

**THE CORPORATE PLAN  
FOR THE AGRICULTURE AND  
HORTICULTURE DEVELOPMENT  
BOARD  
2008 - 2011**



**Agriculture and  
Horticulture  
Development  
Board**

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## INTRODUCTION

1. The Agriculture and Horticulture Development Board (AHDB) and its six sector Companies become operational on 1 April 2008. This is the first Business Plan for AHDB and covers the period 2008-2011.
2. The Plan has been developed over a period of six months by the Board of AHDB and the Boards of the Sector Companies and has benefited from consultation with key stakeholders, whose comments and observations have been taken into account.
3. The Business Plan has been developed from the work undertaken by Accenture through the fresh start review and the subsequent work on the business case. This work is described below and has been fundamental in determining the key direction, priorities and location for AHDB going forward.

## BACKGROUND

*4. "It is well known that the agriculture and horticulture sectors of the UK economy have been undergoing massive change in recent years, change that is certainly set to continue. All the sectors have been affected by the forces of globalisation, most have been affected by major reforms to the Common Agricultural Policy, with an end to production subsidies, and by other European regulatory initiatives. And the UK policy environment has had its part to play, with key issues such as animal health and welfare, health and nutrition, and the domestic regulatory environment all impacting on these industry sectors. They face a formidable array of change drivers but their role in the economy, and their health and prosperity, continue to be of great importance, not just in terms of their direct economic contribution but also in terms of their contribution to the wider sustainability agenda"*

**(Foreword to the Radcliffe Report October 2005)**

5. Rosemary Radcliffe was asked by Government in March 2005 to undertake a 'cross-cutting and fundamental review of the rationale for and role, organisation, funding and function of the five levy boards'. Her report, published in October 2005, went out to public consultation and in June 2006, the Minister of State in Defra, Lord Rooker, announced that the radical restructuring of levy boards would go ahead. The five existing levy boards (the British Potato Council, the Meat and Livestock Commission, the Milk Development Council, the Horticultural Development Council and the Home Grown Cereals Authority) would be replaced by one statutory levy board (the Agriculture and Horticulture Development Board) with six sector companies in April 2008. Lord Rooker commented at the time that, 'the industry has altered radically since the first levy board was established over 40 years ago and the new structure should bring substantial benefits for farmers and growers, including better value for money through improvements in the efficiency and effectiveness of service delivery'.

6. Following this Ministerial announcement it was further announced by Defra that Accenture had been appointed to undertake research to inform a Fresh Start review to be undertaken by the new 'shadow' Board (AHDB) prior to the introduction of the

new system by 1 April 2008. This research aimed to identify levy payer needs and determine how these can be met through the new arrangements. Through a telephone survey, web survey, stakeholder consultations and outreach events, Accenture secured almost 1000 responses in a three-month period (October to December 2006), from farmers, growers, processors and major stakeholders. The research tested the awareness of levy payers and others to services currently offered, identified the key needs of the sectors going forward and tested these results, in terms of potential activities, against the common framework of activities proposed in the Radcliffe Report. The overall conclusions were that a good fit with the common framework existed in the key areas identified by Accenture – improving profitability, better supply chain co-ordination, improving competitiveness, the promotion and provision of consumer information and innovation and new product development. Accenture also looked at issues around governance and accountability and identified what levy payers were looking for from the proposed reforms and the success criteria that would show whether the levy board reforms had generated the benefits anticipated.

7. By February 2007 a Shadow Board for AHDB had been appointed (consisting of the 6 new Sector Company Chairs and 4 independent Directors including the Chairman), as had a small Secretariat (a Chief Executive and support services). Concurrently, Accenture began a detailed investigation of the activities and financial structures of the five existing Levy Boards as a prelude to a detailed presentation to the new Shadow Board on the development of a business case for implementing the reforms.

8. The Shadow Board received regular reports from Accenture, who also undertook one-to-one meetings with the new Sector Company Chairs, to identify key priorities for the future: both these being a prelude to the strategic planning process which engaged the Shadow Board in detailed discussions from March to September 2007, when final decisions on the business case were taken. Accenture reported to the AHDB meeting on 2 April 2007 on the outcome of initial interviews with the six new Sector Company Chairs. The interviews confirmed a strong consensus around the key over-arching issues facing AHDB and sector companies: competitiveness and improving product differentiation. Competitiveness lies at the heart of sustainable farming. It involves the control of costs; understanding costs, managing costs and reducing costs. It also involves the integration of assured quality at all stages of production. Product differentiation refers to the ability of UK producers to secure a premium for their products at the point of sale, based on a range of attributes underpinned by a recognisable system of quality assurance. These two over-arching themes suggested that AHDB and its Sector Companies should concentrate on five major workstreams: business performance; supply-chain co-ordination; market intelligence business development and the promotion of industry products to consumers and retailers.

9. A further round of meetings with the sector Company Chairs, AHDB and Accenture considered the delivery of these services, in terms of services that could be delivered off a common platform and those which were specific to a particular sector. This consultation showed that there was a general enthusiasm for delivering services off a common platform and a consensus on a number of shared activities. These included back office services, business analysis (all services except business

development), co-ordination of market intelligence, co-ordination of research and development, cross-sectoral promotion and crisis management.

10. Accenture presented to AHDB at its meeting on 2 June a preliminary analysis of the business case for both the delivery of shared services and the relocation of staff to secure efficiencies in delivery. The analysis was refined and extended and a final decision by the Agriculture and Horticulture Development Board was taken on 6 August to recommend to Ministers that, subject to staff consultation, that AHDB and its Sector Companies would co-locate on a new site at Stoneleigh in Warwickshire from mid 2009. For financial year 2008/2009, the Sector Companies would develop a delivery plan, which would provide continuity of service at the same time as bringing forward changes consistent with the overall strategy of AHDB. These plans are contained within a three-year strategy for AHDB and its Sector Companies, which will see, from a new location, the delivery of shared services, the provision of sector specific services; all within a financial framework which has the capacity to generate savings of £4.5 million per annum.

## SETTING THE SCENE

11. AHDB's vision reflects the key issues impacting on the agriculture and horticulture sectors now and those likely to impact on the sectors in the future. Key external drivers of change fit into three areas:

12. **Environmental challenges** – particularly addressing the implications of climate change and the costs and compliance issues associated with the environmental impact of agriculture and horticulture.

13. **Changing consumer patterns** – particularly the impact of a changing demographic structure, a growing awareness of the role of diet in health and wellbeing, the development of the food service market and generally a need to better understand the consumer.

14. **Global trade and competition** – the implications of further CAP reform and the impact of WTO negotiations.

15. AHDB's vision for the agriculture and horticulture sectors in the UK is of a,

**“thriving and sustainable sector, responding effectively to change.”**

16. Following from this the mission for AHDB is to,

**“Provide to the agriculture and horticulture sectors cost-effective, relevant services, which support the sector’s long-term sustainability.”**

17. In this way AHDB can reflect the key priorities for Defra for the farming and food sectors.

### **Pestle Analysis**

18. The challenges and opportunities for the agricultural sectors have been established in this next section of the document using the PESTLE framework to build on the key points addressed earlier. The common framework was originally developed for the initial Shadow Board meetings in March 2007; the individual sector frameworks were developed in one to one strategic planning meetings with the new Sector Board Chairs in March/April 2007 (for the purpose of informing the development of the ‘business case’).

19. Both the common and sector specific frameworks have been updated as far as possible to take account of the actual/potential effect of political/market developments in the six months since the original frameworks were compiled.

20. Most challenges and opportunities are related to five key areas:

- 1) global trade and competition
- 2) more sophisticated (ethical) consumers
- 3) environmental challenges

- 4) increasing cost base
- 5) improving productivity

<b>POLITICAL</b>
<ul style="list-style-type: none"> <li>• All sectors face a difficult period adjusting to a new subsidy structure; with no direct enterprise subsidies all producers in each sector will have to focus more on the financial performance of each sector. Possible further changes to the CAP post 2007/08 EU 'Health Check'.</li> </ul>
<ul style="list-style-type: none"> <li>• WTO negotiations (Doha round) – negotiations have slowed – but could still impact on 'fair trade' and competition – meanwhile effects of new US Farm Bill in 2008 could have a more immediate impact on global trade.</li> </ul>
<ul style="list-style-type: none"> <li>• Short to medium term instability in major oil producing areas – continuing focus on energy issues.</li> </ul>
<ul style="list-style-type: none"> <li>• Coping with diverse objectives/pressures from devolved UK regional administrations.</li> </ul>
<ul style="list-style-type: none"> <li>• Coping with sections of the public and government that see a reduction in the intensity of land usage (by farming) as socially and environmentally good.</li> </ul>
<ul style="list-style-type: none"> <li>• How best to advise UK government/EU on the effect of regulations on the farming community (e.g. need for stakeholder representation on such as the Committee for Climate Change -as proposed in the Climate Change Bill 2007; impact on consumers of more voluntary and statutory labels and marks on food packs – nutrition 'traffic lights', 'carbon friendly', 'animal welfare friendly' etc; effect on family farms of tax changes).</li> </ul>
<ul style="list-style-type: none"> <li>• A growing recognition within government, of the importance of food security and the implications for domestic supply chains.</li> </ul>
<ul style="list-style-type: none"> <li>• Coping with the influences on the industry and on regional and national government of the non UK and multinational companies merger and acquisition activities in the UK market (e.g. Cattle and sheep – Irish companies – ABP, Dungannon, Linden Foods; Pigs – Danish Crown; Milk – Arla; Cereals – Cargill).</li> </ul>
<b>ENVIRONMENT</b>
<ul style="list-style-type: none"> <li>• All producers (and processors) are faced with growing environmental challenges: <ul style="list-style-type: none"> <li>➢ Climate change and its various dimensions – agriculture as a producer of greenhouse gases – food processing use of refrigerants (e.g. to phase out the use of hydrochlorofluorocarbons by 2015), Climate Change Levy – industry needs to better quantify its 'carbon' and GHG footprints – work with existing DEFRA teams.</li> <li>➢ Bio-diversity – problem of managing agricultures dual role in growing food and in protecting and developing specific environments – challenges of cross compliance with SFP.</li> <li>➢ Water and waste disposal – water management , pollution control - coping with Water Framework Directive and related legislation, NVZ (pose threats for arable farmers and for the disposal of animal manures), Farm Waste Directives, IPPC etc.</li> </ul> </li> </ul>

<ul style="list-style-type: none"> <li>➤ Energy – pressures to lower energy use; cope with increased costs.</li> </ul>
<ul style="list-style-type: none"> <li>• Also opportunities for producers - from improving their reputational provenance – in assurance standards, to increased income –from belonging to Environmental Stewardship schemes.</li> </ul>
<ul style="list-style-type: none"> <li>• How best to link with voluntary schemes (e.g. LEAF, Pesticides Voluntary Initiative); advisory networks (e.g. Environmentally Sensitive Farming, Dedicated Catchment Officers); and use of specific tools (e.g. PLANET)</li> </ul>
<p><b>SOCIAL</b></p>
<ul style="list-style-type: none"> <li>• Consumers are becoming more sophisticated (ethical) - the food market has different sectoral needs – need to better understand it; better cope with consumer/market concerns about:</li> <li>• ethical issues (e.g. fair trade, food miles – conflicting attitudes);</li> <li>• efficacy of food production systems – concern over organic production (i.e. is the increase in demand for organic food sustainable without a large increase in imports – how should domestic industry react?); interest in systems of production that have high animal welfare and environmental standards.</li> <li>• food safety (e.g. combating increase in e coli, salmonella and listeria incidences)</li> <li>• changing attitudes to health and nutrition (e.g. obesity debate, linkages of food to medical problems –cancer).</li> </ul>
<ul style="list-style-type: none"> <li>• Coping with consumer concerns and lack of trust in the science (e.g. attitudes to genetic modification; disease control; badger culling etc).</li> </ul>
<ul style="list-style-type: none"> <li>• Demographic changes – growing size of ABC 1's and their associated spending power and interest in more premium foods and corporate social responsibility; impact on consumption of an ageing population.</li> </ul>
<ul style="list-style-type: none"> <li>• Growing size of 'time poor' population – implications on purchasing and eating patterns; development of Food Service market.</li> </ul>
<ul style="list-style-type: none"> <li>• Challenge of obtaining skilled staff in many sectors has been partially solved for the moment by use of skilled labour from the new EU states in eastern Europe - but there is still a problem to deliver relevant training and concern over long term future of the current skills base and need for succession planning.</li> </ul>
<ul style="list-style-type: none"> <li>• Shakeout of small commercial producers in many sectors will still leave a large number of lifestyle/hobby farmers – sector companies have to develop strategies as to how to work with them – they can be locally demanding and 'punch above their weight' – and still cause disease problems for the whole industry (e.g. FMD 2007).</li> </ul>
<p><b>TECHNOLOGICAL</b></p>
<ul style="list-style-type: none"> <li>• Poor understanding of IT in many sectors and inability to use performance based measurement tools; but growth of use of ICT through supply chain – potential for better more efficient supply chain co-ordination.</li> </ul>
<ul style="list-style-type: none"> <li>• Need for R&amp;D and accompanying knowledge transfer in all sectors to maintain competitiveness, respond increase in food borne infections (e.g. e coli, salmonella and listeria).</li> </ul>
<ul style="list-style-type: none"> <li>• Plant and animal breeding (use of genomics)</li> </ul>



<ul style="list-style-type: none"> <li>All sectors are subject to unforeseen factors that will affect their performance (e.g. disease, sharp increases in energy costs, consumer problems) – need of contingency research and planning to indicate ways to best handle and analyse the impact of such issues. View that the focus of knowledge transfer in all sectors should be the 20% of better producers.</li> </ul>
<p><b>LEGISLATIVE</b></p>
<ul style="list-style-type: none"> <li>Complying with regulations (e.g. impact of UK Climate Change Bill 2007 proposals); Climate Change Levy, IPPC; Water Framework Directive- its implementation through such as regional River Basin Management Plans and the interlocking policy around it (e.g. Nitrates Directive (NVZ), Urban Waste Water Directive, 'daughter directives' on Groundwater and priority substances and the related landfill Directive, Soil Framework Directive – all with implications for agriculture and the related food processing industries and the waste they produce).</li> </ul>
<ul style="list-style-type: none"> <li>Producers need support, most do not have legal expertise in this area, particularly as regards horizon scanning regarding new regulations and taking a pre-emptive approach to EU proposals.</li> </ul>
<ul style="list-style-type: none"> <li>Role of generic marketing and promotion activity within a changing EU market and regulatory framework (e.g. working with the state aid rules).</li> </ul>
<p><b>ECONOMIC</b></p>
<ul style="list-style-type: none"> <li>Global trade – increase in imports/opportunities for exports – but, all sectors are more at threat from global seasonal and cyclical forces that lead to boom/bust scenario's - by and large the state intervention mechanisms that were introduced to combat these have been withdrawn under successive CAP reforms and not replaced with global measures.</li> </ul>
<ul style="list-style-type: none"> <li>New international demands for feed and crops for biomass and biofuel (government committed to EU plans to substitute 3% of transport fuels to biofuels by 2008/09 rising to 10% by 2020), will effect both arable and livestock sectors (e.g. will the new factors influencing grain markets drive price to a new long term structural level, or will they lead to greater cyclical instability? – linkages between grain/feed and livestock sectors – the old adage -'up corn/down horn' and vice versa)</li> </ul>
<ul style="list-style-type: none"> <li>Producers and processors in all sectors all face increasing costs - compliance costs (e.g. IPPC, NVZ), and rising cost of energy and raw materials – as well as feed, pesticides/herbicides, fertiliser etc.</li> </ul>
<ul style="list-style-type: none"> <li>Production sectors tend to suffer most from periodic low prices and profitability – currently: <ul style="list-style-type: none"> <li>➤ beef and sheep - with unsustainable levels of profits in certain sectors,</li> <li>➤ pigs -fragile, prices not matching increase in costs,</li> <li>➤ dairy -indications of improvement, but increasing costs,</li> <li>➤ grain -cyclically good,</li> <li>➤ potatoes/horticulture - weather related crop losses lead to seasonal improvement in prices this year.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>Increasing consolidation in the industry, but differences in 'market power' at various points in the supply chains (e.g. large supermarkets over suppliers), lead to wide variations in margins and fragmentation;</li> </ul>

<p>make it difficult to collaborate and introduce supply chain improvements - all sectors face an end home market for food purchased at retail that is dominated by a small number of the large supermarkets (and their large processor suppliers).</p>
<ul style="list-style-type: none"> <li>• But supply chains in many sectors are currently long and complex, need to be made more efficient for the sector to flourish.</li> </ul>
<ul style="list-style-type: none"> <li>• All sectors also face a growth of interest from many producers in direct selling (and artisanal processing); many niche, but responsible for an increasing number of 'signature products' – links with food miles debate/ support for more local food (growing interest from supermarkets to stock more), environment, food quality, food safety.</li> </ul>
<ul style="list-style-type: none"> <li>• Quality assurance – important for differentiation of British products, but currently many schemes are not perceived as effective or as valued as they could be. There remains significant confusion amongst consumers about the number of labels and marks on food packaging.</li> </ul>
<ul style="list-style-type: none"> <li>• Flattening in the growth curve of worlds population in the long term, but steady growth in the medium term accompanied by increasing wealth in what were previously undeveloped sectors of the world economy will probably bring either 'food scarcity' and/or 'fair food' prices back onto the social and political agenda within 10 to 20 years (or shorter depending on climate change).</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Improve profitability and competitiveness</b> - most sectors are looking to do this through greater product differentiation (less so grain and wheat) and market development, and where feasible by reducing production cost and increasing yield and quality. This will require a significant upskilling programme across all sectors.</li> </ul>

### **AHDB's STRATEGIC FRAMEWORK 2008 – 2011**

21. AHDB is established primarily to increase efficiency or productivity in the industry, improve marketing in the industry and contribute to sustainable development. It discharges these functions by assessing the needs of its sectors through Sector Company plans; these are included in pages 18 - 119 of this document. In order to drive efficiency and avoid duplication AHDB also provides common services through a central resource. It is expected that this consolidated delivery will produce £4.5m in annual savings from the period of co-location of activities at Stoneleigh from Autumn 2009.

22. The analysis presented in this Plan shows the agriculture and horticulture sector of the UK economy to be a sector that is and will continue to be heavily influenced by a range of global, European and UK influences. The new structures provide an opportunity for AHDB to develop an over-arching strategy to meet effectively the challenges posed.

23. At the heart of this strategy is a commitment through AHDB to provide to the agriculture and horticulture sector a range of services which will improve competitiveness in the sector and contribute to its long-term sustainability, which reflect the Defra commitment to, 'profitable and competitive farm-based businesses' operating in a thriving farming and food sector.

24. The strategy has two components: a detailed analysis of the needs of each identified sector (potatoes, milk, pigs, beef and lamb, horticulture and cereals), which can then be translated into programmes and services which allow individual producers in the sector to respond more effectively to market demands and pressures and a commitment through AHDB that these services will be delivered at the lowest cost possible, commensurate with high levels of quality.

25. AHDB has agreed that some services will be delivered off a common platform by the end of the financial year 2008/09 (notably back office services) and further services will be added during 2009/10 and 2010/11 to cover business analysis, co-ordination of market intelligence, co-ordination of research and development, cross-sectoral promotion and crisis management. AHDB will keep these arrangements under review and add further shared services where there is a consensus within the Board to do so.

26. AHDB will closely monitor the outputs and performance of each Sector Company Plan, the key strategies and activities for each sector are identified below. Equally, AHDB will identify key milestones to monitor the structural changes between vesting day and the move to Stoneleigh. These will focus on the re-structuring of services onto a shared basis, the re-organisation of staff to deliver shared services and the development of the staffing and operational structures that will become fully active from Autumn 2009.

27. Key strategies and activities from Sector Company plans:

#### **EBLEX – English Beef & Lamb Sector**

##### **Stimulating a profitable demand for quality beef & lamb**

- Consolidate consumer awareness of the Quality Standard Mark
- Consolidate QSM scheme membership and drive increased penetration of QSM product through all supply chains through promotional and PR based activity.
- Management and delivery of the Quality Standard scheme.
- Delivery of non Quality Standard activity
- Increase the volume and value of sales of English beef and lamb products in target overseas markets

#### **HGCA - Cereals & Oilseeds Sector**

##### **To produce cost-effectively to meet market needs**

- Provide industry with independent information on varieties and stimulate development of new varieties meeting market needs
- Support sustainable and competitive crop production through focused R&D and KT programmes
- Produce and deliver technical information to help industry meet environmental targets

- Benchmark UK competitiveness in grain production
- Deliver technical information to improve grower profitability and efficiency in the face of new challenges

### **BPEX – English Pig Sector**

#### **Enhance the value of English pork and pork products throughout the supply chain**

- Promote the attributes of English pig production in retail and foodservice sectors through an integrated PR programme
- Promote the Quality Standard mark through trade and consumer communications, focusing especially on ham
- Promote pork and pork products as part of a healthy balanced diet

### **HDC - Horticulture Sector**

#### **Identify the most profit enhancing issues and commission relevant R&D, taking account of the varying needs of individual sectors**

- Reducing costs of production,
- Minimising impact on the environment,
- Meeting the needs of the consumer,
- Sustainable crop protection.
- maximise the overall amount and relevance of horticultural research and development.

### **PCL – Potato Sector**

#### **Improve the competitiveness of the GB potato industry**

- Increase Marketable Yield (Improve Profitability)
- Reduce Input Costs (Cost)
- Reduce Defects (Improve Quality)
- Constant understanding/monitoring of the consumer and marketplace
- Maintain/defend existing markets
- Grow/develop new markets

### **Dairyco – Dairy Sector**

#### **Business Management improvement**

- Sustainably mitigate the impact of dairy farming on climate change
- Increase milk output per labour unit
- Improve feed efficiency on dairy farms
- Improved business skills to help farmers take control of the future of their dairy businesses

- Ingrain proactive health management into the development of business strategy
- Effective promotion of the benefits of breeding and tools provided

## Key Milestones for change programme

By April 2008 – Organisation vested, Sector Companies created and existing levy board business transferred

By June 2008 – new co-located structures agreed

By September 2008 – fundamental review of strategic plans by all sectors – Fresh Start review

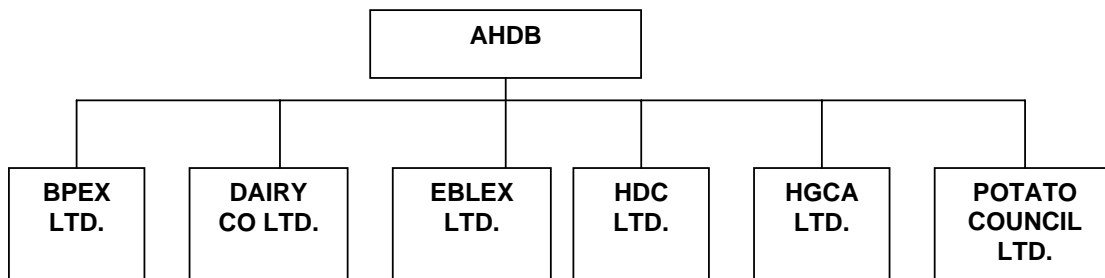
By April 2009 – consolidation of back office activities

By September 2009 – consolidation of market intelligence

From Autumn 2009 - April 2010 – full consolidation of central services and co-location and relocation to Stoneleigh, Warwickshire generating annual savings of £3.5 m. per annum

## GROUP STRUCTURE

28. The Agriculture and Horticulture Development Board is a Non-Departmental Public Body (NDPB), responsible to Defra Ministers and Devolved Administrations for its own operations and that of its wholly-owned Sector Companies – all registered as Companies limited by guarantee. AHDB's board consists of the six Chairs of the Sector Companies and four Independent Directors (including the Chairman).



29. There are also a number of commercial subsidiaries within the group, the largest of which is MLCS Ltd a wholly owned subsidiary of AHDB. MLCS Ltd is a separate company limited by guarantee supplying services to the meat and livestock sectors. Its costs and management are fully accounted for within the company and it currently returns profits to the meat and livestock sectors. The financial projections for MLCS Ltd are recorded on page 128 of this plan.

30. AHDB has a responsibility for establishing a long-term vision and mission statement for its activities in the agricultural and horticultural sectors, for providing a set of common services to each sector and agreeing and monitoring the individual sector business plans. The following sections describe the business model against which the group will operate.

The scope of the Corporate Plan is as follows:-

- the beef and sheep industry in England;
- the cereal and oilseed industries in the United Kingdom;
- the horticulture industry in Great Britain
- the milk industry in Great Britain;
- the pig industry in England, and
- the potato industry in Great Britain.

### **Group Constitution**

31. The primary constitutional document is the Statutory Instrument which outlines the purpose and functions of AHDB and its operating parameters; how it collects levy and how it conducts business. The Statutory Instrument was laid before Parliament during December 2007 and will come into force in early 2008. Full vesting of powers remains on target to be April 2008.

32. A Management Statement and Financial Memorandum governs the relationship between AHDB, Defra and the Devolved Administrations. This document, whilst not a legal document, sets out the broad framework within which AHDB will operate and determines the roles and responsibilities of each party. AHDB is accountable to Defra for the expenditure financed by levy as this is regarded as public expenditure. All income raised through a legal regime is public expenditure. The document includes a list of returns that the Department requires from the NDPB and prescribes areas where approval from the Department is required.

### **Relationship between AHDB and Sector Companies**

33. All Sector Companies are wholly owned subsidiaries of AHDB. The Memorandum and Articles of Association (Mem and Arts) and Delegation agreements govern the relationship between AHDB and Sector Companies. The Mem and Arts, set out the constitution of the company, determine the legal capacity of the Sector Companies to operate and are the normal constitutional documents for a private limited company. These documents contain prescribed information and govern the company's relationship with AHDB as its single member. The Board is made up of directors appointed by AHDB with the approval of Defra and the Devolved Administrations in the first instance but in future by AHDB. Directors of the Sector Companies are required to observe their Companies Act responsibilities and act in the best interests of the company as is the case with all private companies.

34. A Delegation Agreement identifies the roles and responsibilities of both parties and outlines what AHDB expects from Sector Companies in return for passing on the levies. This agreement is the mechanism by which each sector company's accountability, responsibilities and duties regarding public finance are defined.

## **The Accounting Officer**

35. The Chief Executive of AHDB is the Accounting Officer (AO) for the whole group and as such ensures the financial and management controls are appropriate and sufficient to safeguard public funds. Ultimately the AO is personally responsible for ensuring all levies are spent appropriately.

