724	7,421	8,655	8,727
Operating accounts					
Income					
Levy income	9,925	9,096	9,362	9,495	9,459
Grant income	378	629	452	903	892
Investment income	111	127	159	248	409
Other income	224	252	230	286	296
	10,638	10,104	10,203	10,932	11,056
Expenditure					
Service delivery - what we did	8,071	7,012	7,221	7,029	7,623
Communications - delivering the message	1,146	1,435	1,385	1,384	1,793
Support services - making the operation work	1,245	1,456	1,501	1,718	1,802
	10,462	9,903	10,107	10,131	11,218
Operating (deficit)/surplus before tax	176	201	96	801	(162)
Notional cost of capital	(335)	(250)	(259)	(285)	(310)
Taxation	(4)	-	(3)	(14)	(40)
Net (deficit)/surplus after tax	(163)	(49)	(166)	502	(512)
Credit of notional cost of capital	335	250	259	285	310
Result for the year	172	201	93	787	(202)
Movement in value of long term investments	(124)	421	539	342	-
Transfer to/(from) reserves	48	622	632	1,129	(202)
FRS 17 net (income)/costs taken to designated reserve/pension reserve	16	87	65	80	(25)
General reserve	2,315	3,024	3,721	4,930	4,703

Board and Committee structure 2006/07

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
Christopher Ritson
Deputy Chairman, Independent
John Best, UFU
Andrew Davies, NFU
Ian Douglas, AIC
Julian Hasler, NFU
David Halligan, GAFTA
Peter Knight, nabim
Douglas Morrison, NFUS
Ivor Murrell, MAGB
Sotiris Pappasolomontos, AIC
Michael Sheppard, UGP
Rad Thomas, NFU
Jonathan Tipples, NFU
Stewart Vernon, NFU
Edward Wright, bpc

HGCA Board Committees

Audit

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

Finance

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

Remuneration

John Page *Chairman*
Douglas Morrison
Ivor Murrell
Sotiris Pappasolomontos
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 30/6/07

George Forbes *Chairman*, NFUS
Simon Browne *Chairman*, NFU
retired 11 July 2006
Michael Adams, AIC
Richard Beldam, NFU

Steve Bumstead, NFU
David Cater, UGP
Keith Davies, GAFTA
David Doyle, GAFTA
Mike Giffin, NFU
Clive Jolliffe, NFU *appointed 12 July 2006*
Kevin Littleboy, NFU
David McCreath, GAFTA/AIC
David Sheppard, AIC
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 30/6/07

Julian Gibbons *Chairman*, NFU
Allan Coxon, NFU
Janet Godfrey, Education Adviser
Mark Isaacson, AIC
Henry Johnston *Vice Chairman*, UFU
Alex Waugh, nabim
Duncan West, NFU
Ian Whiteford, NFUS
Christopher Ritson, Board representative
David McNair, FFB Export representative
retired 25 May 2007

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 30/6/07

Sotiris Pappasolomontos *Chairman*
Julia Anderson, nabim
Andrew Chandiramani, Defra
Brian Cole, Frontier
Guy Gagen, NFU
Stephen Game, Amylum
Angela Gibson, Glencore Grain
Lindsay Holmes, Defra
Robin Manning, Defra
Jennie Richards, MAGB
Cecilia Pryce, Louis Dreyfus
Rupen Raithatha, NFU
Robin Reid, Bowmans
Paul Rooke, AIC

Nigel Stevenson, Centaur Grain
Darren Stretton, Defra
Alex Waugh, nabim
Heather Wheeler, Defra

Research & Development

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 30/6/07

Anthony Hornshaw *Chairman*, NFU
Bryan Collen *Chairman*, NFU
retired 30 September 2006
David Anker, NFU
appointed 1 October 2006
James Arbuckle, NFUS
retired 30 September 2006
Philip Bennion, NFU
Mark Charlton, nabim
Roger Clark-Monks, bpc
retired 30 September 2006
Andrew Cragg *Vice Chairman*, NFU
Nigel Davies, MAGB
David Ellerton, AIC
Graham Furey, UFU
Mark Leggott, NFU
appointed 1 October 2006
Dinah Nicholson, bpc
appointed 1 October 2006
Adrian Peck, NFU
Andrew Perry, UGP
Huw Phillips, NFUS
appointed 1 October 2006
Daniel Squier, NFU
Steve Stokes, GAFTA
Stewart Vernon, NFU
retired 30 September 2006
Norman Wisely, NFUS
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 2007 – June 2008

Citizen's Charter document
Our commitment to quality

Levies for Cereals and Oilseeds 2007/2008

Glossary

ADS	Agriculture Development Scheme
AHDB	Agriculture and Horticulture Development Board (formerly Levy Board UK)
AIC	Agricultural Industries Confederation
bpc	British Poultry Council
BRi	Brewing Research International
CIF	Cereals Industry Forum
CIPFA	Chartered Institute of Public Finance and Accountability
CLA	County Land and Business Association
Defra	Department for Environment, Food and Rural Affairs
DfT	Department for Transport
DTI	Department of Trade and Industry
GAFTA	The Grain and Feed Trade Association
GRDC	Grains Research and Development Corporation
LLP	Limited Liability Partnership
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
VPN	Virtual Private Network
WFU	Women's Food and Farming Union

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