## **Setting the Sector Strategies**

36. Sector Companies will be responsible for the development of their sector's strategy and the allocation of the necessary resource to deliver that strategy. AHDB remains accountable to Parliament for the expenditure of levies and therefore will need to review and approve sector plans and monitor progress against stated targets. Sector Companies will advise AHDB of the levy rates necessary to finance their strategies.

## **Shared activities**

37. AHDB will be responsible for the collection of all levies. All levies will be ring-fenced and used to the benefit of the sectors from which they were raised.

38. Where the group has decided to deliver some services from a common platform these will be delivered by a resource put in place by AHDB. Sector Companies will finance these activities against service level agreements as the principle of shared services represents better value for money for levy payers.

## **Reporting**

39. AHDB will agree each year a rolling three-year corporate plan with well-articulated strategies and clearly measurable targets, which will be approved by industry and Ministers. Equally, AHDB will seek on an annual basis approval from Defra and Devolved Administration Ministers to levy rates. This document represents the first such document. AHDB will also produce each year an annual report and accounts (ARA) for the group including all Sector Companies. The National Audit Office is responsible for the external audit of these accounts.

## **NEXT STEPS**

40. The financial year 2008/09 will be a complicated year, requiring service delivery to be maintained whilst planning for a re-organisation of group activities and the physical relocation of five levy boards to a new location.

## **Ongoing Service Delivery**

41. It is essential that levy payers continue to receive 'business as usual'. This will clearly challenge an organisation undergoing a substantial change programme and the board have put measures to ensure staff remain motivated at the top of its priority list. There is a clear and ongoing communication plan to ensure staff feel

involved in the future even if some decide not to relocate, also the board will develop retention strategies designed to keep adequate resources in place until the transfer of business is complete. This is a challenging objective and our stakeholders will need to be briefed on a regular basis to ensure their buy in to the process.

### **Developing structures**

42. Whilst 'business as usual' is maintained there will be the need to bring clarity to the new group structure. This cannot be fully established until the organisation is relocated to its new site as many group activities will only become operational at this point. The Business Plans of the Sector Companies and the work of Board sub-groups are both important in determining what's done where and by whom. Our people are keen to understand these plans and share in the vision of the future, it is incumbent on us to advance these matters as soon as possible.

### **Relocation**

43. On 19 December 2007, AHDB announced to staff the conclusion of the staff consultation on the Business Case. The board of AHDB having considered the issues raised by staff decided to confirm their earlier recommendation that all sector and central activities will be co-located on a new site in Stoneleigh, Warwickshire.

44. AHDB will now engage property advisors and project managers to help establish the specification of the building and the most appropriate project plan and timetable for the completion of the project.

45. A sub-group of the board will oversee the project and advise the board on progress. We also plan to involve staff in the development of the project. A firm completion date will be communicated once the appropriate planning has been conducted to the board's satisfaction.

## **THE SECTOR STRATEGIES**

46. The next six sections of this document identify the sector business plans designed to address the key points raised in the PESTLE analysis.

47. Each sector plan has been developed against a common framework with the objective of bringing some consistency in presentation.

- The first section in the plan is a market overview identifying the important trends in consumption, self-sufficiency and sector viability.
- Then there is a position audit of the sector against a traditional Strengths, Weaknesses, Opportunities and Threats analysis.
- The tabular section details plans against strategies with measurable outcomes and a risk analysis.



- The final section pulls together the key financial information underpinning the plan.

48. Some Sector Companies have been able to conduct a more fundamental review than others. As stated earlier, the year 2008/2009 will be a year largely of preparing for restructuring and maintaining “business as usual”. Taking this into account and long-term commitments in Research and Development programmes means the opportunity for change in some sectors will be more gradual.

# **BPEX. LTD. SECTOR PLAN**



## BPEX LTD – BUSINESS PLAN 2008-2011

### INTRODUCTION

1. Consumption of pigmeat has been relatively stable in recent years at 1.4 million tonnes (carcase equivalent) or approximately 22kg/head/year. This is somewhat lower than the EU average.
2. The majority of consumption is through retail sales which accounts for 80% of total consumption with food service accounting for the remaining 20%. Supermarkets dominate the retail market with a market share of around 80%.
3. Consumption of British pigmeat is different to the total market with more consumed as pork (46%), relatively little as bacon (19%) and the remainder (35%) as other processed products such as ham, sausages and pork pies.
4. UK imports of pigmeat have grown steadily in the last 7 years almost exclusively from within the EU. The main suppliers are Denmark and the Netherlands but increasing volumes are coming from Germany, France, Spain, Ireland and other countries.
5. Exports have declined steadily over the same period. Nearly all the cull sows produced in the country are slaughtered and exported. There is a small but valuable trade in pork and offal to non-EU countries.
6. The UK self sufficiency has fallen steadily from 85% in 1998 to 46% in 2006 as a result of a steady fall in production.
7. British pig production has fallen by 40% since 1998 as a result of investment in high welfare production systems, disease control measures for FMD and CSF, resulting in poor productivity and price competition from EU imports, often produced to lower welfare standards.
8. Up to 2004 there was a lack of willingness to invest. However, this began to change with the result that there was a steady recovery in productivity. The recent FMD outbreak and the pressure on profitability caused by high feed costs may compromise this recovery.
9. Pig production is dependent on wheat and soya as principal feed ingredients. The recent rapid escalation in the price of both these commodities is posing a very serious threat to the future viability of pig production and processing in England and elsewhere.
10. The number of pig producers has fallen steadily over the last 5 years to about 8,000 in 2006. However, business concentration has been more marked as an increasing number of producers have gone into contract production. In 2006 it is

estimated that only 35 farming businesses accounted for more than half of total pig production in England and Wales. The abattoir sector has also become more concentrated with the largest four companies accounting for 60% of total slaughtering.

## **BPEX LIMITED**

11. The BPEX Ltd Board consists of 12 people. The Chairman, Stewart Houston, is a pig producer. There are 6 other pig producers, 4 processors and 1 independent.
12. Levy income raised from pigs in England has averaged £7.5 million over the last three years.
13. The role of BPEX is to be a catalyst for change, a knowledge house and communicator to and on behalf of the pig production and processing industry.
14. BPEX Ltd has the overall objective of yielding a better return for levy payers than they can otherwise achieve individually. BPEX Ltd will also seek to maximise co-funding of pig related activity in order to ensure that the pig levy has the greatest possible impact.

## **SWOT**

### **Strengths**

15. There is a stable market for pork and pork products in the United Kingdom which is showing signs of growth.
16. There is a robust and expanding market for premium products based on provenance and quality production standards.
17. The price of pork is well positioned in the meat market. It is competitively priced against beef and lamb.
18. The strength of demand for English pork is reflected in the high pig price relative to EU competitors. The pig price has also been less volatile in England than elsewhere in the EU.
19. The concentration in the production industry has resulted in a very professional and well-capitalised industry.
20. There has been a willingness to invest in the industry in recent years as profits have allowed and close the competitiveness gap.

### **Weaknesses**

21. The bulk of consumers who are not regular purchasers of pork view it as a rather dull, traditional product.

22. Consumer perceptions of pork as high in fat persist despite the evidence to the contrary. The necessary levels of salt in processed products attracts criticism.
23. There is unbalanced demand across the carcass with British consumers having a preference for loins (fresh and bacon) and legs (especially ham).
24. The English industry has high cost relative to EU competitors. Interpig analysis indicates average pig production costs of 10-15% higher than competitors.
25. The lack of business integration in the supply chain results in a commodity driven and often adversarial approach. This often results in a short-term approach in what is a relatively long-term business.
26. The relatively high prices in the English market makes it attractive to competitors.

### **Opportunities**

27. There is growing demand for premium pork and pork products based on English provenance and high welfare. This exists in both the retail and foodservice sectors.
28. Consumer research clearly indicated that consumers react favourably to improvements in eating quality and product consistency.
29. The reality is that pork is a low fat meat, contrary to some consumer perceptions. The likely growing trend towards reduced fat in the diet will help pork if negative attitudes can be overcome.
30. The concentration in the supply chain provides opportunities for greater efficiency.
31. The pig industry can make a positive contribution to the environment through being an efficient converter of feed, a user of food co-products, a good source of fertilizer and a low emitter of methane.
32. There is a growing world demand for pork which will encourage exports of English breeding stock, pork and pork offal.

### **Threats**

33. Higher feed costs are not currently being matched by higher producer and wholesale prices. This threatens the future viability of the production and processing sector.
34. There could be a further rise in low cost imports, especially those not matching English welfare standards.
35. The cost, complexity and restrictions arising from environmental legislation could prove to be a disincentive to investment.

36. There could be a loss of confidence to invest in production especially in the wake of FMD.
37. A further decline in the production sector of the industry could result in a loss of critical mass, particularly in ancillary services such as the input industries and research base.
38. Trade liberalisation through a WTO settlement and/or the expansion of bilateral EU Free Trade Agreements would expose the production and processing sector to greater competition.

### **Pig Industry Strategy**

39. The BPEX Ltd Strategy for the English pig sector is based on two main strands. Firstly help the industry to enhance the value of English pork and pork products throughout the supply chain and secondly assist the industry in improving its cost competitiveness to a level more comparable to our main competitors in the European Union.
40. The thrust of activity to enhance the value of English pigmeat throughout the chain will consist of a range of activities based around the Quality Standard Mark (QSM). We will continue to communicate the high welfare attributes of English production. We will also focus on specific areas where appropriate. For example, we will promote the QSM for ham in order to achieve a more balanced demand across the carcass.
41. We plan to work with other organisations inside and outside AHDB on the positive role that pork and pork products can play in a healthy balanced diet. We will communicate the positive contribution that English pigmeat production can make to the environment through such things as the use of food co-products, energy generation, low methane output and the generation of valuable manures. This will be a key element of a Pig Environment Partnership to be launched in 2008/09 in conjunction with stakeholders, including government.
42. We will protect the image of English pork by working with the Food Standards Agency on Salmonella control and we will conduct research into how to enhance the eating quality and consistency of English pork. We will also seek to recover and enhance the value of the English industry obtained from exports prior to FMD through working with government and other stakeholders.
43. Given the considerable challenge that the English industry faces from the escalation in feed costs, in common with other pig industries world wide, the focus in 2008/09 will be on helping the industry achieve a greater market return for pig producers through consumer and trade communication and export recovery.
44. The focus of activity to help the industry deliver cost of production closer to our competitors will be a Knowledge Transfer programme. This will draw extensively on existing knowledge from our competitors. We will commission research from the most efficient and effective sources worldwide with a focus on pig health and

welfare. Once transferred this will help to reduce our costs and enhance our image. The burden of regulation can undermine business confidence and potentially competitiveness and so we will help the industry to interpret and anticipate UK and EU regulation. There will be a particular focus in 2008/09 on environmental regulation which will be included in PEP.

45. The collection, analysis and dissemination of market information are a vital role for BPEX to enable the industry to make better business decisions. We will also seek to encourage more integrated and competitive supply chains through the dissemination of best practice from within and without the pig industry, which will maximise the legacy of RMIF.

46. The challenges facing the English pig industry are sufficiently great to justify the use of financial reserves in order to maintain the momentum of current activity. Therefore BPEX Ltd will be spending considerably more than that raised in levy income in 2008/09 and reducing operating reserves accordingly. At present it is planned to reduce expenditure in 2009/10 and 2010/11.

## STRATEGY 1

### Enhance the value of English pork and pork products throughout the supply chain

	Key outcome	Targets – 2008/09	Key Risks	Key Controls
<b>Activity 1</b> Promote the attributes of English pig production in retail and foodservice sectors through an integrated PR programme	Improved wholesale and producer prices	Media coverage valued at 3x spend DAPP to average 125p/kg	Lack of support from retailers and foodservice companies to increase prices sufficiently	Evaluate the PR programme monthly and adjust focus if required
<b>Input resource requirements (£'000)</b>	£1,458			
<b>Activity 2</b> Promote the Quality Standard mark through trade and consumer communications, focusing especially on ham	Greater use of the QSM on pork and pork products	5% increase in QSM usage as recorded in Pork Watch 15% increase in ham QSM usage	Lack of support from processors and retailers to include QSM on packaging	Monitor usage regularly, identify poor performing retailers and engage in direct discussions to sell the benefits of QSM usage
<b>Input resource requirements (£'000)</b>	£1300			
<b>Activity 3</b> Promote pork and pork products as part of a healthy balanced diet	Health professionals, dietary advisors and regulators view pork and pork products positively when advising stakeholders	Monitoring of specialist media identifies a reduction in negative coverage/increase in positive coverage of pork and pork products in the diet. Establish health professionals attitude survey	Increased negative coverage of pork and pork products from reports such as the World Cancer Research Fund	Ensure that all relevant research is collated and available for dissemination. Seek independent advice on any new or emerging nutritional reports concerning pork and pork products (and meat in general). Work with other meats to rebut inaccurate criticism and maintain support of the FSA
<b>Input resource requirements (£'000)</b>	£170			



<b>Activity 4</b> Launch the Pig Environment Partnership (PEP) in conjunction with Defra, EA, NFU and NPA and promote English pork productions contribution to environmental sustainability	Stakeholder buy-in to the PEP resulting in a more positive producer attitude to environmental regulation, more efficient government regulation and a recognition by key stakeholders of the pig industry's contribution to environmental sustainability	Successful launch of PEP as measured by stakeholder attitudes	Lack of support from government and its agencies and a lack of engagement by producers. Negative image portrayed in the media	Maintain dialogue with the Environment Agency in the deployment of the PEP. Regularly review the producer communication plan for PEP. Rebut inaccurate criticism. Enlist the support of respected academics
<b>Input resource requirements (£'000)</b>	<b>£106</b>			
<b>Activity 5</b> Conduct market and consumer research to identify business opportunities that the English industry can exploit.	A regular supply of quality data and analysis that adds value to individual businesses and BPEX Ltd.	Overall customer satisfaction rating of 'valuable' or 'very valuable' to my business	Lack of buy-in from other sectors escalates costs to BPEX Ltd to unacceptable levels	Establish support for collaborative purchase of data for 3 years
<b>Input resource requirements (£'000)</b>	<b>£450</b>			
<b>Activity 6</b> Research into improvements in eating quality and consistency and disseminate to the English industry	A demonstrable increase in the eating quality of English pork and a reduction in variability in eating quality that leads to the expansion of the premium tier of retail and foodservice pork	Initiate two major projects on eating quality and consistency under the direction of the Pork Chain Unit based at Bristol University	Lack of research capability in this field	Maintain close contact with Bristol University. Investigate meat quality research capability in other countries
<b>Input resource requirements (£'000)</b>	<b>£495</b>			

<b>Activity 7</b> Collaborate with FSA and industry in the introduction of a National Zoonoses Control Plan	A National Zoonoses Control Plan implemented and supported by all stakeholders that reduces the risk to consumers of food borne disease	Introduce a plan that has the full support of the industry, the FSA and the EU Commission	An increasing incidence of Salmonella food poisoning associated with pigmeat	Maintain close contact with FSA. Seek remedies from other countries that can demonstrate success
<b>Input resource requirements (£'000)</b>	<b>£213</b>			
<b>Activity 8</b> Promote the re-establishment and subsequent enhancement of export markets in collaboration with Defra	The re-establishment of export trading patterns for breeding pigs, pork, pork products and offal to a range of EU and non-EU destinations	To gain access to all pre-FMD markets, using the ECUG priority list To achieve export volumes of 80% of pre-FMD levels by year end as measured by government statistics	Lack of co-operation from 3 <sup>rd</sup> countries in achieving export health certificates Lack of resources in Defra/UKTI	Close monitoring and co-operation through the ECUG (Export Certification Users Group) stakeholder group
<b>Input resource requirements (£'000)</b>	<b>£218</b>			

## STRATEGY 2

Assist the English pig industry to improve its cost competitiveness to a level more comparable to our main competitors in the European Union

	Key outcome	Targets – 2008/09	Key Risks	Key Controls
<b>Activity 1</b> Encourage the uptake of existing knowledge from competitors and the uptake of new and emerging techniques through a Knowledge Transfer programme	Productivity and performance in the English pig production sector improves in absolute terms and relative to our main competitors	To achieve a 10% improvement in productivity as measured by industry representative KPIs (pigs slaughtered per sow, mortality and growth rate)	Lack of confidence to invest in production technology by producers. Lack of engagement	Clearly demonstrate where return on investment can be achieved in providing KT. Conduct regular customer research and address weaknesses
<b>Input resource requirements (£'000)</b>	<b>£1,193</b>			
<b>Activity 2</b> Commission research on pig health and welfare topics that offer the opportunity to reduce cost in practical application and can improve the industry's image	A flow of practical advice that can be transferred to producers through the KT activity	Commission 6 research projects and ensure the transfer of preliminary results	Lack of research capability in England to conduct the required research	Identify and recruit non-UK research resources
<b>Input resource requirements (£'000)</b>	<b>£1738</b>			
<b>Activity 3</b> Assist the pig industry in managing the introduction of environmental legislation. This will form part of Pig Environment Partnership	Pig producers and processors are fully informed of the application and implications of environment legislation and compliance costs are minimised	Customer satisfaction achieves a score of 70% satisfied or very satisfied with the service from BPEX	Existing and emerging environment legislation has a detrimental impact on the industry	Regulatory Impact Assessments are challenged so that accurate cost benefit judgements can be made
<b>Input resource requirements (£'000)</b>	<b>£246</b>			

<b>Activity 4</b> Assist the industry to reduce the regulatory burden through the interpretation of existing and emerging EU and UK legislation	A fully informed pig production and processing industry in England and policy makers that have a clear understanding of the actual and potential impact of regulations	Customer satisfaction achieves a score of 70% satisfied or very satisfied with the service from BPEX	Flow of information from EU and UK policy makers is interrupted or of insufficient quality	Ensure close contact is maintained with all relevant departments of UK government and UEU institutions
<b>Input resource requirements (£'000)</b>	<b>£381</b>			
<b>Activity 5</b> Disseminate market information and economic analysis to the English pig industry to enable the industry to make better business decisions	A regular flow of very good quality market information and analysis that is directly relevant to business needs	Customer satisfaction achieves a score of 70% satisfied or very satisfied with the service from BPEX	Loss of expertise in the transition to AHDB	Secure relevant staff at the earliest opportunity. Co-operation with other sectors
<b>Input resource requirements (£'000)</b>	<b>£163</b>			
<b>Activity 6</b> Provide the industry with feedback on pig health data both for individual businesses and at regional and national level	Improved pig health and welfare and the reduced use of veterinary medicines	5% increase in BPHS membership. Increased distribution of NADIS information to stakeholders	Lack of support through BPEX due to a conflict with State Aid rules	Secure State Aid clearance through close co-operation with Defra
<b>Input resource requirements (£'000)</b>	<b>£159</b>			

<p><b>Activity 7</b> Encourage more integrated and efficient supply chains through small scale grant aid and the dissemination of best practice examples</p>	<p>Greater co-operation between producers, processors and retailer/ foodservice companies that enhances the competitive position of individual supply chains</p>	<p>Support 10 supply chain projects. Secure the legacy of RMIF output in this area and ensure its accessibility</p>	<p>Lack of engagement by supply chains Loss of knowledge from RMIF</p>	<p>Monitor uptake of grant schemes and conduct customer surveys if required. Secure at least one RMIF staff member for 2008/09</p>
<p><b>Input resource requirements (£'000)</b></p>	<p><b>£750</b></p>			

## FINANCIAL STATEMENT

	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
Pig slaughter	6.95mill	6.20mill	5.80mill
Levy rate	£0.95	£1.05	£1.05
Levy collection	1.5%	1.5%	1.5%
<b>Net levy income</b>	<b>£6.50mill</b>	<b>£6.41mill</b>	<b>£6.00mill</b>
Activity expenditure	£9.04mill	£6.50mill	£5.19mill
Communications	£0.29mill	£0.30mill	£0.31mill
BPEX operations	£0.49mill	£0.5mill	£0.5mill
<b>Total expenditure</b>	<b>£9.82mill(1)</b>	<b>£7.30mill</b>	<b>£6.00mill</b>
<b>Opening reserves</b>	<b>£7.20mill (2)</b>	<b>£3.88mill</b>	<b>£2.99mill</b>

(1) Excludes restructuring costs. Assumes support service costs are the same as charged to BPEX in 2007/08

(2) Operating reserves. Excludes restructuring costs. Assumes all assets become operating reserves from the end of 2009/10 onwards

On the basis of current forecasts BPEX Ltd is likely to face reduced funding in 2009/10. Decisions on the areas of spend to be reduced has not yet been made by the Board as they wish to assess the effectiveness of the activity proposed in 2008/09.

# **DAIRYCO LTD. SECTOR PLAN**

## **Introduction**

This is the first business plan for DairyCo, the new dairy sector company created under the Agricultural and Horticultural Development Board (AHDB). It sets out the current issues faced by the British dairy industry, DairyCo's role and objectives in tackling these issues, and the strategies that will be used to deliver the objectives.

The dairy industry underwent deregulation over a decade ago and it has changed significantly in that period. While change has not been easy, there are signs the industry is starting to leave behind the legacy brought by the Milk Marketing Boards and political control.

The Milk Development Council, which DairyCo succeeds, was also part of the legacy; it was created to provide a home for many essential services supplied by the Boards that would not naturally have had a home elsewhere.

It is the firm intention of DairyCo that while it will continue to provide important services that help tackle the issues faced by the dairy industry, it will also do its utmost to encourage the industry to ultimately take over the provision of these services – either on a commercial or voluntary basis. It is with this ultimate goal in mind that this plan has been prepared.

### **A summary of the British dairy sector**

The dairy sector in Great Britain is rapidly changing, and in particular consolidating; we have increasingly integrated supply chains and around 78% of milk is bought by just six organisations.

The number of British dairy farmers has fallen from 29,000 to 15,000 over the past 10 years, while milk production has remained around 14 billion litres – albeit with a more substantial and sustained decline in recent years (2007/8 production is likely to be about 4% down on the five-year average).

The UK industry is a net importer, with a trade deficit which has grown by 137% over the past 10 years to reach its current £931m. Imports of value-added products are increasing, with the volume of cheese imports increasing by 57% over the past 10 years. Meanwhile, exports of low value-added raw milk – mainly over the Northern Irish border – have increased by 260% over the same period.

Farmgate milk prices have generally fallen over the past decade due to exchange rates, world market conditions and reductions in CAP support, all leading to difficult trading conditions for UK dairy farmers. Over the same period, processors and retailers increased their gross margins on liquid milk through higher retail prices and lower farmgate prices. However, prices have been much stronger in the past six months due to favourable world market conditions which are improving the current outlook.



Consumption of dairy products is enjoying positive growth around the world. In the UK, total sales of liquid milk have been relatively stable during recent years after a thirty year decline, and have actually increased by 2.7% in the 12 months to October 2007. There has also been a 2.8% increase in cheese sales.

All these factors combine to create a rapidly changing industry, which has been analysed thoroughly by the DairyCo board in developing this plan (see section *An assessment of Britain's dairy farming sector* for more details).

### **A profile of DairyCo**

DairyCo's board of 12 includes eight dairy farmers located across Scotland, England and Wales, who all operate very different production systems. As well as this high representation of farmers – which is appropriate considering the levy is only raised from dairy farmers – there are two independents on the board, one dairy processor, and the chairman Tim Bennett.

The MDC raised around £7 million per year from the levy over the past three years, and it is calculated that DairyCo's new plans can also be funded by this rate of levy. Hence – subject to Ministerial and AHDB approval – the levy rate for DairyCo in its first year will be 0.06 pence per litre of milk produced.

### **DairyCo's Mission**

DairyCo's mission statement is:

**'to promote world class knowledge to British dairy farmers so they can profit from a sustainable future'**

### **DairyCo's purpose**

DairyCo will exist to:

**'ensure the business needs of British dairy farmers are met'**

DairyCo's successful delivery of this will be demonstrated by:

**'world-beating dairy farmers thriving in a vibrant industry – without levy support'**

### **DairyCo's approach to achieving its purpose**

If DairyCo is to realise this long term vision, it will need to remedy 'market failure' – i.e. tackle issues not currently being addressed or being addressed insufficiently to meet the needs of the industry – by encouraging the provision of key services by others on a commercial or voluntary basis.

The practicalities of achieving this are that we will need to see the following changes, implemented on a phased basis over the next three years:

- Increased funding of activities from alternative sources

- Increased uptake of commercial advisory and training services among farmers.

The stepping stones to achieving these changes include the following tactics:

- DairyCo-validation of commercial technical services
- Easier access for dairy farmers to the services and support available to them through an information hub
- Using Knowledge Transfer (KT) to promote commercial services and publicise the research programmes available through DairyCo
- Reducing each year the percentage of DairyCo's income that is levy-based.

### **DairyCo's role in the dairy sector**

DairyCo must work effectively with public and commercial industry partners (farmers, processors, retailers, government and its agencies) to ensure levy funds are only used in the unique, unaddressed (i.e. market failure) areas that can generate the greatest benefit for dairy farmers.

For example, DairyCo has a significant role to play in helping to improve the key areas of business management, image management and supply chain information, which are currently not well developed in the industry.

Although various commercial services already provide support to dairy farmers in improving their competitiveness, these have a low level of uptake and are of mixed quality. Hence there is a strong case for allocating a relatively large proportion of levy funds to both providing that support and encouraging the uptake of quality commercial services.

However, it is clear that tackling the key issues facing the industry described previously is not DairyCo's sole responsibility.

In those areas where commercial organisations are rapidly increasing their activity – such as innovation and promotion of new products – the need for financial support from DairyCo will move to different areas, and so the budgets required will change according to the new predicted costs.

## **DairyCo's key operating principles**

Given DairyCo's purpose and role, there are several key principles upon which DairyCo's operations will be based.

### **Facilitation**

DairyCo will make the essential happen – but not necessarily by doing the work itself.

To ensure the delivery of world-class answers that address the needs of dairy farmers, DairyCo will use a process of collaboration and facilitation with our industry partners. Our staff will investigate opportunities to address issues of market failure that can be funded all or in part by third parties.

### **Independence**

Although DairyCo will be seeking alternative sources of funding for its activities, it will never do so at the expense of independence and impartiality, and its employees will always offer the best possible unbiased advice – even when working with a commercial provider.

### **Alternative Markets**

There is an increasing differentiation of milk supply with farmers opting for production systems based on different breeds, organic principles, varying diets etc. All of DairyCo's work will take these diverse groups into account and, where possible, bespoke information and specific activities relating directly to these groups' interests will be provided.

### **Quality People**

The quality of DairyCo staff will be key to its success and therefore great attention will be paid to attracting and retaining the right people for all roles. This means training, recruitment and retention will be very important.

### **Focus**

DairyCo will measure itself rigorously against the objectives set out in its business plan. However, as is appropriate for a body conducting research and servicing a wide ranging customer base in the interests of seeking the right answers, some flexibility will be built in to the system. This means that some limited resources will be made available for 'exploratory' activities which do not feature in the current business plan but which may provide key strategies for the next business plan if successful.

## Attitude

For DairyCo staff to succeed in both upholding these principles and delivering the agreed strategies, they will be actively encouraged to embrace the following values:

- **Professional**  
*Finishing each task to the highest standard*
- **Ethical**  
*Always remembering who we work for and what we stand for*
- **Ambitious**  
*Daring to think that bit bigger*
- **Irreverent**  
*Challenging the status quo*

## An assessment of Britain's dairy farming sector

<p><b>Strengths</b></p> <ul style="list-style-type: none"><li>• Cool and damp climate</li><li>• Large herd size (by EU standards)</li><li>• Resilient family farming sector</li><li>• High levels of production efficiency on some units</li><li>• A wide range of market opportunities for farmers</li><li>• Heritage of fresh milk consumption</li></ul>	<p><b>Opportunities</b></p> <ul style="list-style-type: none"><li>• Dedicated supply chains</li><li>• Strong provenance opportunities</li><li>• Growing and affluent population</li><li>• Global growth in dairy consumption</li><li>• New and innovative products</li><li>• New routes to market</li><li>• Industry consolidation</li><li>• Improved business performance</li></ul>
<p><b>Weaknesses</b></p> <ul style="list-style-type: none"><li>• Variable production performance</li><li>• Poor quality training opportunities for the development of business skills</li><li>• Lack of opportunities for expansion/new entrants</li><li>• Variable quality of support</li><li>• Recruitment and retention of quality staff</li><li>• Supply chain relationships</li><li>• Poor export market</li><li>• Fluctuating prices for milk</li></ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"><li>• Environmental legislation</li><li>• Regulatory burden</li><li>• Climate change</li><li>• Animal welfare and environment perceptions</li><li>• Conflict within supply chains</li><li>• Reduction in Government support</li><li>• Pressure on land use</li><li>• Increasing competition from European neighbours and rest of world</li><li>• Nutritional concerns</li><li>• Risk of infections and disease</li></ul>

The previously agreed industry strategy for future profitability was a focus on:

- Innovation and market development
- Supply chain relationships
- Supply chain efficiency

It is possible for the industry to address, manage or exploit the SWOT elements above using these strategies, but some areas of market failure emerge.

In supply chain relationships:

- Inherently these relationships exist between commercial parties
- However, relationships are built on common understanding and the necessary information is not always available to farmers
- They also need a fair marketplace with analysis of structural issues...
- ...and the provision of information for policy formulation

This indicates a need for **Supply Chain Information**.

In supply chain efficiency:

- Processors are already addressing issues through Dairy UK...
- ...but farms still have a huge variation in efficiency (in excess of 5ppl in costs of production between top 10% and the average)
- There is a need to support improved business performance...
- ...but the quality and use of commercial consultancy services is variable
- There is a role in providing farmers with toolkits to meet regulatory and environmental requirements

This indicates a need for **Business Management**.

In innovation/market development:

- £120 million commercial funding was spent on advertising in 2006; around £140 million is likely in 2007
- Product innovation and launches are increasing...
- ...but there is possible market failure in managing the image of dairy products and dairy farming to underpin this growing commercial activity

This indicates a need for **Image Management**.

Combining these aspects with the need for DairyCo to evolve its role in the future to reduce market failure and the services dependent on levy income, DairyCo's objectives for 2008/9-2010/11 are:

- Objective 1: Supply Chain Information
  - *Provision of high quality information to help farmers and their representatives make the most of dairy markets and opportunities*
- Objective 2: Business Management
  - *Help dairy farmers increase their profits while meeting regulatory and environmental requirements – through better business management*

- Objective 3: Image Management
  - *Help promote a positive perception of dairy products and dairy farming among the general public.*
- Objective 4: Development of DairyCo
  - *Development of DairyCo towards a self-sustaining model*

## **DairyCo's three-year objectives and delivery strategies**

### **Objective 1: Supply Chain Information**

*Provision of high quality information to help farmers and their representatives make the most of dairy markets and opportunities*

#### **Strategy: Provision of a world-class information service**

Effective supply chain relationships are crucial for the success of the industry because the different parts of the chain are highly dependent on each other. Information and understanding are important for productive relationships so DairyCo will provide a world-class market information service which will be insightful, independent and impartial – yet challenging.

This means farmers and their representatives will have access to unbiased, high-quality information to assist them in business planning and improving relationships. This information will also help guide industry policy and future DairyCo strategy.

We will do this because provision of information leading to improved understanding and better relationships will support the development of the industry and allow farmers and their representatives to maximise business opportunities.

*In 2008/9, the market information service will be extended to both provide the depth of information necessary to fully understand dairy markets, and to continue to develop farmer-facing economic benchmarking services.*

### **Objective 2: Business Management**

*Help dairy farmers increase their profits while meeting regulatory and environmental requirements – through better business management*

#### **Strategy: Helping dairy farmers meet and manage environment needs and regulatory requirements**

DairyCo will, in collaboration with industry partners, undertake research and provide tools to ensure farmers can improve sustainability and minimise environmental impact, thereby proactively managing a likely increase in regulatory burden.

We will do this because improving dairy farmers' environmental profile and ensuring regulation is realistic – while maintaining profitability – is crucial for the future of the industry.

*In 2008/9 we will work with AHDB, Defra, devolved administrations and others both nationally and internationally to provide an accurate assessment about the possible climate-changing impact of milk production and how to mitigate it sustainably.*

***Business Management Strategies: Helping dairy farmers increase their profitability through better business management***

A programme of research aligned with industry priorities will be implemented DairyCo, as will a programme of knowledge transfer to ensure research is utilised profitably on-farm. Genetic evaluation and other services that support or aid improved business management will also be provided and promoted.

DairyCo will work with AHDB, Defra, devolved administrations and others both nationally and internationally to provide high quality research and practical, applicable tools which can be implemented on farm through the business management strategy.

We will do this because the vast variation in performance on dairy farms means that communication of best practice can lead to very high return on investments and increased profitability.

*In 2008/9, DairyCo will focus on the following five strategies:*

- ***Feeding*** – a farm-level campaign to improve feed efficiency will be prioritised because the difference between the top 10% of farm businesses in efficiency of feed use and the average is 0.9ppl. This means that if an extension officer can assist 20 dairy farmers to improve efficiency by 0.5ppl through implementing best practice, they will more than pay for themselves in one year\*
- ***Labour Use*** – MDC economic research has shown a significant range in the efficiency of how labour is utilised from farm to farm, and research will be carried out to develop strategies to address this variance. We will do this because the difference between the top 10% of performers and the average is 2.7ppl. This means that if an extension officer used outcomes of this research to assist as few as 10 dairy farmers to improve labour usage by 1.3ppl through implementing best practice, they would more than pay for themselves in one year.
- ***Business Skills*** – DairyCo will support the development of farmers' business capability through discussion groups and other tools and services. This area has been prioritised because increasing business acumen among dairy farmers has been identified as a clear industry need by several independent studies. Furthermore, the difference in costs between the top 10% and the average cost of production is in excess of 5ppl. Better business management and benchmarking will allow farmers to identify and tackle areas where they can improve business performance. If an extension officer assisted two discussion groups of 10 farmers implement best practice and improve profitability by 0.5ppl during the year, this would more than cover the costs of that extension officer.
- ***Proactive Health Management*** – focusing particularly on mastitis reduction in 2008/9 will deliver benefits on three levels: Improve longer

*term business profitability; increase levels of animal health and welfare; deliver a positive message to consumers*

- **Genetic Evaluations** – *the breeding+ genetic evaluation service will continue to be developed to help farmers maximise their business potential through breeding. Breeding has a considerable impact on profitability, as demonstrated by the fact that 80% of the increase in milk yield over the past 20 years can be attributed to improved breeding – giving a total annual economic benefit of well over £10m per year on all traits evaluated.*

\* This is calculated on 0.5ppl \*800,000 litres \*20 farmers = £80,000

### **Objective 3: Image Management**

*Help promote a positive perception of dairy products and dairy farming among the general public.*

**Strategy: Help promote the positive perception of dairy products and dairy farming with the general public.**

DairyCo will work with the industry to ensure that both issues are managed and the image of dairy products and dairy farming is promoted. This means that increasing levels of commercial innovation can be securely underpinned.

*In 2008/9 DairyCo will work with industry partners to agree the co-ordination of issues management and the promotion of positive consumer messages. The agreed model will be implemented during the year.*

### **Objective 4: Development of DairyCo**

*Development of DairyCo towards a self-sustaining model*

**Strategy: Reducing dependence on levy funds**

The organisation will be managed to be as efficient as possible and to increase its non-levy funding of activities. This is because any organisation tackling market failure should have an aim of fixing that market failure and reducing the number of activities requiring funding from the statutory levy.

*In 2008/9 DairyCo will seek alternative third party funding for its activities which will reduce the dependency on levy funds while still addressing the market failure issues within the sector.*

**Strategy: Ensuring a smooth transition**

*In 2008/9 DairyCo will focus on making the transition from MDC to DairyCo as smooth and efficient as possible.*



## Strategic priorities 2008/9

Strategy	Key Outcome	Targets 2008/9	Key Risks	Key Controls
<b>Objective 1: Supply Chain Information</b>				
<b>Provision of a world-class market information service</b>	Farmers have access to unbiased, high-quality information that assists in business planning and relationships	Annual survey of farmers shows an increase in 5% of awareness that DairyCo provides market information (MI), and an increase of 0.5 in the value placed on that service by those aware of it. <sup>1</sup>	Availability of staff Perceived or actual bias Depth of analysis Depth of challenge	Appropriate recruitment, retention, and training procedures Sign off procedures Staff and time to undertake work
<i>Resource Requirement: £734,000</i>				
<b>Objective 2: Business Management</b>				
<b>Sustainably mitigate the impact of dairy farming on climate change</b>	Reduction in the amount of climate changing emissions produced per litre of milk	A detailed understanding and prioritisation of the issues for the next stage of work Sufficient knowledge to set appropriate on-farm targets	Not having the necessary detail to inform priorities	Use of robust, globally-accepted analysis and review strategies
<b>Increase milk output per labour unit</b>	More efficient labour utilisation, allowing increased time to reduce other costs	Understanding of the main issues impacting efficient use of labour Identification of solutions Sufficient knowledge and understanding to set appropriate targets	Lack of emphasis placed on people/labour management within farm businesses Poor quality research not providing solutions	Provide the right environment and evidence – in the right format – to drive change  Project management of research
<b>Improve feed efficiency on dairy farms</b>	Increased milk output per kg of dry matter fed on the farms with which DairyCo is working	Feed efficiency on dairy farms with which DairyCo works improves by 5%. On a typical cost of 4ppl this equates to 0.2ppl.	Ensuring farmers have sufficient confidence in the information provided to change Training not adequate Lack of suitable staff	Develop the most effective tools and materials for targeted campaigns Peer-review tools and materials Appoint dedicated KT manager Suitable retention and progression in place for staff
<b>Improved business skills to help farmers take control of the future of their dairy businesses</b>	Farmers actively planning and taking control of their farm businesses	100 Dairy Business Groups achieving: <ul style="list-style-type: none"> <li>- 80% of attendees agreeing that it is a good use of their time</li> <li>- 70% say they have applied what they have learned by making changes on the farm</li> </ul> 250 MilkBench datasets 5 What If courses successfully run	A lack of interest in planning and cost control brought about by higher milk prices Poor quality training and management of staff Lack of suitable staff	Communication of importance of cost control Delivery of proof that planning works for a more secure future Rigorous training and performance management system Suitable retention and progression in place for staff

<sup>1</sup> In March 2007 42% were aware that MDC provided MI, and the value placed was 6.52 / 10; the starting point for the 2008/9 year will come from March 2008 survey.

<b>Strategy</b>	<b>Key Outcome</b>	<b>Targets 2008/9</b>	<b>Key Risks</b>	<b>Key Controls</b>
<b>Ingrain proactive health management into the development of business strategy</b>	An increase in the level of proactive health planning among dairy farmers Positive messages for use in image management	A decrease in mastitis levels for those farmers engaged in the DairyCo mastitis plan by 20%. On typical figures this equates to a saving of 0.2ppl.	Reliance on others to deliver the programme Industry advisors ignore information Information only taken up by small number of farmers	Work with key influencers in the industry, publicising the economic benefits to them Work with existing industry and farm advisor's representative organisations
<b>Effective promotion of the benefits of breeding and tools provided</b>	Farmers make informed breeding decisions that lead to the best cows for maximising their profitability	Three proof runs produced The annual survey of farmers finds that the value placed on the DairyCo's provision of genetic information increases by 10% during the year. <sup>2</sup>	Failure to recognise the benefits of genetic services by some farmers	Careful use of targeted communication and existing attitudinal research to tailor messages appropriately
<i>Resource Requirement: £2,925,000</i>				
<b>Objective 3: Image Management</b>				
<b>Defend and promote the image of dairy products and dairy farming</b>	Consumers have a positive image of dairy products and dairy farming	Maintain or grow net dairy consumption intention among the public, as tracked by regular surveys	Increased pressure group activity Negative scientific outcomes Misconception of dairy farming and production Lack of industry co-operation	Close media monitoring and regular tracking of critical issues Retain high level of scientific awareness Carry out sufficient proactive and positive communication Close communication and liaison with industry
<i>Resource Requirement: £1,134,000</i>				
<b>Objective 4: Development of DairyCo</b>				
<b>Increase in alternative funding</b>	Non-levy monies are secured to fund DairyCo activities	Secure £250,000 of additional income or match funding, with £50,000 of that delivered within 2008/9	Lose independence	Ensure all contracts and joint venture entered in to fit in to DairyCo objective, strategies and principles
<b>Ensuring a smooth transition</b>	The transition to DairyCo from the MDC is effected with minimal disruption	The annual survey of dairy farmers shows a positive reaction about the efficiency of the change for the factors within DairyCo's control	Dairy farmers perceive the change has reduced the value returned for the levy Disruption to services to levy payers	A series of 'deliverables' are scheduled after the launch of DairyCo Good communication with levy payers is carried out throughout the change Staff communication is prioritised Careful planning and risk management
<i>Resource Requirement: £710,000</i>				

<sup>2</sup> This question has not previously been asked but a starting point will be established from the survey conducted March 2008

<b>AHDB FINANCIAL PROJECTIONS 2008-2011</b>				
<b>SECTOR</b>	<b>DAIRY CO</b>			
<b>(£,000)</b>				
<b>Income</b>		<b>2008/9</b>	<b>2009/10</b>	<b>2010/11</b>
	<b>Levy</b>	6,750	6,800	6,850
	<b>Non Levy</b>	105	235	500
	<b>Interest</b>	50	50	50
<b>Total income</b>		<b>6,905</b>	<b>7,085</b>	<b>7,400</b>
<b>MI</b>		734	769	795
<b>Research</b>		1,389	1354	1,365
<b>KT</b>		1,480	1,834	2,324
<b>Comms</b>		650	559	578
<b>MD</b>		1134	1080	1026
<b>Central</b>		916	833	860
<b>Business Development</b>		60	90	90
<b>UK IDF</b>		26	27	28
<b>IDF Conference</b>		30		
<b>DairyCo Board</b>		226	235	240
<b>Total expenditure</b>		<b>6645</b>	<b>6781</b>	<b>7306</b>
<b>Surplus/(Deficit)</b>		260	304	94
<b>Reserves b/fwd</b>		2,231	2,491	2,795
<b>Reserves c/fwd</b>		<b>2,491</b>	<b>2,795</b>	<b>2,889</b>

# **EBLEX LTD. SECTOR PLAN**

## EBLEX LTD – BUSINESS PLAN

### Sector Overview

#### English Livestock and Dairy Farms (June 2006)

Number	Less Favoured Areas Livestock	Lowland Livestock	Dairy
North East	1469	768	186
North West	3452	3341	2990
Yorks & Humber	2832	2286	1156
East Midlands	906	3034	975
West Midlands	1593	5004	1945
Eastern	0	2235	203
London	0	58	-
South East	0	5424	644
South West	2414	10744	4509
Total England	12666	32894	12628

Source: Defra

#### English Livestock Numbers (June Census)

Thousands	2005	2006	2007
Total Cattle	2550	2541	2475
Beef Breeding Herd	767	768	758
Dairy Breeding Herd	1276	1259	1236
Total Sheep and Lambs	15877	15673	15189
Breeding Flock	7289	7191	6806

Source: Defra

#### Farmed Land Use in England (June 2006)

	Area (hectares)	Holdings (number)
Total Farmed Area	9,328,573	175,531
Permanent Grass	3,330,440	124,548
Temporary Grass	589,437	33,790
Rough Grazing	669,819	21,795

Source: Defra

## English Cattle Abattoirs

2005	Large Sized Plants (15)	Medium Sized Plants (32)	Small Sized Plants (143)
Total Cattle Slaughter	686,318	414,286	147,246
% Total GB Cattle Slaughter	35.8	21.6	7.7
% Total English Cattle Slaughter	55.0	33.2	11.8

## English Sheep Abattoirs

2005	Large Sized Plants (10)	Medium Sized Plants (71)	Small Sized Plants (122)
Total Sheep Slaughter	2,819,837	6,237,255	280,116
% Total GB Sheep Slaughter	18.3	40.5	1.8
% Total English Sheep Slaughter	30.2	66.8	3.0

Source: EBLEX

## EBLEX Business Pointers 2006 /07

Net margins for average producers in £/head*		
	2006/07	2005/06
England Lowland Suckler Herds	£297.91 loss	£351.56 loss
England LFA Suckler Herds	£357.83 loss	£425.39 loss
England Intensive Finishing	£ 94.05 loss	£74.37 loss
England Extensive Finishing	£239.36 loss	£262.94 loss
England Lowland Flocks	£34.30 loss/ewe	£49.25 loss/ewe
England LFA Flocks	£36.21 loss/ewe	£41.76 loss / ewe
England Store Lambs	£0.65 loss/ lamb	£2.45 loss /lamb
Combined rearer / finishers	£430.02 loss	N/A
Early lambing flocks	£7.47 loss **	N/A

\*Including non cash costs

\*\* Non cash costs excluded

### Actual and Forecast Supplies of Beef and Veal in the UK

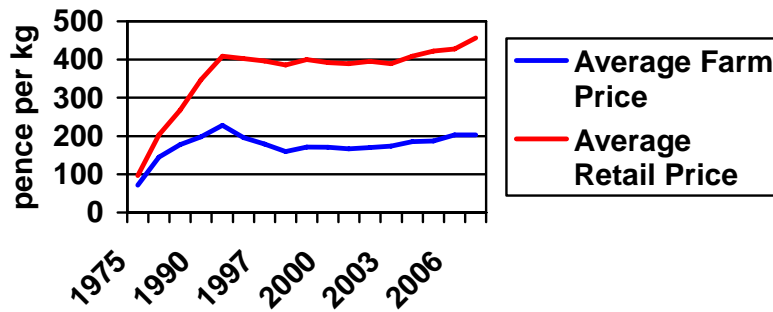
Tonnes (cwe)	2006	2007(f)	2008(f)
Production	847	913	880
Imports	295	260	305
Exports	46	50	70
Consumption	1094	1122	1115

### Actual and Forecast Supplies of Mutton and Lamb in the UK

Tonnes (cwe)	2006	2007(f)	2008(f)
Production	330	322	304
Imports	129	123	135
Exports	89	65	80
Consumption	372	380	359

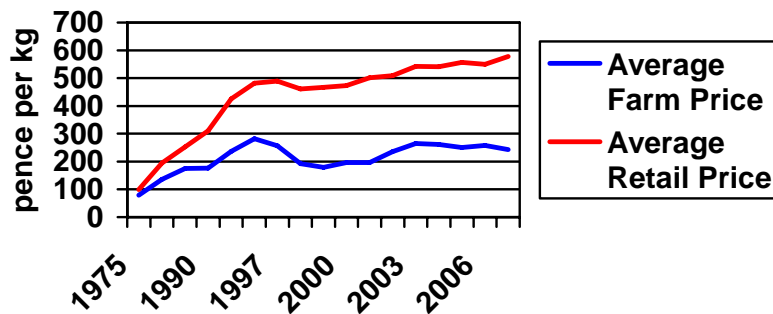
Source: MLC

### Price Trends - Beef



Source: MLC

### Price Trends - Lamb



Source: MLC

## Sector Company Overview

EBLEX Ltd is funded through a levy paid on all sheep and beef animals slaughtered in England. There are approximately 56,000 cattle and 48,000 sheep holdings in England, and 220 abattoirs.

### Net Levy Income

£'000	For the year ended 31 March 05	For the year ended 31 March 06	For the year ended 31 March 07
General Fund	5,333	5,704	6,102
Beef Promotion Fund	2,806	3,091	3,586
Lamb Promotion Fund	2,987	3,038	3,000
Total	11,126	11,833	12,688

### Levy Rates 2006 / 07

Species	General Levy per Head	Promotion Levy per Head	Total Paid by Producer per Head	Total Paid by Slaughterer per Head
Cattle	£2.15	£2.42	£3.495	£1.075
Calves (up to 68kg)	£0.14		£0.07	£0.07
Sheep	£0.33	£0.34	£0.505	£0.165

The EBLEX Ltd Board has representatives from all sectors of the beef and lamb industry, with each Board Member being appointed for a three-year term from 1 April 2008.

Board members are:

John Cross (Chairman), Farmer  
Malcolm Corbett, Farmer  
David Fleetwood, Processor  
Peter Kingwill, Auctioneer  
Frank Momber, Farmer

Mike Powley, Farmer  
Kevin Swoffer, Independent  
Ryan Williams, Processor

Jonathan Barber, Farmer  
James Fanshawe, Farmer  
John Hoskin, Farmer  
Alistair Mackintosh, Farmer  
Professor Robert Pickard,  
Independent  
David Raine, Farmer  
Simon Warren, Processor



## Swot Analysis For The Beef And Lamb Sector

The Board of EBLEX Ltd has recognised the Strengths, Weaknesses, Opportunities and Threats affecting the beef and sheep industries in England. In addition it has identified seven key industry drivers, which fall into five broad categories and are outlined in Annex 1:

<b>Strengths</b>	
A robust demand for red meat	In 2006 domestic lamb consumption increased by 3% and beef by 1%, figures that are underpinned by increased economic growth, a growing population and a high level of confidence in the meat supply chains.
Access to modern technology	<p>As an advanced economy, England's beef and lamb supply chains have access to technologies, which can affect competitiveness across the food chain.</p> <p>For example, in very broad terms, advances in Information Communication Technology (ICT) are enabling the meat industry to put in place more sophisticated data capture and database management tools. Such advances will provide the mechanism to record, communicate and use information across the supply chain. The UK's multiple retail sector has based much of its success on harnessing developments in logistics to improve their competitive position.</p> <p>Advances in animal breeding, livestock production and increased automation of abattoir, cutting and distribution processes offer the opportunity for efficiency and productivity increases. These in turn have the potential to offer enhanced financial returns to producers and processors.</p>
Demographic and lifestyle trends	Demographic and lifestyle trends in the UK over the last twenty years have also led to a demand for more convenient ways of buying, preparing and cooking food, which can link to the shorter and more logistically efficient supply chains noted above. These can all add value to raw product.
Positive links to landscape and environment	<p>With 47% of England covered by grassland, ruminants play a positive role in maintaining the landscape and the environment. The rearing of cattle and sheep promotes grassland biodiversity, which is the result of agricultural and pastoral practices that have frequently been in use for tens or even hundreds of years.</p> <p>Grazing cattle and sheep play an essential role in helping to shape the countryside and maintain the quality of the environment – a key factor in the success of the growing UK tourist industry. This role is widely acknowledged by a number of well-known countryside and environmental organisations.</p>
<b>Weaknesses</b>	
Structural Issues	<b>The post-war structure of English beef and sheep sectors has been heavily influenced by the CAP leading to a disconnection between producers and consumers, and a weakening of the imperative for continuing business improvement.</b>

	<p><b>A high cost base has also meant competitors outside the EU have cost advantages over domestic product. This has combined with the position of farmers as ‘price-takers’ to result in a sector with little negotiating power in a market dominated by a reducing number of buyers.</b></p> <p>Indeed, the three most successful mainstream retailers over the last few years have all followed an EDLP (Everyday Low Prices) strategy, with consistently competitive prices supported by strong promotional programmes. This has resulted in continued downward pressure on suppliers’ and wholesalers’ prices.</p>
<p>Market Shocks and Market Reform</p>	<p><b>The economic pressures created by BSE, FMD and market reforms led to a sharp decline in farming income during the second half of the 1990s, with some recovery in 2003, followed by a decline in 2004 and 2005. While there was an increase in income from lowland grazing farms in 2006, LFA livestock saw another significant decline.</b></p> <p><b>Unprofitable production is likely to see a falling livestock base, placing greater pressure on the sector’s infrastructure, leaving its critical mass relationships severely weakened.</b></p> <p>The beef and sheep supply chains need a sustained period of profitability and confidence in order to invest, to restore competitiveness, and to respond to market challenges and opportunities. Investment needs for producers include IT and investment in human capital.</p>
<p><b>Opportunities</b></p>	
<p>Growing demand</p>	<p>With strong world economic growth generally and population growth in the developing world in particular, demand for meat continues to rise. This may lead to opportunities for some underutilised cuts, and growth in demand from third countries may lift global meat prices shielding English and European producers from some of the increasing competition.</p> <p>The two most recent phases of EU - the accession of 10 new member states in May 2004 and the accession of Romania and Bulgaria in January 2007 – have not to date posed a competitive threat to the sheep and beef industries, and may offer some export opportunities.</p>
<p>Changing nature of demand – the move away from commodities</p>	<p>Smaller household sizes (both pre and post-retirement households) have created a challenge to the food industry to provide a range of retail pack sizes and cuts as well as contributing to the growth in takeaway food for consumption at home.</p> <p>There have however been signs of a growing “food culture” in Britain, with more hobby cooking, cookery programmes on TV, celebrity chefs etc as its manifestation.</p> <p>In addition to convenience, the macro drivers of food purchase have become “Health and Indulgence”.</p>

	<p>Increasing numbers of consumers recognise the health benefits of food preparation using fresh ingredients. The media has covered the linkages between food and obesity extensively over the past two years. This trend has offered opportunities for industry to capitalise upon the niche demand for more “authentic” food ingredients. Short supply chains have an opportunity to exploit these developments, and farm shops, box schemes and similar alternative distribution channels are examples of adding value in this area.</p> <p>The growing importance to consumers of having premium options of fresh foods to purchase has also led to an extension by the main supermarkets of their ranges of premium food. All of the big four retailers are continuing to develop their premium tiers of own-label food and home-produced meat is a key criterion of specification for most supermarket buyers of premium ranges.</p>
Rural development programmes	<p>Looking ahead, a new EU rural development regulation for the period 2007 – 2013 has been adopted, although the rural development programme’s activities are still being agreed.</p> <p>Government is expected to focus national rural development programmes on delivering broader sustainability aims, notably environmental goals. Provisions for compulsory and voluntary national “modulation” allow the Government to switch substantial financial resources from Pillar 1 measures (the Single Payment) to Pillar 2 measures (rural development).</p>
<b>Threats</b>	
Global competition	<p>Some third countries, such as Brazil, are very price competitive and increasingly prominent players on the world market.</p> <p>The outlook for an agreement in the WTO Doha Round of international trade negotiations is unclear. Nevertheless, the prospect is for further trade liberalisation, either on a multilateral basis through the WTO and/or a bilateral basis. Easier access to the UK and EU markets by third country suppliers is likely, reinforcing the need for the industry to devise effective responses to ever-increasing competition.</p> <p>The growing concentration of meat processing capacity through global mergers and acquisitions is another key feature of the world marketplace, together with the rising cost of inputs such as cereals. These trends pose significant challenges for the English ruminant industry.</p>
Animal disease	<p>In recent years animal disease outbreaks around the world have dramatically highlighted how a country’s animal health status both determines its ability to trade and alters established supply and trade patterns. Tackling the effect of animal diseases and improving the health management of livestock will be key to mitigating the impact of such outbreaks.</p>
Agricultural policy changes	<p>For livestock farmers, the move in 2005 from production-based subsidies to the decoupled Single Payment is the single most important driver of agricultural policy in England. Overall, across Great Britain, a decline in both</p>

	<p>the suckler herd and the breeding sheep flock is expected as a result of this move.</p> <p>There is a growing debate about the new arrangements for sharing responsibilities and costs between Government and the livestock industry. This may lead to new arrangements in the development and delivery of policy that may involve the industry more directly, but it might also lead to new costs, which have to be borne by beef and sheep producers.</p>
Environmental issues	<p>Globally, agriculture accounts for about 20% of the projected human-induced greenhouse effect, about 9% of total human-related carbon dioxide emissions, about 35-40% of the methane emissions and about 70% of the nitrous oxide emissions.</p> <p>A recent FAO report, 'Livestock's Long Shadow - Environmental Issues and Options', highlights that global livestock production is a significant contributor to global climate change.</p> <p>This situation is likely to increase as global population growth (predicted to increase from six to over nine billion by 2050) drives up demand for food and animal products, and impacts on the availability of animal feed and on land use patterns.</p> <p>In the UK, some plants and animals will adapt to climate change better than others. New weeds, pests and diseases such as bluetongue will have implications both for the industry's ability to maintain normalised trading conditions and future use of pesticides and biological controls.</p> <p>In the UK farming is the biggest source of two important GHGs. Grazing animals, notably cows, release about 35% of total UK methane emissions. Soils and fertiliser account for two-thirds of the UK's nitrous oxide emissions. While GHG emissions from UK farming have fallen by 12% over the last 10 years – the livestock industry will need to consider how to further improve its efficient uses of fertilisers, minimum tillage techniques and genetic resources.</p>

## **EBLEX LTD STRATEGY**

The Board of EBLEX Ltd agreed the new organisation should adopt a core philosophy of adding value and reducing cost and that these values should permeate all the Sector Company's activities.

Building on this philosophy and the key drivers facing the industry, the Board believes a truly sustainable long-term future for the English beef and sheep sector can only come from its levy payers' ability to capture and enhance their profit margins.

It therefore agreed EBLEX's primary focus should be to help the industry return to and maintain profitability through an unswerving "Pursuit of

Profitability” through the twin objectives of **Business improvement** and **Product differentiation**.

**Business improvement** (sometimes known as margin enhancement) encompasses working with producers to look at issues such as on-farm costings, animal health, feeding regimes, livestock selection and the benefits of using recorded breeding stock.

The ability to effectively differentiate beef and lamb in the marketplace is the key to holding onto the gains of business improvement (sometimes known as margin capture). **Differentiated product** has the ability to command a price above that of purely commodity product.

From these objectives the Board of EBLEX Ltd developed and agreed a three-fold strategy:

- Promoting better returns for the beef and lamb industry;
- Championing the development of a sustainable industry;
- Stimulating a profitable demand for quality beef and lamb

These, in turn, will be delivered through three core EBLEX Ltd ‘products’:

- Better Returns – focusing on activities related to on-farm or near farm development to improve competitiveness
- Sustainable Supply Chains – whole chain activity designed to connect the beef and lamb supply chains, and encompassing areas such as market information, human nutrition and supply chain development.
- Building Profitable Markets – building a positive business environment through activities such as exporting, marketing and promotion.

## **SECTOR PLAN**

### **1. Promoting better returns for the beef and lamb industry**

All EBLEX Ltd technology transfer activity at farmgate level will be delivered under the existing EBLEX ‘Better Returns’ brand.

The recent Defra-funded Sheep Better Returns Programme, which ran from 2004 to 2005, reached over 30,000 English lamb producers with its messages on better lamb selection and better breeding. EBLEX Ltd will continue to fund a core programme of Sheep Better Returns events for 2008 / 9, and will seek to work with Regional Development Agencies to roll out regional events.

The £1.2 million Beef Better Returns Programme (Beef BRP) for English producers funded by Defra was launched during the latter part of 2006. Following a similar format to the Sheep Better Returns Programme, the Beef BRP aims to improve producers’ understanding and on-farm application of best practice across key subject areas. Defra funding for the programme will continue until the beginning of 2009.

The farm costings tool 'Snapshot' which was developed in conjunction with the Red Meat Industry Forum (RMIF) is being incorporated into the BRP. The Board is also keen the BRP is used to communicate industry-agreed messages on the importance of improving animal health to the economic viability of the sector.

The Board of EBLEX Ltd believes it is important the industry continues to have access to the most up to date scientific information. EBLEX Ltd will continue to fund research projects that are of relevance to cattle and sheep levypayers and that can make a real difference to their profitability. The Board will also ensure it has access to the appropriate skill base to translate the science into best business practice.

As part of this core product EBLEX Ltd will work with farmers and abattoirs on supply chain initiatives. EBLEX Ltd will utilise the best practice established by the RMIF's post farm-gate work and will work closely with other organisations providing foodchain supply chain solutions.

## **2. Championing the development of a sustainable industry**

The Board of EBLEX Ltd believes it is important the Sector Company takes a key leadership role in championing the cattle and sheep sector.

This involves improving its communication with levypayers and other stakeholders to ensure all those with an interest in a sustainable livestock industry are aware of, encouraged to participate in, and promote EBLEX Ltd activities. Communications will be delivered through a number of channels, including stakeholder briefings and publications, press and media work and the website.

Levypayers must have access to high quality industry intelligence, market information and consumer insight data to help them to make more informed business decisions.

The Board believes EBLEX Ltd has an important role to play in providing an industry knowledge base - but must also strive to avoid duplication wherever possible. It will achieve this by forging closer working relationships with other Sector Companies, the devolved red meat bodies and other organisations in these areas.

EBLEX Ltd will also seek to work with other non-GB levy bodies in non-competitive areas such as the provision of nutrition information.

## **3. Stimulating a profitable demand for quality beef and lamb**

### **Quality Standard Scheme**

EBLEX Ltd owns and operates the Quality Standard scheme for beef and lamb – the only UK assurance scheme to include an eating quality

requirement. It has been accepted by the European Commission as a quality scheme as part of AHDB's State Aids notifications.

The Board of EBLEX Ltd is committed to using eating quality, assurance and provenance as the basis for its objective of differentiation.

To qualify to carry the Quality Standard Mark (QSM) beef and lamb must be produced, transported and slaughtered through an EBLEX Ltd approved, fully assured supply chain that is based on existing farm and processor assurance standards (e.g. Assured Food Standards). The specification also includes factors which influence eating quality such as age, seasonality and where appropriate, a minimum maturation period. In April 2007 the specification for Quality Standard beef was changed to exclude *bos indicus* genetics.

To date Quality Standard beef and lamb can be sold through over 8,000 outlets across the UK. EBLEX Ltd will continue to work with businesses from farm shops, wholesalers, foodservice, independents and multiple retailers across the supply chain to promote Quality Standard beef and lamb.

EBLEX Ltd will also continue to work with the not-for profit sector (e.g. schools) to help them source Quality Standard beef and lamb.

The consumer-facing Quality Standard TV and press promotional campaign is currently delivered through the Ian 'Beefy' Botham and Allan 'Lamby' Lamb creative. This has helped make the Quality Standard popular with consumers with independent research carried out in March 2007 showing 60% of consumers recognised the mark, and that 78% believed the Quality Standard stood for quality beef and lamb. EBLEX Ltd will continue to communicate the Quality Standard directly to consumers.

## **Exports**

Exports of beef and lamb play an important part in securing a long-term sustainable future for the industry. EBLEX Ltd is committed to ensuring its export activities are appropriately focused on areas that return the highest return for levypayers' investment.

Thus, for example, EBLEX will be working with the French and other EU industries to reverse the current downward trend in lamb consumption in France. The Board will also focus its efforts on exploring opportunities for fifth quarter products in target markets.

## **ACTIVITIES**

The Board has prioritised the activities EBLEX Ltd will deliver through its strategies. These activities are based on the fact that EBLEX Ltd is not the only organisation working to improve the sustainability of the beef and lamb sector.

The Board believes strongly EBLEX Ltd should not expend scarce levy resources on duplicating what others are doing - as this both reduces the

value levy funds return and makes it more difficult for levy payers to understand the correct body for them to contact on specific sector issues.

Other bodies have a key role in dealing with issues surrounding industry terms of trade and ensuring both policy makers and regulators follow the better regulation framework. The Board of EBLEX Ltd is therefore keen its strategy is viewed as part of the efforts the wider industry is making towards improving the sustainability of the beef and lamb sector.

As part of this, each year EBLEX will publish a report bringing together data to examine whether the industry is improving its profitability and if progress is being made on the Board's objectives of **business improvement** and **business profitability**. This builds on the current annual EBLEX Business Pointers publication that benchmarks on-farm performance and the impact of the Better Returns Programmes in improving production efficiency.

EBLEX Ltd will build on the activities delivered by the previous levy body structure:

At 1 November 2007, 5,007 beef producers and 9,145 sheep producers were signed up to the Better Returns Programmes.

The Research and Development Programme included over 25 projects designed to help the ruminant sector address issues of genetics, animal nutrition, production performance, animal health and welfare, human nutrition and product quality. The predicted value of the uptake of knowledge from these projects is around £8 million over five years.

Advertising and promotional activity continued to show encouraging results. Independent research in early autumn 2007 shows 63% of consumers recognise the beef Quality Standard Mark and 62% recognise the lamb QSM after just over two years in the marketplace. Seventy-one per cent said it is a label they can trust.

**The majority of trade marketing projects focused on communicating QS scheme details and recipe information through both multiple retailers and independent outlets. This was achieved through the provision of leaflets, supporting point of sale material and tactical promotional activity. Participation has particularly increased within the medium and small abattoir sector in England. As of November 2007 there were almost 2,600 businesses were members of the Quality Standard scheme, representing over 8,200 outlets.**

Targeted activity on beef exports helped the UK exceed its target of 30,000 tonnes in the first year of normalised market access. The UK exported 45,000 tonnes of beef during the 2006 calendar year. EBLEX activity in key markets such as France also helped increase lamb exports to 60,000 tonnes in 2006. Disease outbreaks put exports on largely hold during the second half of 2007.



The new-look EBLEX website was launched in October 2006, with the result that website registrations increased by 45% by 31 March 2007. Current registrations are 7,900 and views are over 82,000 per month.

EBLEX also continued to hold its series of popular open meetings across the country with Board members and staff, inviting farmers to discuss and participate in EBLEX activity.

## STRATEGY ONE: ENCOURAGING BETTER RETURNS

### Key Performance Indicators

	Key Outputs	Targets 2008 / 09	Risks	Key Controls
<b>Research and Development</b>				
Maintain and develop an effective R&D programme focused on improving understanding and the efficiency of production in the areas of feeding, breeding, business costings, disease control and welfare, human nutrition and the supply chain.	A continued flow of relevant knowledge and best practice opportunities.	Deliver a programme of research projects aligned to identified priorities over the next 5 years giving a total benefit of £3.5m to each of the cattle and sheep sectors (as measured by ongoing cost- benefit analysis). Publish an R&D Activity Portfolio.	Poor quality or inappropriate research proposals / poor research team management.	Use identified R&D priorities to focus activity. Review as necessary. Use of project management techniques by R&D contractors.
<b>Better Returns Programmes / Knowledge Transfer</b>				
Dissemination and uptake of the knowledge and best practice techniques derived from the R&D programme and identified by the Better Returns Programmes.	Delivery of programmes to encourage uptake of knowledge and best practice by levypayers.	<p>Beef BRP - Deliver 80 events, 3 bulletins, 2 technical manuals, maintain and grow the number of active participants to 7,000. Develop working partnerships with regional bodies to co-fund Beef BRP activities.</p> <p>Sheep BRP - Deliver 40 events, 2 bulletins, 1 technical manual, maintain the number of active participants at 9,000. Develop working partnerships with regional bodies to co-fund Sheep BRP activities.</p>	Poor uptake by the primary producer / producer apathy. Restricted event activity due to disease controls. E.g. FMD. No funding support from regional bodies.	Use all available means of communication and focus on key messages defined by core products.

<b>On Farm Costings / Benchmarking</b>				
Develop a more robust and effective benchmarking framework at a sustainable cost; encourage uptake and understanding of farm costings.	Annual publication of fixed and variable costs of production, development and communication of benchmarking formats.	Publish benchmark data by 30 November 2008. Continued roll out of accessible costings format.	Poor uptake of costings tools by the primary producer / producer apathy.	Incorporation of costings into BRPs.
<b>Input Resource Requirements ('000)</b>		<b>£2,300,000</b>		

## STRATEGY TWO: CHAMPIONING A SUSTAINABLE INDUSTRY

### Key Performance Indicators

	<b>Key Outputs</b>	<b>Targets 2008 / 09</b>	<b>Risks</b>	<b>Key Controls</b>
<b>Levypayer Communications</b>				
Build stakeholder awareness of EBLEX Ltd activity across the supply chain	A continued flow of proactive media, public relations and related communications activity	Return an annual Advertising Equivalent Value (AVE) of £700,000. A stakeholder satisfaction rating of 75% as measured by quarterly in house survey. EBLEX awareness score of 50% in independent annual communications delivery survey.	Poor uptake of messages by stakeholder media. Lack of stakeholder understanding of the switch from MLC to EBLEX as the sole delivery mechanism for regional levy payers. Lack of stakeholder engagement with key messages. Poor implementation of communications strategy.	Ensure internal communications channels are used to support external activity. Rigorous ongoing evaluation of communication activity. Ensure all outputs are appropriately branded.
Enhance effective communication to stakeholders of industry knowledge and market intelligence	Increase uptake of publications and visits to websites	250,000 annual visits to all EBLEX websites. 12,000 publications downloaded annually. Increase corporate website registrations to 9,000	Poor sector engagement with IT and the internet. Inability to effectively monitor uptake of printed publications	Effective promotion of websites. Monitor publication uptake through existing databases.
<b>Collaborative Marketing</b>				
Through collaborative marketing activity with other bodies, maintain a positive	Maintaining beef and lamb's position at the centre of the plate based on an improving	Through ongoing research, maintain beef and lamb positive image with	Potential loss of buy in from other promotion bodies, and any ongoing negativity as a	Careful well-structured communications to all appropriate audiences,

environment for meat and meat products through a programme of consumer PR, and targeted projects in the education and health arenas	understanding of its value as a source of healthy, nutritional and convenient protein.	consumers. Achieve a ROI of at least 1:10 on the direct cost of PR.	result of the 2007 World Cancer Research Forum report.	supported with management input.
<b>Input Resource Requirements ('000)</b>		<b>£2,875,000</b>		

### STRATEGY THREE: STIMULATING A PROFITABLE DEMAND FOR QUALITY BEEF & LAMB

#### Key Performance Indicators

	Key Outputs	Targets 2008 / 09	Risks	Key Controls
<b>Consumer Marketing</b>				
Maintain and consolidate Quality Standard beef and lamb as a means of product differentiation through a range of consumer advertising and PR activities. Maintain a level of activity to support non-assured product. Undertake ongoing research to ensure that both consumer needs are being met and communications are effective.	Consolidate consumer awareness of the Quality Standard Mark.	Maintain consumer awareness of the beef and lamb QSMs at 60% and 52% respectively. For public relations activity, deliver a benchmark ROI of 1:10.	Inappropriate communications and lack of uptake from audiences. Insufficient product and stocking by targeted segments	Careful communication to all appropriate audiences based on rigorous research and adoption findings.
<b>Trade Marketing</b>				
Consolidate QSM scheme membership and drive increased penetration of QSM product through all supply chains through promotional and PR based activity.	Undertake a minimum of 4 promotional programmes with Quality Standard Scheme members in each sector of the supply chain.	Maintain scheme membership at March 2007 levels, and increase product penetration in all sectors through the use of targeted promotional programmes throughout the year involving all multiples, 1800 independent retailers, 1500	Falling membership and the threat of increased competition and market penetration from commodity product.	QSM scheme management, communication to the membership and the maintenance of key account contacts.

		foodservice operators and their respective supply chains		
Management and delivery of the Quality Standard scheme.	Provision of effective scheme management, audit and legal controls. Ongoing communication to all scheme members.	Continued provision of a comprehensive audit system in line with LACORS guidelines. The provision of full back-up resource to scheme members through a scheme hotline during office hours, and processing applications within five days of receipt.	Delay in processing new applications, high audit failure rates and breakdown in approved farm and processor assurance schemes.	A rigorous management process linked to the regular audit review process. TAC inputs and liaison with assurance standard setting bodies.
Delivery of non Quality Standard activity.	Delivery of a programme of activity to support the non assured levy payer supply chains.	To provide promotional material to 4000 registered independent outlets.	Increasing costs of production and distribution.	Management of activity levels based on a critical assessment of need.
<b>Export Marketing</b>				
Increase the volume and value of sales of English beef and lamb products in target overseas markets.	Recovery of lost markets due to the recent FMD outbreak to level anticipated for 2007/8. Increase exports of primal/consumer packed product. Re-launch fifth quarter products into target markets.	English beef volume target - 36,500 tonnes. English lamb volume target - 55,000 tonnes. Stimulate exports of a range of red, white and green offal.	Poor uptake of opportunities from export companies. Further export restrictions caused by animal disease outbreaks.	Provide relevant and stimulating information demonstrating commercial advantages of exports. Maintain a professional team of managers in key markets.
<b>Input Resource Requirements ('000)</b>		<b>£6,325</b>		
<b>TOTAL INPUT RESOURCE REQUIREMENTS ('000)</b>		<b>£11,500</b>		

## FINANCIAL STATEMENT

These summary fund budgets do not include non-levy income or activities delivered from other external funds. They are subject to revisions on levy income forecasts.

**Table 1 – Summary Levy Income and Expenditure**

£ '000	2007 / 08 (forecast)	2008 / 09 (forecast)
Opening Levy Reserves	4525	1700
Net Levy Income	12348	11500
Levy Expenditure	(15173)	(11500)
Closing Levy Reserves	1700	1700

**Table 2 - Activity Budget (Levy Funded) 2008 / 09**

£ '000	Cattle	Sheep	Total
Income -			
Net Levy	6400	5100	11500
Expenditure -			
Promoting Better Returns	1290	1010	2300
Championing a Sustainable Industry	1610	1265	2875
Stimulating Profitable Demand	3500	2825	6325
Total expenditure	(6400)	(5100)	(11500)
Surplus (Deficit)	0	0	0

The Board of EBLEX Ltd has agreed that, in the event of projected falls in levy income, it will firstly seek to make savings by combining the number of activities it carries out.

The Board believes a more significant contraction in income would require a re-evaluation of priorities including a review of the balance between short and longer-term research projects and appropriate discussion with EBLEX Ltd levy payers.

**HGCA LTD.  
SECTOR PLAN**

# Introduction

## Overview of the cereals/oilseeds sector and the marketplace

### The cereals & oilseeds sector - growers, traders and processors

A recent Defra survey indicated that there were 59,000 holdings producing cereals within the UK. Holdings which produced oilseed rape amounted to 12,700.

There are 47,900 contacts on HGCA's database of which 27,453 are 'active growers' (of which 9,800 (36%) provide information on their holdings).

HGCA estimated in 2005 that there were 650 grain traders and 300 cereal processors within the UK.

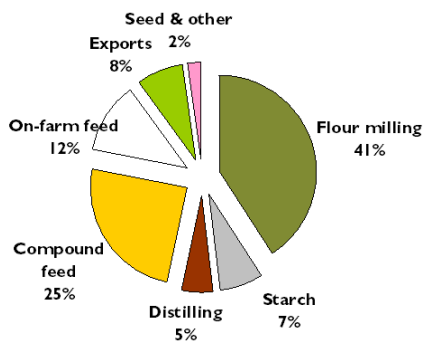
### UK supply and demand for cereals and oilseeds

	000 tonnes							
	Wheat		Barley		Oats		Total Cereals	
	2006/07*	2007/08#	2006/07*	2007/08#	2006/07*	2007/08#	2006/07*	2007/08#
Opening Stocks	1,798	1,856	887	779	42	46	2,775	2,711
Production	14,735	13,362	5,239	5,149	728	726	20,823	19,354
Imports	968	1,045	110	108	21	22	2,420	2,477
<b>Total Availability</b>	<b>17,501</b>	<b>16,263</b>	<b>6,236</b>	<b>6,036</b>	<b>791</b>	<b>794</b>	<b>26,018</b>	<b>24,541</b>
Human and Industrial Consumption	6,392	6,695	1,715	1,737	406	414	19,934	19,791
(of which home grown)	5,530	5,731	n/a	n/a	385	392	17,615	17,464
Usage as Animal Feed	6,777	6,396	3,051	3,011	266	265		
(of which home grown)	6,663	6,322	n/a	n/a	266	265		
Seed	254	275	135	133	17	18	409	429
Other	74	67	26	26	4	4	218	211
<b>Total Domestic Consumption</b>	<b>13,497</b>	<b>13,433</b>	<b>4,927</b>	<b>4,907</b>	<b>693</b>	<b>701</b>	<b>20,561</b>	<b>20,431</b>
<b>Balance (4) - (9)</b>	<b>4,004</b>	<b>2,830</b>	<b>1,309</b>	<b>1,129</b>	<b>98</b>	<b>93</b>	<b>5,457</b>	<b>4,111</b>
Exports	2,148	942	530	278	52	48	2,746	1,285
Intervention Stocks	0	-	-	-			0	-
<b>Exports / Intervention Stocks (b)</b>	<b>2,148</b>	<b>942</b>	<b>530</b>	<b>278</b>			<b>2,746</b>	<b>1,285</b>
Commercial End-Season Stocks	1,856	1,888	779	851	46	45	2,711	2,825

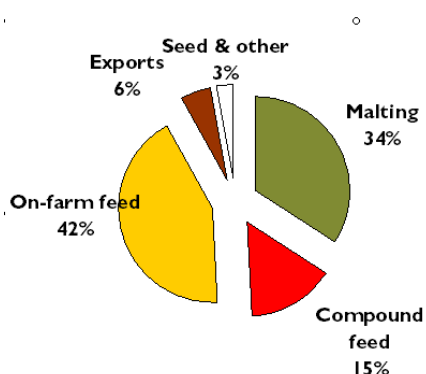
Source:  
DEFRA

### UK wheat and barley market segmentation

#### Wheat – 2007/08



#### Barley – 2007/08





## Grain market developments in the three years to 2010/11

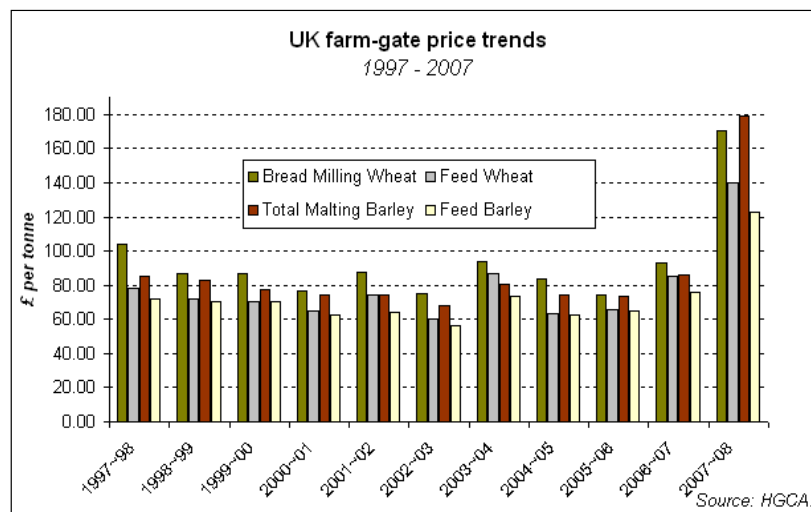
The main arable developments relevant to the period under review are:

1. The decoupling and potential capping of EU payments to arable farmers
2. The expansion of biofuel 'obligations' systems across the EU
3. The setting of Setaside to a 'zero' rate
4. The likely reduction in EU import tariffs
5. The need to reconcile expanding plantings with environmental sustainability
6. The potential problems of funding for environmental stewardship schemes
7. The need to define 'cross compliance' across the EU

The net effect of the above leads to an expectation of larger plantings but below trend yields for cereals and oilseeds, The balance sheet should show larger production and imports with expanding domestic UK use (see projections for UK wheat) .

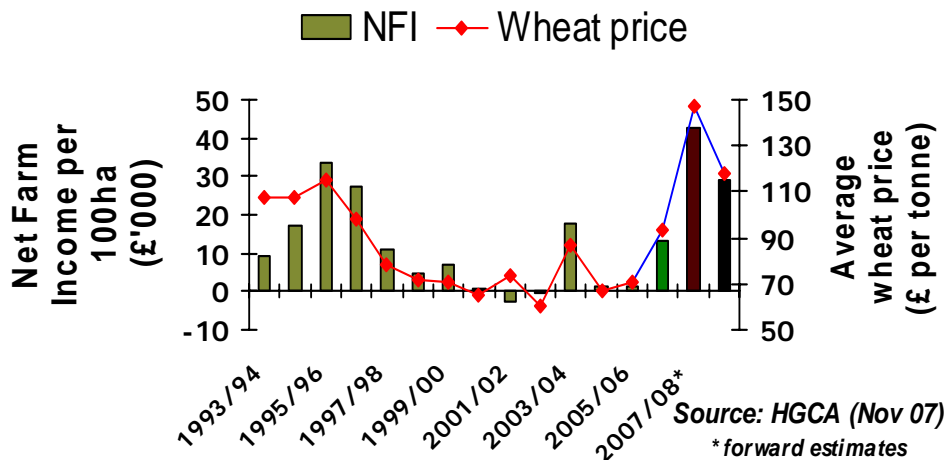
(M tonnes)	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09*	2009/10*	2010/11*
Production	16.0	14.3	15.5	14.9	14.7	13.4	16.2	16.5	16.5
Imports	1.1	0.9	1.0	1.0	1.0	1.0	1.0	1.2	1.2
Exports	3.4	2.2	2.8	2.4	2.2	0.9	2.1	2.0	1.5
Consumption	13.6	13.1	13.5	13.7	13.5	13.4	15.2	15.5	16.0

## Prices and trends at farm-gate



## Arable farming incomes

Farm incomes are directly related to the price of commodities and foreign exchange rates. Current incomes are dramatically improved compared the last ten years. The figure below plots Net Farm Income (NFI) and wheat price since 1993/94.



## Overview of HGCA Ltd

HGCA's vision is 'to be essential to the arable industry'

Our mission is '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's role is 'to provide high quality cost-effective services, designed to meet the needs of levy payers, whilst taking account of both consumer and environmental requirements.'

Working closely with levy payers to ensure that there is an effective exchange of knowledge and understanding along the grain chain, HGCA generates and disseminates independent information to help support a competitive and sustainable arable industry.

Key stakeholder and partner organisations include:

- Farmer organisations of England, Wales, Scotland and Northern Ireland
- Agricultural Industries Confederation (AIC)
- The Grain and Feed Trade Association (GAFTA)
- National Association of British and Irish Millers (nabim)
- Maltsters Association of Great Britain (MAGB)
- British Poultry Council (bpc)
- Institute of Brewing & Distilling (IBD)
- Federation of Bakers
- British Society of Plant Breeders (BSPB)
- Food Standards Agency (FSA)
- Food Chain Centre (FCC)
- Various environmental, educational & consumer organisations
- Regional, national & European government administrations

### HGCA Ltd Board

In June 2006 UK Agriculture Ministers announced that there would be a radical restructuring of the statutory agricultural and horticultural levy bodies by 1 April 2008. The existing five levy bodies, the Home-Grown Cereals Authority, the British Potato Council, the Horticultural Development Council, the Meat and Livestock Commission and the Milk Development Council were to be replaced by one statutory levy body, to be known as Agriculture and Horticulture Development Board (AHDB), and six sector companies. The six companies will be wholly owned subsidiaries of AHDB and will cover the following sectors: Cereals and Oilseeds, Beef and Lamb (in England only), Horticulture, Milk, Pigs (in England only) and Potatoes.

Appointments to the HGCA Ltd Sector Company Board were announced on 24<sup>th</sup> July 2007 and are as follows:

Jonathan Tipples	- farmer, Kent (& Chair Designate)
Ian Douglas	- merchant/exporter with interest in the bio-fuel market, Berwickshire
Michael Hambly	- grain co-ops/farmer, Cornwall
Arthur Hill	- farmer, Shropshire
David Houghton	- farmer, Rossshire
Charles Matts	- farmer, Northamptonshire
Adrian Peck	- farmer, Cambridge
Guy Smith	- farmer, Essex
Radbourne Thomas	- farmer, Leicestershire
Stewart Vernon	- farmer, County Durham
Alexander Waugh	- miller, Surrey
Colin West	- maltster, Essex

John Pidgeon - independent member

Levy raised in last three years

<b>Levy Type: Value £k</b>	<b>04/05</b>	<b>05/06</b>	<b>06/07</b>
Cereals Grower/Dealer Levy	7,424	7,100	7,128
Cereals Processor Feed	238	239	232
Cereals Processor Other	605	620	628
Total Cereals Levy	8,267	7,959	7,988
Oilseeds Grower/Dealer Levy	1,028	1,284	1,193
Total Levy charged	9,295	9,243	9,181
<b>Levy Type: Tonnage 000's</b>	<b>04/05</b>	<b>05/06</b>	<b>06/07</b>
Cereals Grower/Dealer	18,049	17,259	17,329
Cereals Processor Feed	5,950	5,970	5,803
Cereals Processor Other	7,333	7,513	7,618
Oilseeds Grower/Dealer Levy	1,581	1,976	1,835

## Strengths, Weaknesses, Opportunities and Threats of the Cereals & Oilseeds Sector

This sector plan is based on a series of consultations with industry stakeholders. In recent years this has included:

- 2000 - Strategic Review of HGCA
- 2004 - Cereal Industry Review
- 2005 - HGCA Response to Cereal Review
- 2006 - Radcliffe Review
- 2006 - HGCA Fresh Start strategic session
- 2006/07 - R&D, CEL and other HGCA activity strategic reviews
- 2007 - Accenture Fresh Start consultation

During these sessions, Cereals/Oilseeds Sector strengths, weaknesses, opportunities and threats have been identified.

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• fertile productive arable land</li> <li>• reasonable maritime climate</li> <li>• strong investment in agronomic management</li> <li>• relatively high and consistent grain yields</li> <li>• reputable assurance and traceability systems</li> <li>• investment in variety evaluation via Recommended Lists</li> <li>• storage facilities which allow flexibility in marketing</li> <li>• production close to main domestic users</li> <li>• a good export terminal network and proximity to overseas markets</li> <li>• good support organisations and HGCA as a credible independent agency</li> <li>• some strong trading partnerships (e.g. malting barley)</li> <li>• credibility within EU political circles</li> </ul>	<p><b>Weakness</b></p> <ul style="list-style-type: none"> <li>• crop quality variability due to variable climate</li> <li>• high labour and transport costs</li> <li>• imperfect communications along grain chain</li> <li>• mistrust between buyers and sellers</li> <li>• limited farmer understanding of grain marketing options &amp; processes</li> <li>• lack of uptake of business &amp; risk management tools</li> <li>• decline in investment in R&amp;D and technology transfer</li> <li>• declining UK based scientist and technical base</li> <li>• lack of new blood and loss of younger generation</li> <li>• related livestock sectors in decline</li> <li>• poor investment in new product development</li> <li>• new industries (renewables, biopolymers) are slow to develop</li> <li>• lack of consistent profitability</li> <li>• lack of support from government and the general public</li> <li>• increasing environmental and red tape pressures</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• considerable scope to improve relationships along supply chain</li> <li>• more efficiencies in grain production and marketing</li> <li>• provide business &amp; management services for grower, trade &amp; processor sectors</li> <li>• better understanding of UK, EU and international markets</li> <li>• improve marketing in established markets</li> <li>• support development of renewables &amp; biopolymers sectors</li> <li>• help add value to UK cereals &amp; oilseeds in domestic and export markets</li> <li>• highlight important of grain within a balanced diet</li> <li>• use industry funding to attract outside support for UK arable sector</li> <li>• improve public perception of agriculture</li> <li>• play part in skills development and encourage new industry entrants</li> <li>• better communications within the sector and between sectors</li> <li>• improved use of IT based services</li> <li>• play a part in improving land management and the environment</li> <li>• help mitigate impact of climate change</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• increased competition from developing economies (e.g. Eastern Europe)</li> <li>• UK government processes are applied differently to elsewhere in EU</li> <li>• decline in livestock sector</li> <li>• fewer UK based plant breeders</li> <li>• reduced investment in plant breeding and science based</li> <li>• proposed levy board restructure is delayed or incomplete</li> <li>• bureaucracy discourages / holds back arable sector development</li> <li>• there is a serious skills and staff shortage</li> <li>• a major plant disease outbreak occurs</li> <li>• unreasonable media coverage from lobby groups</li> <li>• rising, fluctuating exchange rates</li> <li>• rising, fluctuating energy and input costs</li> <li>• climate and environmental changes reduce viability of UK arable crops</li> <li>• urban encroachment limits arable production</li> <li>• industry and outside financial support is seriously reduced</li> </ul>

## **HGCA's Sector Strategies**

### **HGCA's strategies for the cereals & oilseeds sector**

Taking account of extensive industry consultation and using the sector SWOT analysis, nine priority areas have been identified as needing particular HGCA focus. These nine 'key strategies' form the basis of HGCA's three year sector plan and are as follows:

1. ensure a full incorporation of HGCA Ltd within AHDB whilst maintaining service delivery
2. exploit existing market opportunities
3. develop new markets
4. produce cost-effectively to meet market needs
5. manage business risk & market volatility
6. promote grain within a healthy balanced diet
7. develop new partnerships & secure additional funds
8. develop more effective communications
9. maintain & improve HGCA operational efficiency

Activities to achieve these strategies have been formulated and are included in the three year sector plan. Outcomes and targets have also been collated. The finance team have also done an estimate of likely resource and budget implications.

Levels of activity and budget allocations under each strategy are well defined for 2008/09. Figures for 2009/10 and 2010/11 will be confirmed in detail following discussions involving HGCA Ltd's Board and AHDB.

### **HGCA's Sector Plan**

To maintain an HGCA position of being essential to the arable industry, we will:

- identify clearly our levy-payers and customers
- define and understand the needs of each group of customers
- deliver information and services which meet these needs
- monitor our performance and apply on-going improvements

This *Three Year Sector Plan* outlines in broad terms how HGCA intends to meet these challenges in the next three years. This Plan will provide the basis for HGCA's *Annual Business Plans*, *Annual Operating Plans* and *Annual Reports*. Each document serves specific purposes which will enable HGCA to achieve its vision and mission:

#### *Three Year Sector Plan*

- provides long-term guidance and targets
- sets out broad performance measures

### Annual Business Plan

- provides planned activities and targets
- is the basis for setting and agreeing objectives for staff

### Annual Operating Plan

- targets are detailed with team responsibilities
- specific timelines are outlined

### Annual Report

- reviews annual corporate performance
- provides an update of future plans

### Key Risks and Risk Controls

The risks and controls identified in the next 8 pages are additional and specific risks and controls related to the relevant strategy area. However, those associated with the strategies need to be added to those risks and controls detailed in HGCA's Corporate Risk Register.

<b>Strategy &amp; activity</b>	<b>Key outcomes</b>	<b>Targets 2008/09</b>	<b>Targets 2009/10</b>	<b>Targets 2010/11</b>	<b>Key risks</b>	<b>Risk controls</b>
<b>Strategy 1</b> <b>To ensure a full incorporation of HGCA Ltd within AHDB whilst maintaining service delivery</b>  <u>Activity</u> Manage the process of levy board restructure	1.01 HGCA Ltd is fully incorporated within AHDB and successfully delivers Annual Business Plans	<ul style="list-style-type: none"> <li>manage HR strategy and HGCA Ltd staff</li> <li>maintain relationships with government agencies</li> <li>consolidate relationships with AHDB Board and HGCA Ltd Board</li> <li>proactive cooperation with AHDB executive staff</li> <li>timetable for structural changes in 2008/09 clear and achieved</li> <li>ensure compliance with best practice following legal advice</li> </ul>	<ul style="list-style-type: none"> <li>Relocation of staff to new office achieved</li> <li>HGCA Ltd working successfully with AHDB &amp; other SectorCos</li> </ul>	<ul style="list-style-type: none"> <li>New AHDB structure is delivering measurable benefits</li> <li>HGCA Ltd is successfully incorporated into new AHDB structure</li> </ul>	<ul style="list-style-type: none"> <li>Delays on AHDB business plan, EU grant state aid approvals &amp; SI legislation</li> <li>Delays with new office build at Stoneleigh (subject to business case approval)</li> <li>Levy payers resist proposed changes</li> </ul>	<ul style="list-style-type: none"> <li>HGCA Ltd personnel fully contribute to AHDB and Defra processes</li> <li>Contingency plan in place</li> <li>Full dialogue with stakeholders maintained</li> </ul>
<b>Input resource (£'000)</b>		<b>57</b>	tbc	tbc		

<b>Strategy 2</b> <b>To exploit existing market opportunities</b>  <u>Activity</u> Develop & report analyses of market conditions and future needs of each grain chain sector	2.01 Current home & export markets are reviewed & quantified	<ul style="list-style-type: none"> <li>on-going market reports</li> </ul>	Market reports delivered	Market reports delivered	<ul style="list-style-type: none"> <li>Reduced UK crop size reduces market opportunities</li> <li>Food safety or consumer problem limits market potential for UK grain</li> <li>Alternative market information services developed by third parties</li> </ul>	<ul style="list-style-type: none"> <li>Plans in hand to address short term problem</li> <li>Analysis on-going and contingency plans in place</li> <li>HGCA Ltd continues to deliver unrivalled independent and values services</li> </ul>
	2.02 UK grain availability & suitability is assessed	<ul style="list-style-type: none"> <li>planting survey, quality survey &amp; Outlook conference in October</li> </ul>	Assessment made	Assessment made		
	2.03 Links developed with processors to establish commercial & grain needs	<ul style="list-style-type: none"> <li>national, regional &amp; sectoral conferences</li> <li>effective Enterprise Awards</li> </ul>	Links further improved	Links further improved		
	2.04 Needs of key grain chain sectors identified and industry marketing training provided	<ul style="list-style-type: none"> <li>5 regional workshops, interactive website, webinars &amp; 10 articles</li> </ul>	Training delivered	Training delivered		
	2.05 Support provided for exporters of cereals and oilseeds products	<ul style="list-style-type: none"> <li>manage Export Awards, 5 companies enrolled for FastTrack &amp; 5 export newsletters</li> </ul>	Support provided & benefit measured	Support provided & benefit measured		
<b>Input resource (£'000)</b>		<b>1,120</b>	tbc	tbc		

<b>Strategy &amp; activity</b>	<b>Key outcomes</b>	<b>Targets 2008/09</b>	<b>Targets 2009/10</b>	<b>Targets 2010/11</b>	<b>Key risks</b>	<b>Risk controls</b>
<b>Strategy 3</b>  <b>To develop new markets</b>  <b>Activity</b> Identify & develop new market opportunities for UK cereals & oilseeds	3.01 Review range of new markets available to industry	<ul style="list-style-type: none"> <li>• <u>New food markets</u></li> <li>• 2 internal economic assessments and 2 articles</li> <li>• <u>New industrial markets</u></li> <li>• monitor biofuel plant building</li> <li>• 2 biofuels articles</li> <li>• manage &amp; publicise Enterprise Awards results</li> <li>• 2 biopolymers articles</li> <li>• produce processor / biofuels e-newsletters</li> </ul>	Review of new markets delivered	Review of new markets delivered	<ul style="list-style-type: none"> <li>• Reduced UK crop size reduces market opportunities</li> <li>• Food safety or consumer problem limits market potential for UK grain</li> <li>• Environmental lobbying leads to delay in renewable industry development</li> </ul>	<ul style="list-style-type: none"> <li>• Discuss with stakeholders &amp; continue PhD support</li> <li>• Analysis on-going and contingency plans in place</li> <li>• Credible and independent information supplied to inform the debate</li> </ul>
	3.02 Facilitate R&D for biofuel / industrial uses for cereals and oilseeds	<ul style="list-style-type: none"> <li>• develop biopolymer strategy</li> <li>• develop &amp; disseminate R&amp;D project information</li> <li>• work with NNFCC &amp; KT Networks</li> <li>• publish a revised carbon calculator</li> <li>• research carbon reporting progress</li> </ul>	R&D opportunities identified	R&D opportunities identified		
	3.03 Support new market development in the UK	<ul style="list-style-type: none"> <li>• manage Enterprise Awards portfolio</li> </ul>	UK market support provided	UK market support provided		
	3.04 Support new market development in overseas markets	<ul style="list-style-type: none"> <li>• manage Export Enterprise Awards</li> <li>• produce 5 export newsletters</li> <li>• assess potential for BCE activity in new markets (4 country briefs, new markets paper &amp; EU collaboration potential)</li> </ul>	Overseas support provided	Overseas support provided		
	3.05 Report changing market conditions and impact on new markets	<ul style="list-style-type: none"> <li>• 5 articles about global market developments</li> </ul>	Reports delivered	Reports delivered		
<b>Input resource (£'000)</b>		<b>1,547</b>	tbc	tbc		



<b>Strategy &amp; activity</b>	<b>Key outcomes</b>	<b>Targets 2008/09</b>	<b>Targets 2009/10</b>	<b>Targets 2010/11</b>	<b>Key risks</b>	<b>Risk controls</b>
<b>Strategy 4</b>  <b>To produce cost-effectively to meet market needs</b>  <u>Activity</u> Develop practices that will deliver sustainable production of high quality grain	4.01 Provide industry with independent information on varieties and stimulate development of new varieties meeting market needs	<ul style="list-style-type: none"> <li>operate viable and defendable RL trials programme</li> <li>disseminate information on new varieties (e.g. website harvest results, HGCA Ltd RL Plus, HGCA Ltd Crop Oracle &amp; Cereals 2008)</li> </ul>	Trials programme further developed	Trials programme further developed	<ul style="list-style-type: none"> <li>R&amp;D research base becomes so small that HGCA investment in right areas is not possible</li> <li>New legislation makes it difficult to deliver output</li> <li>Face to face delivery of information prevented by disease outbreak (e.g. Foot &amp; mouth)</li> <li>Reduction in sector specific focus caused by the Reform process</li> </ul>	<ul style="list-style-type: none"> <li>Plans in hand to address problem</li> <li>Policy makers are supplied with the right information</li> <li>Alternative mechanisms ready to use</li> <li>Use of website communication</li> <li>Active role in determining future structure and activity</li> </ul>
	4.02 Support sustainable and competitive crop production through focused R&D and KT programmes	<ul style="list-style-type: none"> <li>manage R&amp;D project portfolio to ensure it cost-effectively meets industry needs (e.g. all projects / PhDs monitored and evaluated)</li> <li>commission new research (as identified in R&amp;D strategy and with co-funding)</li> <li>identify knowledge gaps &amp; new research needs</li> <li>explore international collaboration opportunities &amp; strengthen 3 partnerships</li> </ul>	R&D and KT programme supports sustainable & more competitive production	R&D and KT programme supports sustainable & more competitive production		
	4.03 Produce and deliver technical information to help industry meet environmental targets	<ul style="list-style-type: none"> <li>help growers optimise pesticide / nutrients whilst meeting environmental criteria</li> <li>coordinate environmental work (including climate change activities)</li> </ul>	Environmental targets met	Environmental targets met		
	4.04 Benchmark UK competitiveness in grain production	<ul style="list-style-type: none"> <li>develop 50 grower CropBench / arable business groups</li> <li>publish 4articles &amp; e-newsletters</li> <li>develop Scottish farm project</li> </ul>	Arable business groups further developed	Arable business groups further developed		
	4.05 Deliver technical information to improve grower profitability and efficiency in the face of new challenges	<ul style="list-style-type: none"> <li>work with others to deliver integrated messages (e.g. summer farm visits, 15 Cereals 2008 projects, 15 topic breakfasts, etc)</li> <li>research project results in grower friendly format (12 Topic Sheets, 12 Crops magazine articles, organic conversion information, etc)</li> </ul>	Successful delivery of technical information	Successful delivery of technical information		
<b>Input resource (£'000)</b>		<b>5,404</b>	tbc	tbc		

<b>Strategy &amp; activity</b>	<b>Key outcomes</b>	<b>Targets 2008/09</b>	<b>Targets 2009/10</b>	<b>Targets 2010/11</b>	<b>Key risks</b>	<b>Risk controls</b>
<b>Strategy 5</b>  <b>To manage business risk &amp; market volatility</b>  <b>Activity</b> Increase awareness, understanding & usage of risk management tools & business techniques	5.01 Report on causes and persistence of market volatility, and define key issues for risk management purposes	<ul style="list-style-type: none"> <li>publish 4 market volatility articles</li> <li>maintain sector specific e-newsletters</li> </ul>	Key issues defined	Key issues defined	<ul style="list-style-type: none"> <li>Trade reluctance to engage with process – perceive HGCA interference in their market</li> <li>An industry risk management contractor or partner loses credibility</li> </ul>	<ul style="list-style-type: none"> <li>Engage, inform and involve wherever possible during the roll out of the programme</li> <li>Ensure all partners are checked in advance</li> </ul>
	5.02 Assess risk management techniques in relation to their application to grain and oilseed markets	<ul style="list-style-type: none"> <li>publish 2 UK price risk management articles comparing &amp; contrasting different methods</li> <li>explore international collaboration in EU</li> </ul>	Assessment further developed	Assessment further developed		
	5.02 Build management skills activities into industry professional development programmes	<ul style="list-style-type: none"> <li>continue risk management training programme (200 courses)</li> <li>explore involvement of RDAs</li> <li>develop web based training materials</li> </ul>	Uptake of management skills continued	Uptake of management skills continued		
	5.03 Develop links with processors to establish their risk management needs	<ul style="list-style-type: none"> <li>include risk management in the programme for the processor conference</li> <li>identify processor needs and devise suitable risk management programme</li> </ul>	Processor links further developed	Processor links further developed		
<b>Input resource (£'000)</b>		<b>228</b>	tbc	tbc		

<b>Strategy &amp; activity</b>	<b>Key outcomes</b>	<b>Targets 2008/09</b>	<b>Targets 2009/10</b>	<b>Targets 2010/11</b>	<b>Key risks</b>	<b>Risk controls</b>
<b>Strategy 6</b>  <b>To promote grain within a healthy balanced diet</b>  <u>Activity</u> Raise awareness of the value of cereals & oilseeds within a healthy balanced diet plus achieve recognition for UK grain as a safe food & feed ingredient	6.01 Enable a better understanding of the nutritional qualities of cereals and oilseeds	<ul style="list-style-type: none"> <li>manage existing portfolio of nutrition-related PhD studentships to ensure benefit delivery</li> <li>further develop <i>Wholegrain Goodness</i> campaign</li> <li>further develop <i>Farmhouse Breakfast</i> campaign</li> <li>develop <i>All about Oats</i> campaign</li> <li>develop <i>Rapeseed Oil</i> campaign</li> </ul>	Nutritional qualities better known	Nutritional qualities better known	<ul style="list-style-type: none"> <li>A major food scare for UK cereals &amp; oilseeds</li> <li>Joint levy board approach is slower than anticipated</li> <li>Sector specific focus is lost</li> <li>Emergence of research showing reduced benefits</li> </ul>	<ul style="list-style-type: none"> <li>Support industry to avoid this and have contingency prepared</li> <li>HGCA play an active part to ensure effective collaboration</li> <li>Help to determine future approach</li> <li>Prepared to rebut claims with available evidence and counter research</li> </ul>
	6.02 Support and monitor production of safe wholesome grain and grain products	<ul style="list-style-type: none"> <li>communicate value &amp; safety of UK grain for animal feed (e.g. update mycotoxin info, contaminant surveillance, events)</li> <li>manage portfolio of food safety projects &amp; identify new issues</li> </ul>	Food safety maintained	Food safety maintained		
	6.03 Monitor trends in food and nutrition based on market research	<ul style="list-style-type: none"> <li>fund dunhumby Academy PhD</li> <li>report on consumer trends in cereal products (e.g. 5 articles &amp; web based output)</li> </ul>	Consumer trends known & exploited	Consumer trends known & exploited		
	6.04 Communicate HGCA Ltd's role in delivering nutritional information	<ul style="list-style-type: none"> <li>manage a programme of 10 topic breakfasts</li> <li>publish 2 articles</li> </ul>	HGCA brand recognised	HGCA brand recognised		
	6.05 Develop a joint levy-board approach to collaboration on the communication of nutritional information	<ul style="list-style-type: none"> <li>maintain joint nutrition website</li> <li>promote joint ownership of <i>Farmhouse Breakfast</i></li> <li>support <i>Year of Food and Farming</i></li> </ul>	AHDB & joint levy board approached further developed	AHDB & joint levy board approached further developed		
<b>Input resource (£'000)</b>		<b>865</b>	tbc	tbc		

<b>Strategy &amp; activity</b>	<b>Key outcomes</b>	<b>Targets 2008/09</b>	<b>Targets 2009/10</b>	<b>Targets 2010/11</b>	<b>Key risks</b>	<b>Risk controls</b>
<b>Strategy 7</b>  <b>To develop new partnerships &amp; secure additional funds</b>  <u>Activity</u> Develop new partnerships & access additional external funds for HGCA Ltd & the grain industry	7.01 Explore and identify new partnership opportunities	<ul style="list-style-type: none"> <li>identify key partnership opportunities (e.g. industrial uses, grain chain, market development, R&amp;D, BCE &amp; trade development)</li> <li>develop projects that need support</li> </ul>	<ul style="list-style-type: none"> <li>Projects developed</li> </ul>	Projects developed	<ul style="list-style-type: none"> <li>Stakeholders ask for referendum</li> <li>Key funders withdraw support</li> <li>Rationalisation of RDA spending resulting in a change in government approach (NAO report)</li> <li>Lack of human resource</li> </ul>	<ul style="list-style-type: none"> <li>Ensure all levy payers recognise value of continued support</li> <li>Work to ensure continuity</li> <li>Consider other sources as a risk control</li> <li>Review resource requirements</li> </ul>
	7.02 Improve HGCA Ltd links with national, devolved, regional, international and commercial partners	<ul style="list-style-type: none"> <li>positive contact made with Defra, Natural England, DTI, FSA and other agencies</li> <li>improve network contact with devolved administrations &amp; regional agencies</li> <li>exploit bid potential with EU &amp; international partners</li> <li>exploit sponsorship and commercial income where appropriate</li> </ul>	<ul style="list-style-type: none"> <li>Links developed &amp; exploited</li> </ul>	Links developed & exploited		
	7.03 Develop and implement more effective collaboration with other sector organisations	<ul style="list-style-type: none"> <li>HGCA Ltd has proactive role in on-going levy board restructure</li> <li>improve links with stakeholder organisations</li> <li>link into industry professional development initiatives where appropriate</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration with other organisation improved</li> </ul>	Collaboration with other organisation improved		
	7.04 Sustain and increase current levels of matched funding	<ul style="list-style-type: none"> <li>maintain or increase current levels of co-funding (R&amp;D @ £9.8 million &amp; Crop Marketing @ £400k)</li> <li>seek Knowledge Transfer co-funding of at least £50k</li> </ul>	<ul style="list-style-type: none"> <li>Targets set &amp; achieved</li> </ul>	Targets set & achieved		
	7.05 Secure additional outside funding	<ul style="list-style-type: none"> <li>secure additional funding of £100k for 2008/09</li> <li>secure new funding of £400k for 2009/10 and beyond</li> </ul>	<ul style="list-style-type: none"> <li>Targets set &amp; achieved</li> </ul>	Targets set & achieved		
<b>Input resource (£'000)</b>	<b>Allocated to Strategies 2 to 6</b> (see Appendix A - estimated cost of £103k)		tbc	tbc		

<b>Strategy &amp; activity</b>	<b>Key outcomes</b>	<b>Targets 2008/09</b>	<b>Targets 2009/10</b>	<b>Targets 2010/11</b>	<b>Key risks</b>	<b>Risk controls</b>
<b>Strategy 8</b>  <b>To develop more effective communications</b>  <u>Activity</u> Increase awareness of HGCA Ltd activities	8.01 Maintain and develop the efficiency and relevance of communication channels and activities	<ul style="list-style-type: none"> <li>produce &amp; deliver 2008/09 Communications Plan</li> <li>ensure effective delivery of HGCA Ltd information via customer contact database</li> <li>assess communications delivery via benchmark survey, customer feedback and analysis of usage</li> <li>promote subscription take-up of HGCA Ltd newsletters</li> <li>enhance functionality and uptake of electronic communications (e.g. Knowledge Centre, arable business management tools)</li> <li>evaluate and improve events based communications</li> </ul>	Communications improved	Communications improved	<ul style="list-style-type: none"> <li>HGCA Risk Register includes the loss of key personnel and potential IT systems failure. This risk applies particularly to this strategy</li> <li>Potential for sharing reduces sector specific focus</li> </ul>	<ul style="list-style-type: none"> <li>Have contingency plans in hand including shared service provision</li> <li>Contribute to future development</li> </ul>
	8.02 Further establish HGCA Ltd corporate identity and branding	<ul style="list-style-type: none"> <li>ensure corporate publications adhere to branding guidelines</li> <li>develop brand awareness (in HGCA and third party output)</li> </ul>	Brand awareness is improved	Brand awareness is improved		
	8.03 Develop internal communication function and strategy	<ul style="list-style-type: none"> <li>improve internal communications (via staff survey, team meetings, etc)</li> </ul>	Internal communications is improved	Internal communications is improved		
<b>Input resource (£'000)</b>		<b>Allocated to Objectives 2 to 6</b> (see Appendix A - estimated cost of £1,757k)	tbc	tbc		

<b>Strategy &amp; activity</b>	<b>Key outcomes</b>	<b>Targets 2008/09</b>	<b>Targets 2009/10</b>	<b>Targets 2010/11</b>	<b>Key risks</b>	<b>Risk controls</b>
<b>Strategy 9.</b> <b>To maintain &amp; improve HGCA operational efficiency</b>  <u>Activity</u> Develop & improve efficiency & cost effectiveness of HGCA Ltd's operating processes, infrastructure, internal control and Corporate Governance	9.01 Maintain and further develop HGCA Ltd's corporate governance procedures	<ul style="list-style-type: none"> <li>timely and effective financial reporting, budgeting and forecasting processes</li> <li>comply with statutory, corporate &amp; departmental reporting requirements</li> <li>maintain HGCA Ltd Risk Management Strategy</li> </ul>	Corporate governance effective	Corporate governance effective	<ul style="list-style-type: none"> <li>Corporate governance principles are breached</li> <li>IT systems failure</li> </ul>	<ul style="list-style-type: none"> <li>Processes clearly defined and monitored</li> <li>Have contingency plans in hand</li> </ul>
	9.02 Develop and improve IT strategy	<ul style="list-style-type: none"> <li>monitor &amp; develop IT hardware &amp; software requirements</li> <li>review communications system</li> <li>maintain &amp; improve system security</li> <li>liaise with AHDB to ensure no reduction in HGCA Ltd IT effectiveness during restructure process</li> </ul>	IT strategy further developed	IT strategy further developed		
	9.03 Ensure efficient and effective operation of HGCA Ltd	<ul style="list-style-type: none"> <li>further develop provision of timely &amp; comprehensive financial / management information</li> <li>maintain efficient operating office, internal communications and HR services</li> <li>recruit, retain and develop a highly flexible team</li> <li>ensure key operating systems and processes run cost effectively</li> </ul>	HGCA operations are effective & efficient	HGCA operations are effective & efficient		
<b>Input resource (£'000)</b>		<b>2,072</b>	tbc	tbc		
<b>TOTAL INPUT RESOURCE FOR YEAR (£'000)</b>		<b>11,292</b>	<b>11,154</b>	<b>11,261</b>		

## Financial statement

### HGCA Ltd - Income and Expenditure Accounts - 3 year projections

Figures in £'000's	<u>Budget</u>	<u>Projection</u>	<u>Projection</u>
	<u>08/09</u>	<u>09/10</u>	<u>10/11</u>
Levy Income	9,782	10,213	10,347
Other Income	656	585	566
<b>Total income</b>	<u>10,438</u>	<u>10,798</u>	<u>10,913</u>
<b>Expenditure by Strategy</b>			
1 - Levy Boards Reorganisation	57		
2 - Market Opportunities	1,120		
3 - New Markets	1,547		
4 - Market Needs	5,404		
5 - Market Volatility	228		
6 - Healthy Diet	865		
7-9 - Operations	2,037		
<b>Total expenditure</b>	<u>11,258</u>	<u>11,123</u>	<u>11,231</u>
<b>Operating surplus/(deficit) for the period before tax</b>	(820)	(325)	(318)
<b>UK Corporation Tax</b>	<u>(34)</u>	<u>(31)</u>	<u>(30)</u>
<b>Net surplus/(deficit) for the period after tax</b>	(854)	(356)	(348)
<b>Equity Investment gain</b>	-	-	-
<b>Reserves brought forward</b>	<u>7,640</u>	<u>6,786</u>	<u>6,430</u>
<b>Reserves carried forward</b>	6,786	6,430	6,082

#### **Levy rates used above (pence per tonne - excl VAT):-**

Cereal Growers	40.00	40.00	40.00
Cereals Dealers	3.30	3.30	3.30
Cereals Dealers Commission %	5%	5%	5%
Effective Dealer/Grower Levy rate	<u>41.135</u>	<u>41.135</u>	<u>41.135</u>
Processors - Feed	4.00	4.00	4.00
Processors - Other	8.25	8.25	8.25
Oilseeds	65.00	65.00	65.00

**HORTICULTURAL  
DEVELOPMENT COMPANY LTD.  
SECTOR PLAN**



## **Foreword**

The following pages contain the proposed business plan covering 2008 for the Horticultural Development Company Ltd (HDCL), with financial projections until 2011. This business plan is the first to be associated with the new board of HDCL and comes as a result of the 'Fresh Start' which the Radcliffe report recommended.

Obviously much of the preparation leading to this plan had been set in train by the existing HDC organisation. We would like to acknowledge with thanks the work of the Council Chairman and executive over the years and particularly their continued support and work up until the transition date, 1<sup>st</sup> April 2008.

The existing plan includes a SWOT analysis which is divided between internal and external factors which may or may not influence our industry. This is very much a first take from the new board and will no doubt need refining during 2008.

The objectives are based on those previously defined by the council but take into account the changing business climate of the AHDB and the work with other sector companies. During 2008, we the new board of HDCL will be engaging with the levy payers, science providers, government bodies and NGO's to provide a thorough review of all objectives for subsequent years, especially in the light of AHDB developments.

As far as it is possible to forecast the intension is that the levy will remain at 0.5% based on turnover and we will attempt to seamlessly provide the level of services the levy payers expect throughout the transition in 2008/09. We very much look forwards to working with the HDC executive in providing the services to you all throughout 2008 and beyond.

Neil Bragg  
Chair designate – Horticultural Development Company Ltd.

## Market Overview

### Crop Areas

#### Notes

- Horticulture sector is diverse with over 300 main crops.
- Access to good supplies of reasonably priced water is essential.
- Field crops are more affected by weather than other parts of agriculture – waste occurs if crops either bolt or do not grow fast enough.

#### **Main sector panel groupings:**

	%HDC income
• Bulbs and outdoor flowers.	3
• Field vegetables e.g. herbs, brassicas, legumes, salad, alliums (onion, leek etc.), curcubit (cucumber, melon squash), umbellifers (carrot, celery etc.).	30
• Hardy nursery stock e.g. shrubs, trees, hedging climbers, alpiners, waterplants	15
• Protected crops e.g. celery, cucumbers, lettuce, herbs, peppers, tomatoes, other, pot and bedding plants, ornamental.	30
• Soft fruit e.g. strawberries, raspberries, other.	9
• Tree fruit e.g. plums, cherries, other (inc apples and pears)	6
• Mushrooms	4

#### UK crop areas

000 hectares	Average 1994-96	2005	2005	2006
Vegetables grown in open *	130	121	<i>121</i>	<i>119</i>
Orchard fruit (inc non commercial orchards)	30	23	<i>23</i>	<i>23</i>
Soft fruit (inc wine grapes)	13	9	<i>9</i>	<i>10</i>
Plants and flowers	14	14	<i>14</i>	<i>12</i>
Glasshouse crops	2	2	<i>2</i>	<i>2</i>

Note: \* excluding peas for harvesting dry and field beans

In italic - Revised estimates for 2005 and new for 2006, from Defra Agriculture in UK 2006  
Source: Defra Agriculture in UK

## **Number of Commercial Growers**

### ***Registered with HDC:***

- General - 1821
- Apple and pear - 395
- Mushroom - 27

(In addition 682 growers were required to register but not to pay levy, and a further 114 were under surveillance).

***Horticulture holdings UK 2004*** 11,200 (GB – 10,900)\*

\*of which 7,100 were under 40 ESU

Source: Defra Agriculture in UK 2006 (Tb 3.7)

### **Trends**

- Soft fruit has declined on 10 years but in recent years been a steadily growing sector (e.g. polytunnel strawberries – protected rather than field)
- Orchard fruit areas have declined over 10 years
- Field vegetable areas have declined 7% over 10 years, but have increased slightly since 2001.
- Protected crop areas have fallen but with crops showing different trends e.g. tomatoes increasing, certain types of lettuce falling.

## **Supplies and Disposals UK**

### **Field vegetables and protected crops**

<b>000 tonnes</b>	<b>Av 1994-96*</b>	<b>2005</b>	<b>Of which EU</b>	<b>2005</b>	<b>2006</b>
Production	3,014	2,627		<i>2,686</i>	<i>2,564</i>
Imports (inc Channel Isles)	1,615	1,876	88%	<i>1,948</i>	<i>1,705</i> <i>(88%)</i>
Exports	295	89	66%	<i>88</i>	<i>71</i>
Supplies moving into consumption	4,335	4,414		<i>4,547</i>	<i>4,198</i>

Note - \* in 1993, it was estimated by HDC, that the share of the market was:

Fresh - 76.0%  
Frozen - 14.0%  
Dried - 0.5%  
Canned - 9.5%

In italic - Revised estimates for 2005 and new for 2006, from Defra Agriculture in UK 2006

Source: Defra Agriculture in UK

**Plants and flowers – in value only:**

£ million	Av 1994-96	2005	2005	2006
Production	638	781*	778	774
Imports	441	873 **	869	817
Exports	34	48	44	47

Notes:

\*Of which value of :

Flowers and bulbs in open £33 million (£33 million)

Hardy plants and flowers nursery stock £473 million (£473 million)

Protected crops £275 million (£272 million)

\*\* Of which cut flowers represented 60% of the total value of imports

In italic - Revised estimates for 2005 and new for 2006, from Defra Agriculture in UK 2006

Source: Defra Agriculture in UK

**Fresh fruit**

000 tonnes	Av 1994-96*	2005	Of which EU	2005	2006
Production	396**	352		360	384
Imports (inc Channel Isles)	2,490	3,336	38%	3,304	3,194 (37%)
Exports	75	99	99%	120	139 (99%)
Supplies moving into consumption	2,812	3,589		3,534	3,405

Note- \* in 1993, it was estimated by HDC, that the share of the market was:

Fresh -88%

Dried - 4%

Canned - 8%

\*\* - of which apples accounted for about 69%

In italic - Revised estimates for 2005 and new for 2006, from Defra Agriculture in UK 2006

Source: Defra Agriculture in UK

**Value of farm output – UK 2005 (1994/96) 2005 2006**

Field vegetables - £762,000,000 (708) 662 729

Protected crops - £240,000,000 (338) 242 257

*selected crops £m:*

*cabbages* - £ 60 ( 73) 58 56

*carrots* - £163 ( 96) 95 88

*cauliflowers* - £ 48 ( 64) 45 48

*lettuces* - £ 83 (123) 84 103

*peas* - £ 41 ( 61) 40 38

*tomatoes* - £ 69 ( 75) 69 83

<i>mushrooms</i>		(167)	104	99
Plants and flowers	- £781,000,000	(638)	778	744
Orchard fruit	- £108,000,000	(125)	115	144
Soft fruit	- £213,000,000	(136)	235	201

Total - £2,104 m(of which Northern Ireland = 0.3%)

**(Note - as a comparison the value of farm output for finished cattle and sheep in England was £880 million and pigs £514 million)**

In italic - Revised estimates for 2005 and new for 2006, from Defra Agriculture in UK 2006

Source: Defra Agriculture in UK

## Trends

- The vegetable market has seen a gradual growth in recent years, although the overall picture conceals significant changes in the balance between the different products offered.
- The market for traditional fruit and vegetables (e.g. roots, brassicas and apples) have lost market share to salad vegetables, 'Mediterranean' vegetables and exotics.
- The value of the soft fruit market has increased by 68% since 2001.
- The value of the mushroom crop has fallen steadily over 10 years with the industry facing downward pressure on prices and strong competition from abroad.
- Over 10 years the production of vegetables (field and protected) has declined while imports have increased; in recent years there has been a marked increase in the import of out of season green vegetables from outside of the EU.
- The imports of plants and flowers by value has increased faster than that of home production over the past 10 years and overtaken it in value.
- The production of fresh fruit (orchard and soft fruit) has declined in the past 10 years; while imports have increased. Imported fruit accounts for 92% of supplies moving into consumption, but this is largely product that is difficult/uneconomic to grow in the UK.

## Consumption Details

### UK Household Purchases

grams per person per week	1994	2004/5
Fresh green vegetables	254	225
<i>Of which</i>		
<i>cabbages</i>	67	45
<i>cauliflowers</i>	89	72
Other fresh vegetables	480	536
<i>Of which</i>		

<i>carrots</i>	118	104
<i>Onions, leeks, shallots</i>	94	102
Frozen vegetables	121	66
Other (mainly processed)	306	279
Total vegetables (excl potatoes)	1161	1106
Fresh fruit	665	805
<i>Of which apples</i>	186	173
Juices and other fruit product	373	363
Total fruit	1039	1168

Source: Defra Expenditure and Food Survey

## Trends

- Overall vegetable consumption has declined slightly in the 10 years since 1994, but there have been significantly different movements between sectors e.g. with the consumption of what were the more unusual varieties of fresh vegetables increasing, such as broccoli.
- Fruit consumption has steadily increased, although some sectors have benefited at the expense of others e.g. apples have declined, while bananas have increased.

## Market Notes

- Until recent years the fruit and vegetable sector was the least involved in all sectors in processing, with consumption predominantly in a fresh form rather than processed, although there have long been some notable exceptions in specific sub sectors e.g. peas for freezing, fruit for jams and compotes ( a sector which has declined in recent years).
- In recent years there has been a significant growth in prepared fruit and vegetable cutting/slicing, cleaning and packing (e.g. ready to eat salad, peeled potatoes), largely for sale in supermarkets, in response to the need for more 'convenience foods'. There has also been a considerable growth in the production of and the market for fruit juices.
- As with other food sectors the most significant change in the marketing and distribution of fresh fruit and vegetables has been the growth in the market share of supermarkets. This trade has by-passed the wholesale produce markets in favour of direct purchasing from growers or from specialist distribution companies such as **Geest** and **Saphir**. Cool chain distribution is needed to ensure that quality specifications are met. The sector is much closer to the market than other sectors and active participants in QA schemes.
- Fruit and vegetables have also led the way with the growing 'alternative' marketing sector i.e. direct sale from growers - farmers markets, farm shops, box delivery schemes, particularly in the niche (e.g. organic) sectors.

## **Profitability**

### **Trends farm gate prices- selected crops**

£ tonne	Average 1994 -96	2005	<i>2005</i>	<i>2006</i>
Cauliflowers	251.0	369.8	<i>344.6</i>	<i>363.1</i>
Tomatoes	670.9	868.9	<i>871.4</i>	<i>993.1</i>
Desert apples	430.5	357.3	<i>401.9</i>	<i>607.5</i>
Culinary apples	254.6	259.1	<i>350.8</i>	<i>355.9</i>

Note: Average prices fluctuate widely during the year

In italic - Revised estimates for 2005 and new for 2006, from Defra Agri in UK 2006 – note the latest figures for desert apple prices seem to show a significant increase. The increase in prices for culinary apples is put down to an increase in demand for cider apples

Source: Defra Agriculture in UK

### **Emerging Issues**

- Increasing problems with regard to requirements for local authority planning approval for polytunnels.

## SWOT analysis for HDC Ltd Nov 2007

### Strengths:

		Rank
Sound Leadership	IN	1
Good track record	IN	2
Sound Financial Policy	IN	3
Sound Technical Management	IN	4
Economic operating Structure	IN	5
Well Connected with R&D base	EX	6
Publications	EX/IN	7
TT events	IN	8
Panel Structure	IN	9
Small no: core staff	IN	10

### Weaknesses

		Rank
Increasing bureaucracy	EX/IN	1
Clarity of its role within industry	IN	2
Too small a staff	IN	3
e-access/mobile connectivity for the executive	IN	4
Too many tasks	IN	5
Low customer perception	IN	6
Questionable good value for growers	EX	7
Lack of engagement in regions	IN	8
Lack of respect throughout the industry	EX	9
Geographic base	EX	10

### Opportunities

		Rank
Raising the profile and promoting success	IN	1
Links with international & EU R&D facilities	EX	2
Promotional opportunities	EX	2
To convince levy payers of good value	IN	2
Devolved leadership in industry	EX	5
Training new entrants to the industry	EX	6
New crop developments for changing climate	EX	7
Packaging reduction and quality issues	EX	8
Inputs to colleges	IN	8
Use of R&D for TT events	IN	10

### Threats

		Rank
Loss of key staff	IN	1
Loss of key scientists	EX	2
Reduction in R&D facilities	EX	3
Declining Levy input	EX	3
General apathy throughout the industry	EX	5
Fewer businesses, but larger players	EX	6
Increasing regulations	EX	7
Increasing costs of SOLA's	EX	8
Lack of new blood in the industry	EX	8
Lack of customer confidence	IN	10

Note: IN = internal & EX = external



## **Aim and Strategy Objectives**

### **Aim**

The Horticultural Development Company's aim is: "To serve British growers by being a top class, efficient and progressive facilitator of near-market horticultural research and development and the associated technology transfer. It should provide clear value for money and be respected as making a major contribution to the profitability of the British horticultural industry."

### **Objectives**

In order to achieve our aims the HDC has the following strategy objectives covering the area of our responsibilities:

- 1 Within the levy budget, identify the most profit enhancing issues and commission relevant R&D, taking account of the varying needs of individual sectors, whilst accepting that each sector requires to be mindful of the following overriding strategies for HDC; Reducing costs of production, Minimising impact on the environment, Meeting the needs of the consumer, Sustainable crop protection.
- 2 Actively work with the Department for Environment, Food and Rural Affairs (Defra), the Scottish Executive Environment and Rural Affairs Department (SEERAD) and other funding bodies in such a way as to maximise the overall amount and relevance of horticultural research and development. Additionally where applicable, to develop cross company initiatives under the new AHDB structure where there is likely to be mutual benefit to all parties.
- 3 Establish and maintain two-way communications with growers to ensure that all HDC and other funded research and development is put into profitable practice wherever relevant, taking due account of the disparate needs of the industry, and where appropriate giving best practice by interactions with the other new companies under AHDB
- 4 Where specifically identified as being appropriate, both internally and under the AHDB structure, sponsor targeted market research and product promotional activities.
- 5 In association with AHDB actively manage the levy collection process and ensure maximum levy collection.
- 6 Contribute to the overall change process under AHDB to ensure that Horticultural levy payers benefit from enhanced delivery of services, reduced administration costs and efficiencies therein.

These objectives have been further broken down in targeted plans as follows:

## Research and Development

- 1. Objective - Within the levy budget, identify the most profit enhancing issues and commission relevant R&D, taking account of the varying needs of individual sectors, whilst accepting that each sector requires to be mindful of the following overriding strategies for HDC; Reducing costs of production, Minimising impact on the environment, Meeting the needs of the consumer, Sustainable crop protection.**

### Targets

- 1.1 Maintain and develop effective sector strategies, which should embrace water, waste, energy and labour.
- 1.2 Building on the cross panel review of new crop opportunities for growers develop R&D strategies for each sector.
- 1.3 Ensure that the organic research programme is adequately addressed.
- 1.4 Water – Finalise and publish sector specific water use efficiency and quality strategies and implement associated R&D programme. Continue to develop a programme of R&D which addresses the diffuse pollution (inc nitrogen, phosphorus and pesticides) issues for horticulture.  
Develop a science led risk management programme for microbial contamination in ready to eat crops (salads, soft fruit and herbs).
- 1.5 Waste – Develop best practice for handling green waste including the evaluation of nitrogen effects. Identify gaps in green waste handling not identified by WRAP.
- 1.6 Energy/Emissions – Contribute to the debate on Carbon Footprinting, ensuring that growers are adequately informed and guided.
- 1.7 Continue to develop IPM strategies to address existing and new pests and diseases.
- 1.8 Continue to maintain and adapt the SOLA programme to ensure growers have adequate chemical and biological crop protection products, particularly against the back-drop of the EU pesticide reviews and ongoing Government and public concerns.
- 1.9 Ensure the cost effective transition of Long Term Arrangements for the Extension of Use (LTAEU) for Ornamental non-edible crops.
- 1.10 Contribute to a horticultural and agricultural review of the UK contractor base.

- 1.11 Identify new contractors within the UK, Europe and Overseas for (i) plant science research in order to maintain an adequate skills base and (ii) non-plant science disciplines (e.g. labour, IT).

- 2 **Objective - Actively work with the Department for Environment, Food and Rural Affairs (Defra), the Scottish Executive Environment and Rural Affairs Department (SEERAD) and other funding bodies in such a way as to maximise the overall amount and relevance of horticultural research and development. Additionally where applicable, to develop cross company initiatives under the new AHDB structure where there is likely to be mutual benefit to all parties.**

#### **Target**

- 2.1 Increase the proportion of complementary funding from government and other sources to supplement the levy contribution to horticultural research.
- 2.2 Work with Defra/Environment Agency/Levy companies to obtain funding for the diffuse pollution programme.
- 2.3 Obtain funding from the Carbon Trust to establish a programme of grower energy audits.
- 2.4 Identify collaborative research opportunities in Europe.

#### **Communications**

- 3 **Objective - Establish and maintain two-way communications with growers to ensure that all HDC and other funded research and development is put into profitable practice wherever relevant, taking due account of the disparate needs of the industry, and where appropriate giving best practice by interactions with the other new companies under AHDB.**

#### **Targets**

- 3.1 Continue to deliver HDC and other R&D results in a timely and effective manner in a format that is clear, simple to understand and that can be readily adopted.
- 3.2 Develop the use of electronic communications further to improve service and speed of delivery to levy payers.
- 3.3 Maintain and develop effective communications strategies.
- 3.4 Strengthen the technology transfer aspects of the research programme to improve the uptake/adoption by growers.
- 3.5 Improve financial clarity of research projects to assist uptake.

- 3.6 Actively work with other funding bodies in such a way as to maximise the overall amount and relevance of communications activities.
- 3.7 Introduce a programme to identify and translate relevant technical publications from overseas.
- 3.8 With others work with Defra to assist in a series of waste technology transfer events to equip growers to comply with the new waste regulations.

## Promotion

- 4 **Objective – Where specifically identified as being appropriate, both internally and under the AHDB structure, sponsor targeted market research and product promotional activities.**

### Targets

- 4.1 Continue to work with on-going promotional projects within the edibles sector to ensure development and expansion of the market for growers.
- 4.2 Continue the current health/nutrition benefits campaign managed by CCD.
- 4.3 Identify sector opportunities to help guide Grower Associations' promotional activity.
- 4.4 Work with the NFU and other organisations to promote the Year of Farming and Food.

## Levy Management / Finance and Administration

- 5 **Objective - In association with AHDB actively manage the levy collection process and ensure maximum levy collection.**

### Targets

- 5.1 Ensure the new levy system is seen by the majority of growers as simple and equitable.
- 5.2 Clearly communicate to growers how the new levy systems works and the revised requirements for making returns and payments
- 5.3 Reduce levy avoidance

- 6 Objective - Contribute to the overall change process under AHDB to ensure that Horticultural levy payers benefit from enhanced delivery of services, reduced administration costs and efficiencies therein.**

**Targets**

- 6.1 Ensure the HDC has an effective outcome from the Levy Board reform process for growers.
- 6.2 In real terms ensure on-going internal costs are maintained at current levels without diminishing effectiveness and focus during the transition.
- 6.3 Maximise benefits from the new computer system
- 6.4 Review the Risk Management strategy
- 6.5 Ensure adequate governance procedures are in place.
- 6.6 Ensure incentives are in place to retain key staff and ongoing functions during the transition.

In implementing these strategies there are potential risks that could frustrate their delivery. These are identified below with predicted consequences if left unchecked and mitigating controls and responses.

**Objective 1: Within the levy budget, identify the most profit enhancing issues and commission relevant R&D, taking account of the varying needs of individual sectors, whilst accepting that each sector requires to be mindful of the following overriding strategies for HDC; Reducing costs of production, Minimising impact on the environment, Meeting the needs of the consumer, Sustainable crop protection.**

Ranking	Risk	Likelihood	Impact	Consequence	Control	Response /Action	
H	Availability of research contractors/decline in research base	H	M	Inability to adequately undertake core functions		Investigate other contractors (outside UK)	RF
M	Poor value for money from research activities	L	M	Damage to HDC reputation	Project commissioning and monitoring systems in place	Customer surveys	RF
M	Failure to address industry needs	M	M	Loss of credibility	Research strategy regularly reviewed by sector panels and industry bodies in place	Customer surveys	RF
M	Research duplicates previously published work	M	M	Poor value for money. Damage to reputation	Close liaison with other research sponsoring bodies and industry experts at commissioning stage		RF
M	Failure to react to key industry crisis	L	M	Loss of credibility and reputation	Close working relationship between the HDC and industry bodies.	CEO to interact more with grower groups	MB

**Objective 2: Actively work with the Department for Environment, Food and Rural Affairs (Defra), the Scottish Executive Environment and Rural Affairs Department (SEERAD) and other funding bodies in such a way as to maximise the overall amount and relevance of horticultural research and development. Additionally where applicable, to develop cross company initiatives under the new AHDB structure where there is likely to be mutual benefit to all parties.**

Ranking	Risk	Likelihood	Impact	Consequence	Control	Response/Action	
M	Insufficient match funds available	L	M	Failure to be able to continue a large part of the research programme	Meeting of all dept's to assure good understanding of policies and changes in strategies		MB
M	AHDB Strategy	M	M	Change in overall aims of levy bodies	CEO's liaison group meetings from sector companies		MB

**Objective 3: Establish and maintain two-way communications with growers to ensure that all HDC and other funded research and development is put into profitable practice wherever relevant, taking due account of the disparate needs of the industry, and where appropriate giving best practice by interactions with the other new companies under AHDB.**

Ranking	Risk	Likelihood	Impact	Consequence	Control	Response/Action	
M	Inadvertent publication of incorrect or misleading data or information	L	M	Criticism and damage to reputation. Possible legal action	Authorisation/proof reading systems in place		MB
M	Failure to communicate results of research to growers	M	L	Loss of credibility and reputation, and failure to deliver value for money	Regular review meetings and spreadsheet of 'in progress' works	Technology transfer strategy to continue to be developed	RN/ MB

**Objective 4: Where specifically identified as being appropriate, both internally and under the AHDB structure, sponsor targeted market research and product promotional activities.**

Ranking	Risk	Likelihood	Impact	Consequence	Control	Response/Action	
<b>M</b>	Activities contravene EU state aid requirements	L	M	Legal problems, demand for cessation of activity	Close co-ordination with Defra state aid lawyers.		MB
<b>M</b>	Insufficient opportunities to develop activities identified	M	L	Failure to meet objective	Regular assessment of staff workloads	Close liaison with appropriate industry marketing bodies	MB
<b>M</b>	Poor value for money from promotional activities	L	M	Loss of credibility and reputation	Project monitoring in place to ensure accountability for expenditure		MB

**Objective 5: In association with AHDB actively manage the levy collection process and ensure maximum levy collection.**

Ranking	Risk	Likelihood	Impact	Consequence	Control	Response/Action	
<b>M</b>	Failure to collect all levy due	H	VL	Loss of revenue	All legal measures followed		MB
<b>L</b>	Failure to respond to levy payer complaints	L	L	Loss of credibility, failure to meet service requirements	Meeting with cropping associations and trade organisations	Have set policy for dealing with customer comments and responses to them	MB/ RN/ IB



**Objective 6: Contribute to the overall change process under AHDB to ensure that Horticultural levy payers benefit from enhanced delivery of services, reduced administration costs and efficiencies therein.**

Ranking	Risk	Likelihood	Impact	Consequence	Control	Response/Action	
H	Negative vote on sector Company	M	H	Major loss of part of Board	Engage with all levy payers to ensure they are fully aware of progress	Production of newsletters and arrange meetings	JB/ KR plus Directors

#### Management and Control Systems

Ranking	Risk	Likelihood	Impact	Consequence	Control	Response/Action	
L	Loss of Chairman	VL	M	Interruption of service provision		Identify vice chairman	MB
L	Loss of key Council members	L	L	Interruption of service provision	None	Chairman to cover	MB
H	Loss of key staff	H	M	Serious interruption of service. Potential damage to reputation	Effective management and motivation. Competitive remuneration packages		MB
M	Fraud/Failure of financial controls	VL	H	Loss of funds and credibility	Regularly audited procedures and controls in place		MB
L	Failure to set adequate insurance levels	VL	M	Loss of money/assets	Annual review of insurance provision		MB

<b>M</b>	Failure of IT/Accounting systems	L	H	Loss of information. Disruption to service			MB
<b>L</b>	Poor IT security	VL	M	Loss of information. Failure/corruption of systems	Password control system		MB
<b>M</b>	Damage to IT systems (virus)	L	M	Loss of information. Failure/corruption of systems	Firewall, virus defence		MB
<b>M</b>	Web site failure	L	M	Interruption of service. Potential damage to reputation	Use of reputable ISP		MB
<b>L</b>	Breach of confidentiality	VL	M	Possible legal action. Loss of credibility			MB
<b>L</b>	Failure to secure building	VL	M	Theft, damage to property	Security system		MB
<b>M</b>	Fire	VL	H	Damage to property. Severe disruption to service	Fire detection system Disaster recovery plan	Review disaster recovery plan	MB
<b>M</b>	Failure of key equipment	M	L	Disruption to service	Maintenance contracts in place Provision for alternative arrangements in place		MB

## Financial Statement

The table below sets out the Council's performance during the last corporate plan together with a forecast for the Board for the next three years.

	Period ended 31 March				
	Actual 2007 £	Forecast 2008 £	Forecast 2009 £	Forecast 2010 £	Forecast 2011
<b>Income</b>					
Levy income	4,886,316	4,851,400	4,437,500	4,675,500	4,750,000
Other contributions	68,589	87,500	55,000	80,000	80,000
Other Income	180,996	150,000	165,000	120,000	120,000
<b>Total Income</b>	<b>5,135,901</b>	<b>5,088,900</b>	<b>4,657,500</b>	<b>4,875,500</b>	<b>4,950,000</b>
<b>Expenditure</b>					
Horticultural research	4,529,797	4,185,000	3,434,700	3,240,000	3,245,000
Promotion *	229,982				
Communications	573,094	500,000	500,000	525,000	550,000
<b>Direct Costs</b>	<b>5,332,873</b>	<b>4,478,800</b>	<b>3,934,700</b>	<b>3,765,000</b>	<b>3,795,000</b>
Research Mgmt	642,643	639,300	702,700	732,200	762,600
Administration	279,423	349,700	338,500	352,800	367,400
<b>Indirect Costs</b>	<b>922,066</b>	<b>989,000</b>	<b>1,041,200</b>	<b>1,085,000</b>	<b>1,130,000</b>
<b>AHDB Management</b>			?	?	?
<b>Total Expenditure</b>	<b>6,254,939</b>	<b>5,467,800</b>	<b>4,975,900</b>	<b>4,850,000</b>	<b>4,925,000</b>
(Deficit)/Surplus before and after taxation	(1,119,038)	(378,900)	(318,400)	25,500	25,000
Retained surplus b/fwd	2,799,050	1,680,012	1,301,112	982,712	1,008,212
<b>Retained surplus c/fwd</b>	<b><u>1,680,012</u></b>	<b><u>1,301,112</u></b>	<b><u>982,712</u></b>	<b><u>1,008,212</u></b>	<b><u>1,033,212</u></b>
<b>Reserve Analysis</b>					
General Reserve	750,000	750,000	750,000	750,000	750,000
Research Reserve	930,012	551,112	232,712	258,212	283,212
Research Commitments at 31 Oct 2007		4,156,600	2,418,750	1,212,700	356,975

\* - Promotion costs for future years are incorporated in horticultural research

# **POTATO COUNCIL LIMITED SECTOR PLAN**

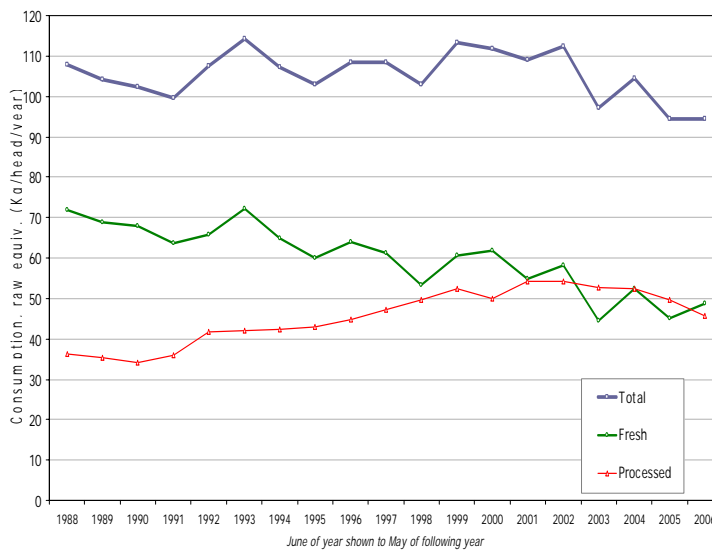
# Potato Council Limited Corporate Plan 2008 to 2011

## Introduction – Overview of the Potato Sector

### Demand

- + £3 billion market at consumer level. £742 million at farm gate.
- Per capita consumption is falling.
- Retail price (particularly for fresh) is on an upward trend.
- 50/50 fresh v processed and 50/50 in-home v out-of-home consumption approximately.
- Imports increasing (mostly for processing)
- Key exporter of high quality seed.

Per capita consumption in GB 1988-2006

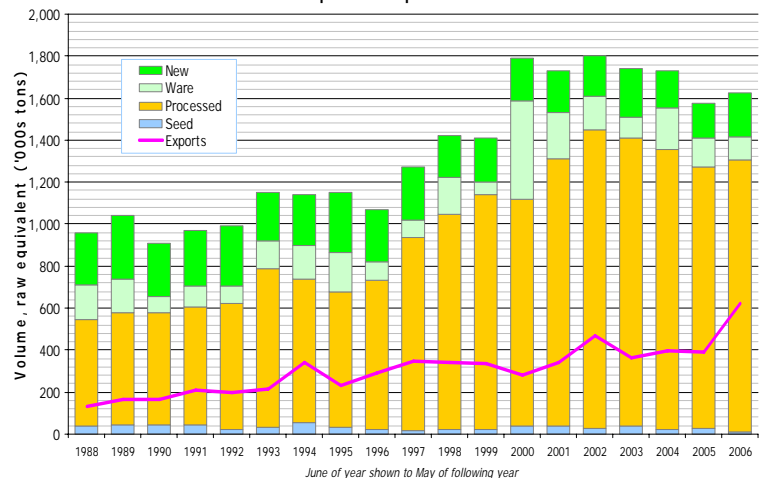


◀ Per capita consumption (as raw equivalent) is around 94kg/head/year.

Imports have risen steadily ▶ since 1998, and have approximately doubled over the period.

Total exports are around 25% of total imports by volume.

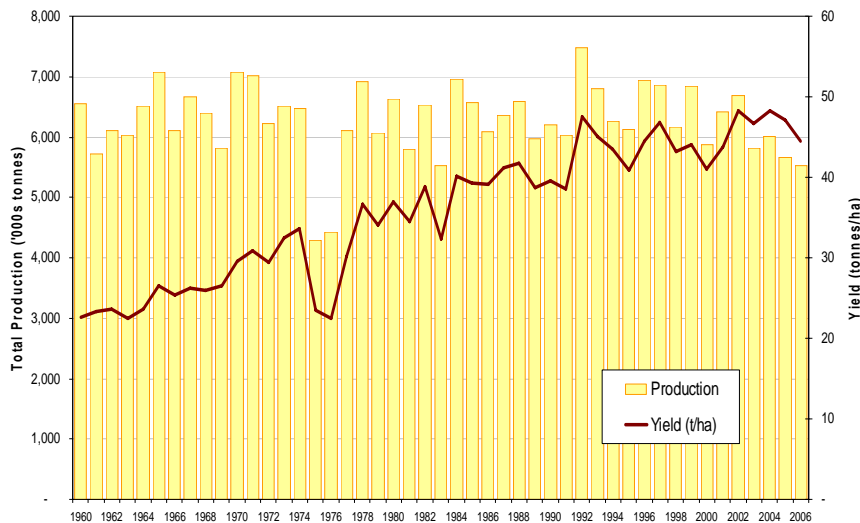
GB Imports and Exports 1988-2006



## Supply

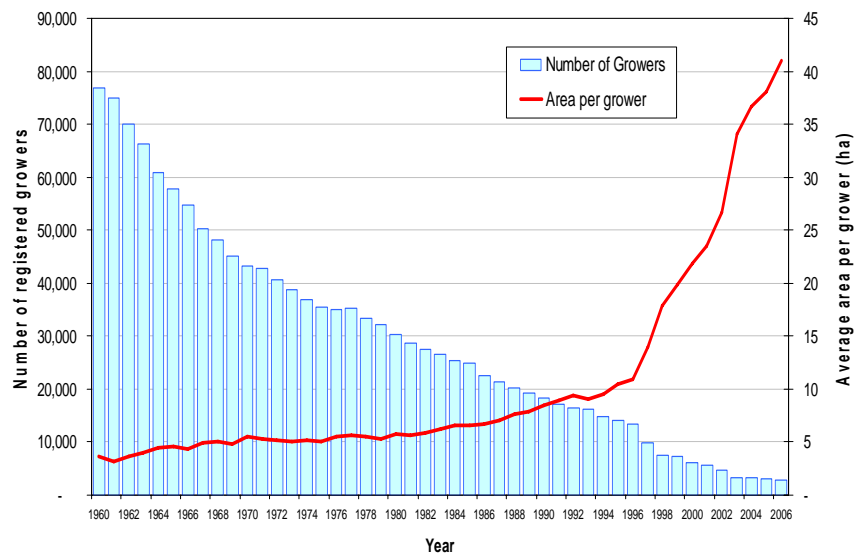
- Free market (outside CAP regime).
- Overall production stable (6.3mt), but from fewer hectares and dramatically fewer growers (down 72% in 10 years).
- Potato growers are increasingly specialist and integrated into dedicated supply chains.
- Potato production is a capital intensive, high-risk operation.
- The impact of higher commodity prices may have a knock on effect to the potato sector.

Total production of Potatoes in GB 1960-2006



◀ Overall production is relatively stable (though weather/season dependent). Yields per hectare have doubled since 1960.

Registered Potato Growers in GB 1960-2006



The number of registered growers declined from 77,000 in 1960 to 29,888 in 2007.

Increasingly growers are highly specialized and integrated into dedicated supply chains.

De-regulation in 1996 resulted in a sharp increase in average potato area per grower.

## Levy Payers

- 2988 Growers and 410 purchasers
- Levies are paid on the area planted (£39/hectare) and tonnes purchased (17p/tonne)
- Under PCL grower co-operatives are exempt from paying levy
- Levy income was £5.76m in 2005/6, £5.86m in 2006/7 and is expected to be £4.54m in 2007/8 (9 months – £6.05m full year equivalent)
- Average expenditure over the last 3 years has been £6.3m, due to additional income from non-levy sources and a drawing down of reserves.

## New Sector Company Board

<p><b>Dr Janet Bainbridge OBE (Chair)</b> Career Scientist, having held a number of senior academic, business and advisory posts. Member of BPC board.</p>	<p><b>Tony Bambridge</b> Grows 240 hectares of potatoes – seed and ware for processing and pre-pack.</p>
<p><b>Colin Bradley</b> Grows 325 hectares of potatoes and runs a small processing plant. Member of BPC board.</p>	<p><b>Jim Cruickshank OBE</b> Grows 120 hectares of high grade, seed potatoes.</p>
<p><b>Rob Doig</b> Grower and director of business which markets 20,000 tonnes of seed potatoes annually. Member of BPC board.</p>	<p><b>Graham Nichols</b> Grows 82 hectares of predominantly seed potatoes. Chairman of NFU Potatoes' Committee.</p>
<p><b>Tim Papworth</b> Director of a contract farming business – Grows 182 hectares, plus 61 hectares under contract, to crisp, chip, processing, ware and salad sectors.</p>	<p><b>David Rankin</b> General Manager for Greenvale AP Seed Division.</p>
<p><b>Fraser Scott</b> Manager at co-operative farms, responsibilities include potato pack houses and developing products to be sold through co-operative retail stores. Member of BPC board.</p>	<p><b>Alex Stephens</b> Grows 40 hectares of potatoes for pre-pack and processing markets. Member of BPC board.</p>
<p><b>Nick Tapp</b> MD of St Nicholas Court Farms, who pack potatoes for Tesco and others.</p>	<p><b>Nick Vermont</b> CEO of McCain Foods (GB, South Africa, Eastern Europe, and PAS) Member of BPC board.</p>
<p><b>Duncan Worth</b> MD of diverse family business involved in growing and packing potatoes, plus selling seed.</p>	<p><b>Fiona Fell</b> Independent Member Has a portfolio of agriculture and research related activities, and is a non-practising vet.</p>

**Dennis Heywood**

Independent Member

Holds a number of non-executive posts and has a broad background in finance and sales and marketing, after running a number of successful businesses.



<b>S W O T ANALYSIS</b>	
<b>STRENGTHS</b>	<b>WEAKNESSES</b>
<p><b>Industry Structure</b></p> <ul style="list-style-type: none"> <li>▪ Highly integrated and rationalised industry               <ul style="list-style-type: none"> <li>- area per grower has increased by 72% in ten years.</li> </ul> </li> <li>▪ Production is stable.</li> <li>▪ Specialised growers work with specialist buyers, particularly in the fresh and processed sector               <ul style="list-style-type: none"> <li>- 74.1% of crop is grown on pre-season contract or to a committed buyer.</li> </ul> </li> <li>▪ Industry has invested heavily.</li> <li>▪ Communications are generally good with significant co-operation on overarching issues eg pesticide residues, quarantine diseases (see industry body)</li> <li>▪ UK Sector is at world lead in environmental sustainability</li> </ul>	<p><b>Growers and Supply chain</b></p> <ul style="list-style-type: none"> <li>▪ Grower base can be risk averse.</li> <li>▪ Huge variance between top 20% of growers and others.</li> <li>▪ Older age profile of industry at upper end across all areas eg growers, supply chain, science base.</li> <li>▪ Shortage of promotional and marketing expertise with industry.</li> <li>▪ Low levels of NPD.</li> <li>▪ Issues with information flow:               <ul style="list-style-type: none"> <li>- industry failing to used known knowledge effectively.</li> <li>- lack of skilled personnel to deliver knowledge.</li> </ul> </li> <li>▪ Significant defects affect marketable yield, estimate £90 million loss pa, of which a third could be reduced by R&amp;D uptake leading to better practice.</li> </ul>
<p><b>Growers &amp; Supply Chain</b></p> <ul style="list-style-type: none"> <li>▪ Innovative and professional growers that are among the best in the world.</li> <li>▪ High GB specs. lead to quality production and significant expertise vis a vis EU/World competitors.</li> <li>▪ High adherence to protocols vis a vis EU/World competitors.</li> <li>▪ Industry responds quickly to consumer concerns eg processors on health issues.</li> </ul>	<p><b>Environment</b></p> <ul style="list-style-type: none"> <li>▪ Limited availability of landbank and of clean land (particular issues with PCN, soil pathogens such as Rhizoctonia.</li> <li>▪ High user of energy.</li> <li>▪ High user of pesticides.</li> </ul>
<p><b>Market</b></p> <ul style="list-style-type: none"> <li>▪ High value domestic Market               <ul style="list-style-type: none"> <li>- 2006 ex farm value £742 million.</li> <li>- 2005 consumers' value £3.041 billion (without consideration of multiplier effects, other economic benefits)</li> </ul> </li> <li>▪ GB retail environment probably the most sophisticated in the world.</li> <li>▪ Key exporter of high quality seed.</li> </ul>	<p><b>Financial</b></p> <ul style="list-style-type: none"> <li>▪ Retailer dominance has forced prices down especially at farm gate.</li> <li>▪ Significant increase in external costs eg energy and transport.</li> <li>▪ Price pressure has affected industry's ability to undertake capital investment.</li> <li>▪ Risk/reward relationship is out of balance.</li> <li>▪ Increased freight costs via sea or air will affect exports.</li> </ul>
<p><b>Product</b></p> <ul style="list-style-type: none"> <li>▪ Excellent product with high consumer penetration.</li> <li>▪ Versatile, great health profile, value for money.</li> <li>▪ Perceived as very "British" - matching current consumer trends.</li> </ul>	<p><b>Knowledge Gaps</b></p> <ul style="list-style-type: none"> <li>▪ There remains a general lack of understanding/knowledge of some diseases of critical importance eg PCN, Rhizoctonia, changing Blight populations, Powdery Scab.</li> </ul>
<p><b>Industry Bodies</b></p> <ul style="list-style-type: none"> <li>▪ BPC has had success in encouraging co-operation on overarching issues and communicating opportunities to improve competitiveness (85% satisfaction in fresh start survey - very high vis a vis other bodies)</li> <li>▪ Other organisations such as PPA (Potato Processors Association) and BPTA (British Potato Trade Association)</li> </ul>	<p><b>Product</b></p> <ul style="list-style-type: none"> <li>▪ Significant rise in imports, 31% since 1996 particularly in processed sector.</li> <li>▪ Per capita consumption reduced significantly since 2003.               <ul style="list-style-type: none"> <li>- 2003 108.6kg per person pa</li> <li>- 2005 94.7kg per person pa</li> </ul> </li> <li>▪ 'Traditional' product with age profile skewed to older consumers.</li> <li>▪ Misunderstanding of nutritional status of potato.</li> <li>▪ Significant competition from carbohydrate imports, rice and pasta especially amongst young people.</li> </ul>
<p><b>Other</b></p> <ul style="list-style-type: none"> <li>▪ Sector supported by a strong science base both strategic and applied.</li> <li>▪ Potatoes are an excellent break crop in the rotation.</li> <li>▪ GB's island status has safeguarded both the market and health status of the crop.</li> <li>▪ Favourable climate.</li> <li>▪ Limited number of young people entering industry but excellent career opportunities.</li> </ul>	<p><b>Other</b></p> <ul style="list-style-type: none"> <li>▪ Lack of new entrants to the industry:               <ul style="list-style-type: none"> <li>- growers due to cost of entry.</li> <li>- scientists due to lack of relevant courses and subsequent rewards.</li> <li>- other workers due to negative perception of status/benefit vis a vis alternative sectors.</li> </ul> </li> </ul>

## S W O T ANALYSIS

OPPORTUNITIES	THREATS
<p><b>Technology</b></p> <ul style="list-style-type: none"> <li>▪ Geonomics could offer step change in industry competitiveness.(Tide of opinion changing gradually).</li> <li>▪ Exploitation of technologies such as PCR diagnostics.</li> <li>▪ Improvements in food processing/cooking in factory and at home.</li> <li>▪ To improve understanding of critical issues eg PCN, Rhizoctonia, Blight populations, Powdery Scab.</li> <li>▪ Improvement in communication systems can offer opportunities</li> <li>▪ For industry to take on board 'known' knowledge.</li> </ul>	<p><b>Climate Change</b></p> <ul style="list-style-type: none"> <li>▪ Introduction of new pathogens.</li> <li>▪ Huge variance between top 20% of growers and others.</li> <li>▪ Increased virus pressure.</li> <li>▪ Increased wire worm population.</li> <li>▪ Adverse and unpredictable climatic conditions.</li> </ul>
<p><b>Market</b></p> <ul style="list-style-type: none"> <li>▪ Improved transport links offer export opportunities.</li> <li>▪ Potential new market in biofuels.</li> <li>▪ Option to link suppliers and customers.</li> <li>▪ Opportunity to supply ware market in EU as specifications increase (EU growers cannot yet fulfill.)</li> </ul>	<p><b>Legislation</b></p> <ul style="list-style-type: none"> <li>▪ On pesticides and the environment will limit their availability and the high cost of alternatives could affect production.</li> <li>▪ On water and soils will affect our ability to use current growing practices.</li> <li>▪ On labour could affect the availability of workers.</li> <li>▪ New environment legislation will affect fish and chip shops eg recycling fat.</li> <li>▪ On acrylamide could damage the fresh and food service sector(particularly fish&amp;chip shop).</li> </ul>
<p><b>Product</b></p> <ul style="list-style-type: none"> <li>▪ To overcome the misconceptions regarding versatility, convenience and healthiness of potatoes including benefits such as greater satiety.</li> <li>▪ Make use of new pack size legislation to give consumers what they want.</li> <li>▪ Greater NPD.</li> <li>▪ Exploit the 'Britishness' of potatoes.</li> <li>▪ Differentiate British product on quality grounds rather than price.</li> <li>▪ Develop more 'brands' for fresh potatoes to move away from generic supermarket branding.</li> </ul>	<p><b>Product/Consumer</b></p> <ul style="list-style-type: none"> <li>▪ Changing demographics and consumer behaviour.</li> <li>▪ Perception of potatoes (see weaknesses).</li> <li>▪ Imports (particularly from former Eastern block).</li> <li>▪ Consumer resistance to GM.</li> <li>▪ Negative media stories regarding potatoes.</li> </ul>
<p><b>Collaboration</b></p> <ul style="list-style-type: none"> <li>▪ Potential for significant cross sector linkages through AHDB.</li> <li>▪ PCL has opportunity to address sustainability from environmental and economic perspective.</li> <li>▪ International potato collaboration.</li> <li>▪ PCL has ability to deliver 'fresh start' and carry out significant industry consultation during 2008-2009 to ensure bottom-up delivery.</li> </ul>	<p><b>Research</b></p> <ul style="list-style-type: none"> <li>▪ Declining research base in UK.</li> <li>▪ Less crop specific information due to government policy.</li> <li>▪ Science on critical issues such as PCN, Rhizoctonia, Blight and Powdery Scab does not come through.</li> <li>▪ Lack of agronomists means existing knowledge is not communicated.</li> </ul>
	<p><b>Other</b></p> <ul style="list-style-type: none"> <li>▪ New levy board does not fulfill opportunities and valuable 'market failure' resource is lost.</li> <li>▪ Logistical issues cause export problems.</li> <li>▪ Increase ware production in Scotland impacts on clean land availability for seed.</li> <li>▪ High price of cereals and competition from other commodities impacts potato production.</li> <li>▪ Pressure on organic sector (ie Blight) may see growers move away from production.</li> <li>▪ Farm gate margins cause widespread concern.</li> </ul>

## Summary of Main Challenges from SWOT

### Imports

- Import volumes are significant and rising
- They are mainly from Europe and on price rather than quality
- Driven by imported processed products
- However, ware potatoes could follow

### Retail Structure

- Domination of retailers affects margin and ability to reinvest which affect the long term economic sustainability of the primary producer
- Potatoes in are in the RPI basket of goods but fresh potatoes are price inelastic
- Loyalty to British product is “variable” but the demand for “local” offers opportunities for the sector

### Government

- GB competitiveness is increasingly affected by the time and cost burden of compliance but industry demonstrates environmental sustainability
- There is a reduced investment in potato specific R&D
- Industry is a high user of energy and pesticides

### Demographics & Lifestyle

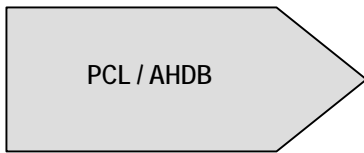
- Per capita potato consumption is falling
- The potato is seen as a traditional product
- It has an older customer profile
- Is not seen as quick/convenient
- Is not seen as inspirational for indulgent meals
- It faces significant challenge from rice and pasta

### Health

- Potatoes are a health food but these facts are not recognized by all consumers
- Diet fads and incorrect media reporting has had a negative impact on sales
- Chips and crisps have become the ‘poster children’ of obesity
- There is universal failure to compare ‘like with like’ on issues of nutrition, relating to potatoes
- There is a lack of positive endorsement by government on the health status of potatoes and of industries responses to the health agenda

### Skills issues

- Established opportunities to improve quality, yields and reduce costs are not being taken on board by industry
- There is a huge difference in the attitudes and skills of the top 20% of growers and ‘others’
- The skilled science base in GB is reducing rapidly in respect of research and agronomy
- Industry fails to attract new entrants to the sector at all levels

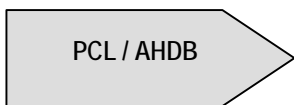


- Must remain potato focussed
- Must exploit opportunities to make changes and exploit benefits from cross sector working
- Must deliver cost savings
- Effective industry involvement critical to overcome cynicism
- High risk of losing good staff to sector
- PCL's finances are unsustainable without an increase in income or reduction in expenditure.

There are significant challenges that PCL can address and in so doing will make a contribution to the overall economic and environmental sustainability of the sector and agriculture in the UK.

## Sector Strategies

### 1. To address:

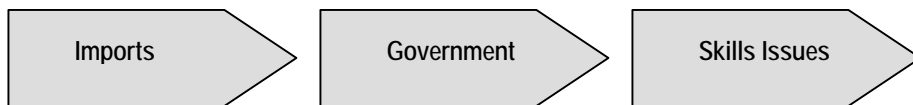


PCL board members have agreed that in year 1, PCL will continue, and build on, current activities as well as undertaking a fundamental strategic review for the future. This review will include;

- PCL's future finances - savings from relocation and co-location
- Opportunities from cross-sectoral activities
- The impact on staffing of the proposed move.

Industry will be thoroughly involved in all aspects of the strategic review.

### 2. To address:



Work to understand the GB industry vis-à-vis its main European competitors has highlighted that imports occur predominantly for reasons of price rather than quality. How these countries can offer potatoes at lower prices is quite well understood, as are the potential future threats in respect of imports.

In order to become more competitive vis-à-vis Europe, to improve growers' profitability, and ensure economic sustainability, scientific research and communication activities will be undertaken that can reduce input costs, reduce defects and improve marketable yield. PCL will focus on those areas likely to make the biggest overall difference and where there is a high likelihood of success. If there are priority areas that are common across different crops, PCL is keen to seek these out and undertake joint activity in order to avoid duplication and reduce costs for levy payers.

The SWOT highlights that there are significant communication challenges facing PCL and therefore, activities designed to improve information flow and the uptake of knowledge will run in parallel to the R&D and communication activities above. This work will involve altering attitudes and behaviours throughout the potato supply chain. Good supply chain relationships will be critical to achieving success in this area.

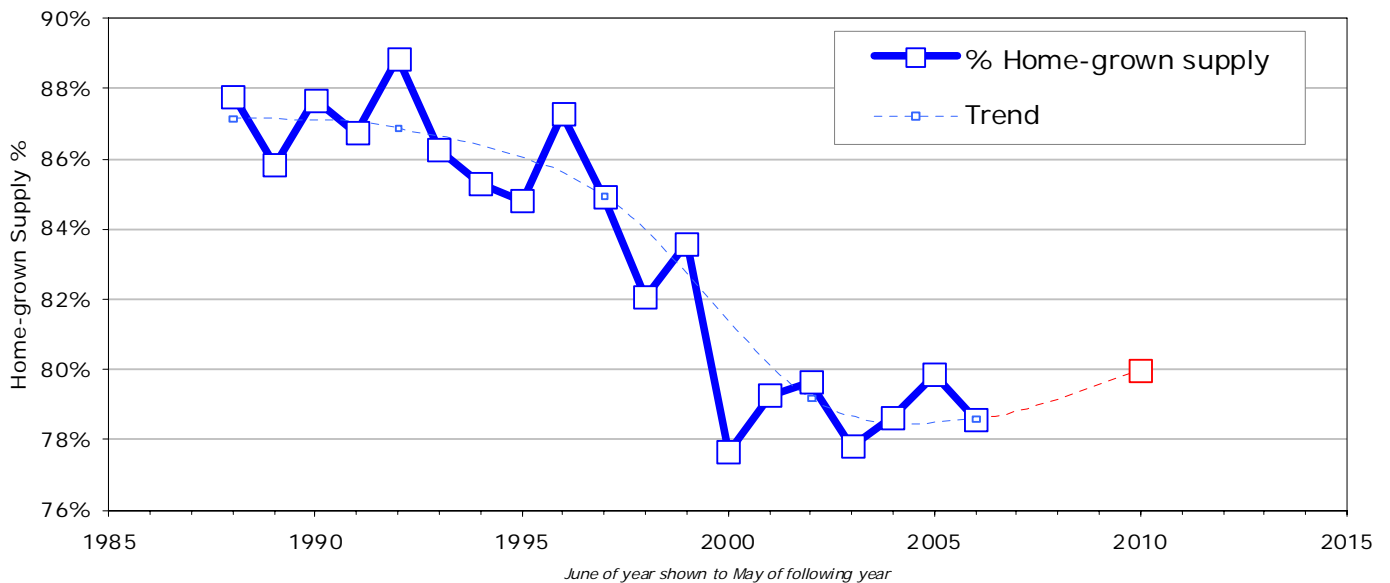
The burden of compliance and issues relating to industries use of energy and pesticides are also ongoing threats to competitiveness and profitability. These issues will not be tackled in isolation but will be integral to

all research and communication activities, just as they are integral to all businesses within the potato sector. Managing the issue in a holistic way can create an outcome where not only does compliance occur but there is also a positive financial outcome e.g. reduced input costs and better yields. This approach has been well received by levy payers.

A number of other activities will be critical to achieving success in this area. Example activities include; ensuring spends on R&D achieves the maximum ‘financial multipliers’ possible (through LINK, collaboration with AHDB / RERAD and with overseas levy funded organisations), communicating with government departments to ensure the potato industry benefit from their R&D spends, and co-ordinating across the industry with strong responses to consultations and enquiries from the media and others.

PCL aspires to reverse the trend of declining home crop supply.

**PCL Aspires To Reverse The Trend Of Declining Home Grown Supply, Improving to 80% of Total Supply**



**To address:**



Declining consumption is largely due to the demographic and lifestyle changes that have taken place over the last 10 years – e.g. smaller households, more working women, less time spent shopping and preparing food, poor cooking skills, an increase in consumption of ethnic cuisines, and the separation of food into everyday and indulgence. There has also been an increased interest in diet and nutrition, often fuelled by the media. Potato usage has suffered due to the consumer’s perception of the product as inconvenient, old fashioned, boring and relatively unhealthy. Processed potato products were seen as unhealthy and consumers did not readily associate them with the potato.

Levy funded activity has focused on working with industry to understand the issues and demonstrate possible responses. The result has been a significant reduction in pack sizes, greater product differentiation through brands and/or varieties, significant nutrition messaging and an increase in the ‘convenient’ offer. Products are now a better fit to today’s consumer and with this ‘value adding’ there has been an increase in retail value.

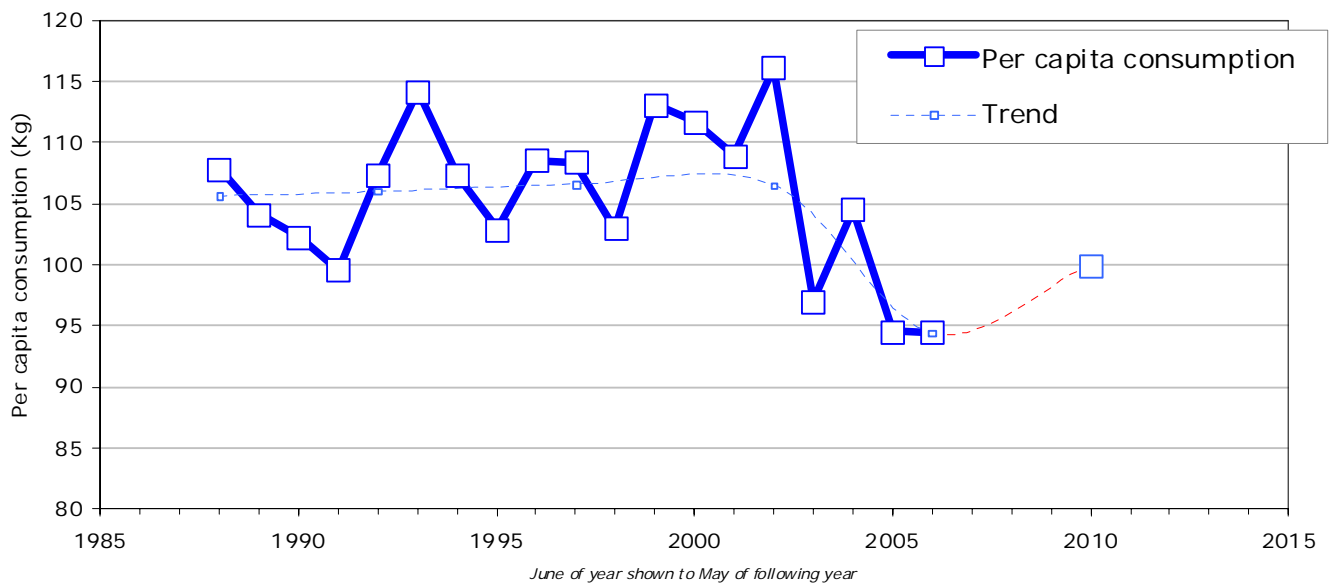
PCL levy funded activity will now seek to add volume to the sector. The overarching strategy to add volume will be to work with industry to ensure that it defends the existing market whilst attacking hard where the potato is losing ground against alternative carbohydrates, usually rice or pasta.

Research has highlighted where to attack to allow PCL activity to be highly targeted. Activities will encourage low users of potatoes (pre family and young families) to alter their meal repertoire to include more potato-based dishes. Activities will target adults and children, the latter through work in schools. Driving home the positive nutrition messages will be given high priority and involve a wide range of stakeholders. PCL will also work with and represent industry on other issues that threaten consumption.

PCL will develop strong relationships with retailers such that PCL, packers, processors and retailers are able to share knowledge about the potato marketplace and the consumer and use this to increase potato sales within the context of an economically sustainable potato sector.

PCL aspires to reduce the trend of declining per capita consumption.

PCL Aspires To Reverse The Current Trend Of Declining Consumption, Improving to 100kg/head



**OBJECTIVE 1 - TO UNDERTAKE AN INDUSTRY WIDE CONSULTATION**

PCL will inform industry of the Corporate Plan submitted to AHDB and consult on this. Outcomes of this consultation will instruct PCL activity from 2009/10. To be completed by June 2008.

**OBJECTIVE 2 - TO IMPROVE THE COMPETITIVENESS OF THE GB POTATO INDUSTRY**

Strategies	Key Outcome 3 years	Targets 2008/2009 <i>- See also the operational Business plan 2008/9</i>	Key Risks	Key Controls
<p>Increase Marketable Yield (Improve Profitability)</p> <p>Reduce Input Costs (Cost)</p> <p>Reduce Defects (Improve Quality)</p>	<ul style="list-style-type: none"> <li>• An economically and environmentally sustainable industry</li> <li>• PCL adopt an R&amp;D and KT strategy that is endorsed and utilized by the potato industry</li> <li>• Commissioning &amp; management of R&amp;D projects against this strategy</li> <li>• Industry involvement in project development</li> <li>• Effective KT delivery</li> <li>• Increase in marketable yield of 5% (10 year target 15%)</li> <li>• Industry manages regulations effectively</li> <li>• Pro-active co-ordination of industry responses on key issues</li> </ul>	<ul style="list-style-type: none"> <li>• PCL Review potato sector R&amp;D and KT strategy, to include consideration to cross sector linkages</li> <li>• Ongoing projects achieve their planned and stated outcomes and milestones</li> <li>• New projects are identified and commissioned to address agreed priorities (stated in the business plan)</li> <li>• SBEU runs according to its approved business plan (07/12)</li> <li>• Knowledge transfer campaigns on blight, aphid management, soils, water, storage, fertilizer recommendations, uniformity and bruising are undertaken and achieve their planned outcomes</li> <li>• Regular dialogue in support of the potato industry with industry, stakeholders and the media.</li> </ul>	<ul style="list-style-type: none"> <li>• PCL unable to agree long term strategy for R&amp;D/KT</li> <li>• Potato Specific research is 'lost' within AHDB and government funding</li> <li>• Projects do not deliver their planned outcomes</li> <li>• Adverse weather / disease affects R&amp;D programme</li> <li>• New legislation affects delivery of projects</li> <li>• Research providers do not come forward with projects</li> <li>• Knowledge is not taken up.</li> </ul>	<ul style="list-style-type: none"> <li>• Adhere to market failure principles and involve good cross section of industry and industry bodies</li> <li>• Continue close relationships with Defra/Seerad R&amp;D</li> <li>• Commit to joint activity only when potato benefit is strong</li> <li>• Regular monitoring of quality and timeliness of work. Industry involvement from inception of projects.</li> <li>• Be alert</li> <li>• Be aware</li> <li>• PCL act proactively e.g. develop a fellowship/ PHD funding approach</li> <li>• See strategy to Improve the flow and take-up of knowledge</li> </ul>

Strategies	Key Outcome 3 years	Targets 2008/2009 <i>- See also the operational Business plan 2008/9</i>	Key Risks	Key Controls
Input resource requirements (£'000)		1727.7K		
Improve the Flow and Take-Up of Knowledge	<ul style="list-style-type: none"> <li>• There is a change in the priorities of industry/agronomists (away from retailers £cost risk &amp; protocols)</li> <li>• An improvement in the technical knowledge of agronomists</li> <li>• Growers are up taking known and new knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• Lessons learnt from projects in 07/08 instruct KT strategy for PCL</li> <li>• Grower collaboration project develops into an industry wide awareness campaign</li> <li>• PCL develops a range of agronomy courses on key issues, working with a professional training company, using grant funding.</li> </ul>	<ul style="list-style-type: none"> <li>• PCL fail to get KT implemented, therefore no requirement for R&amp;D</li> <li>• 'Followers' (a group the sector needs for sustainability) do not implement KT</li> <li>• Larger or more technical growers thwart KT delivery</li> </ul>	<ul style="list-style-type: none"> <li>• Communication to ensure industry 'buy in' to the KT strategy and it's impact on the GB potato industry as a whole</li> </ul>
Input resource requirements (£'000)		364K		
Improve Supply Chain Relationships	<ul style="list-style-type: none"> <li>• Supply chains working together towards the common goal of economic sustainability</li> </ul>	<ul style="list-style-type: none"> <li>• Regular dialogue by PCL staff and board members to address supply chain issues</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of trust in PCL</li> </ul>	<ul style="list-style-type: none"> <li>• Transparency, involvement and regular communication across industry</li> </ul>
Total Input resource requirements (£'000)		233K		



Strategies	Key Outcome 3 years	Targets 2008/2009 <i>- See also the operational Business plan 2008/9</i>	Key Risks	Key Controls
Accurate Market Intelligence	<ul style="list-style-type: none"> <li>PCL has a thorough understanding of the business environment for potatoes and this instructs all PCL activity and is effectively communicated to industry.</li> </ul>	<ul style="list-style-type: none"> <li>PCL undertakes the programme of market Information as detailed in the business plan, to include price and crop reporting, statistics on area, yield, production, supplies and disposals and retail and foodservice data.</li> <li>PCL play a central role in creating a new centralized marketing and statistics division ensuring that potato sector needs are met and new opportunities exploited.</li> </ul>	<ul style="list-style-type: none"> <li>Potato Specific needs are 'lost' within AHDB central provision of MI</li> </ul>	<ul style="list-style-type: none"> <li>Ensure full engagement by staff, PCL board and the market information committee in the process of MI centralization.</li> </ul>
Input resource requirements (£'000)		300K		

Strategies	Key Outcome 3 years	Targets 2008/2009 <i>- See also the operational Business plan 2008/9</i>	Key Risks	Key Controls
<p>An Increase in Exports to Counter Imports (NB. PCL will undertake activity on seed potato exports only due to market failure)</p>	<ul style="list-style-type: none"> <li>• An increase in the number of countries GB exports to</li> <li>• An increase in the value of exports</li> <li>• A more co-ordinated export industry</li> <li>• Effective management of issues in export countries</li> </ul>	<ul style="list-style-type: none"> <li>• Effective inward missions from at least two target countries</li> <li>• Effective outward missions to countries identified as having good seed export potential</li> <li>• Co-ordinate the GB seed industry presence at major international trade events to be agreed by industry</li> <li>• Assist the industry where issues arise in export countries working with the relevant authorities as appropriate.</li> <li>• Provide a range of generic GB tools for use by GB seed importers</li> </ul>	<ul style="list-style-type: none"> <li>• Potato Sector 'needs' are lost under AHDB</li> <li>• Lack of trust in PCL prevents industry involvement</li> <li>• GB seed industry consolidates and works together negating the need for PCL</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure good understanding of the role of PCL in export promotion, that this is not a GB 'sell' but a technical role, in relation to phytosanitary and agronomic issues</li> <li>• Transparency, involvement and regular communication across industry</li> <li>• Market failure no longer exists, therefore levy activity is no longer required</li> </ul>
<p>Input resource requirements (£'000)</p>		<p>133K</p>		

Strategies	Key Outcome 3 years	Targets 2008/2009 <i>- See also the operational Business plan 2008/9</i>	Key Risks	Key Controls
To increase the % of growers using GB seed	<ul style="list-style-type: none"> <li>• Protection of the high health status of GB seed</li> <li>• Retain freedom from quarantine diseases</li> <li>• Promotion of the benefits of GB seed</li> </ul>	<ul style="list-style-type: none"> <li>• SSG whilst now non statutory continues to drive seed and export strategy</li> <li>• Promotion of the Safe Haven Scheme and a drive to increase membership of it</li> <li>• With industry partners organise specific KT event for the seed industry such as Potatoes in Practice</li> <li>• Represent the seed industry on all seed consultations and regulatory negotiations to ensure the best outcome</li> <li>• Provide a range of generic GB tools for use by GB seed industry</li> </ul>	<ul style="list-style-type: none"> <li>• Apathy towards Safe Haven Scheme as last outbreak some years ago</li> <li>• Promoting benefits of GB seed can have political repercussions</li> </ul>	<ul style="list-style-type: none"> <li>• Continue communication</li> <li>• Work with SSG</li> </ul>
Input resource requirements (£'000)		70K		

**OBJECTIVE 3 - TO ARREST AND REVERSE THE DECLINE IN GB CONSUMPTION**

Strategies	Key Outcome 3 years	Targets 2008/2009 - See also the operational Business plan 2008/9	Key Risks	Key Controls
Constant understanding/monitoring of the consumer and marketplace	<ul style="list-style-type: none"> <li>• PCL is the expert about the potato consumer and marketplace</li> <li>• Continuous programme of research and communication</li> <li>• Industry responds to the findings with resulting NPD, promotions etc.</li> <li>• To have understood issues in GB foodservice</li> <li>• PCL promotional activity always reflects consumer research findings</li> </ul>	<ul style="list-style-type: none"> <li>• Research programme focusing on life stages and packaging is delivered that achieves planned outcomes</li> <li>• Regular meetings are held with packers, processors and retailers to communicate outcomes and agree actions</li> <li>• Quantitative information is produced monthly on the retail marketplace and this is effectively communicated</li> </ul>	<ul style="list-style-type: none"> <li>• Potato Specific research is 'lost' within AHDB</li> <li>• Projects do not deliver their planned outcomes</li> <li>• Industry do not engage to make the changes necessary</li> </ul>	<ul style="list-style-type: none"> <li>• Marketing Committee</li> <li>• Regular monitoring of quality and timeliness of work. Industry involvement from inception of projects.</li> <li>• Trust, know-how and regular communication</li> </ul>
Input resource requirements (£'000)		£274K		

<p>Maintain/defend existing markets</p>	<ul style="list-style-type: none"> <li>• Shift in attitudes towards potatoes as healthy</li> </ul>	<ul style="list-style-type: none"> <li>• PR campaigns to promote the health and convenience benefits of potatoes that deliver against planned outcomes – better knowledge of nutrition benefits, maintain and increase potato meals consumed.</li> </ul>	<ul style="list-style-type: none"> <li>• Potato specific marketing is ‘diluted’ in the desire for collaboration through AHDB</li> </ul>	<ul style="list-style-type: none"> <li>• Fight this</li> <li>• Commit to joint activity only when potato benefit is strong</li> </ul>
<p>Grow/develop new markets</p>	<ul style="list-style-type: none"> <li>• For pre-family increase potato meals from 2/10 – 3/10</li> <li>• Maintain ‘older’ consumption at 8/10</li> <li>• Engage school children in a growing project</li> <li>• To have completed a pilot programme to extend primary success in secondary schools</li> <li>• There is effective management of issues that affect consumption</li> </ul>	<ul style="list-style-type: none"> <li>• Develop existing ‘Grow your Own Potatoes’ scheme to 11,000 schools</li> <li>• Using Potato Day and Jacket Potato Bar tools increase the number of GB potato dishes on school menus</li> <li>• National Chip Week 2008 is effectively executed and delivers planned outcomes.</li> <li>• Targeted activity within the profit sector of foodservice that improves the quality of potatoes served in this sector including the Great Potato Challenge 3.</li> <li>• Constant communication with industry ensures involvement in all PCL marketing activity.</li> <li>• Pro-active and re-active media management</li> </ul>	<ul style="list-style-type: none"> <li>• Industry do not engage and therefore the multipliers needed to achieve critical mass from PCL spend are not achieved</li> <li>• National Chip week is threatened by concern over nutritional profile of chips</li> </ul>	<ul style="list-style-type: none"> <li>• Consultation and regular communication</li> <li>• Communicate the value of the chip industry to the potato sector and work to alter the misconceptions on the nutritional profile of chips.</li> </ul>

		<ul style="list-style-type: none"> <li>• A planned programme of dialogue with stakeholders (government, retailers, NGO's etc) relating to issues that could affect the consumption of potatoes.</li> </ul>		
Input resource requirements (£'000)		994K		

## Budget

Forecasts	12 Months	9 MONTHS	12 Months		
	2006/07 Unaudited (£)	2007/08 Forecast (£k)	2008/09 Plan (£k)	2009/10 Plan (£k)	2010/11 Plan (£k)
Crop area registered for levy (ha)	119,729	118,350	122,350	121,000	119,000
Grower Income	4,755	3,642	4,816	4,763	4,684
Purchaser Income	1,108	893	1,231	1,217	1,198
Nash Court Rental Income	54	41	54	0	0
DEFRA Income	43	32	43	43	43
Total Income	5,960	4,608	6,144	6,023	5,925
Total Expenditure	(6,280)	(5,138)	(6,575)	(6,618)	(6,756)
Operating Surplus/(Deficit)	(320)	(530)	(431)	(595)	(831)
Investment Income	200	132	113	96	70
Surplus/(Deficit) Before Tax	(120)	(398)	(318)	(499)	(761)
Tax on Investment Income	(49)	(34)	(21)	(18)	(13)
Net Investment Income after Tax	151	98	92	78	57
Charge to General Reserve	(169)	(432)	(339)	(517)	(774)
Opening General Reserve	2943	2692	2260	1921	1403
Closing General Reserve	2692	2260	1921	1403	629
Redundancy Reserve	971	971	971	971	971

### Assumptions

#### Income

Income is expected to fall as the area planted reduces. The expected trend is a reduction of around 2% per annum. This is based on statistical modelling and therefore will change. Historical analysis indicates modelling to be correct to + / - 5%. Budgets at this time assume no new income from outside sources.

#### Expenditure

The plan is costed as if there were no change to the structure of the organisation, as instructed by AHDB. This implies that savings (made by AHDB) will be used to fund the transition of BPC to PCL at a joint location until 2011 (location subject to outcome of staff consultation). Specifically expenditure does not include any management fees from AHDB.

The 2008/09 expenditure is based on the 2007/08 forecast expenditure, uplifted by 3% to cover inflation.

The figure also includes a contingency of £150k to cover income fluctuations.

2009/10 expenditure is based on the 2008/09 planned expenditure, without contingency, uplifted by 3%.

2010/11 expenditure is based on the 2009/10 planned expenditure, without contingency, uplifted by 2.1%.

#### Redundancy Reserve

This is sufficient to cover the costs of making all staff redundant.

We are advised that any redundancies arising from the transition will be paid for by AHDB.

#### Future

PCL acknowledge this budget is unsustainable after 2010/11 without either an;

- increase in income - levy or other
- reduction in expenditure

It is a strategic priority of PCL to address this issue with industry.

# **FINANCIAL SECTION**



# **BUDGET 2008 - 2009 AND FINANCIAL PROJECTIONS 2009 - 2011**

## **Introduction**

AHDB is required by Defra to produce a budget and financial projections together with proposed levy rates within an annual business plan in order to obtain ministerial approval for those levy rates.

This is the first Annual Budget for AHDB.

Each of the sector companies have produced budgets and financial projections for the period concerned and expenditure to deliver the change programme.

The AHDB budget essentially comprises a summary of the budgets for each of the proposed six new sector companies together with the commercial services company. Additional transitional income and expenditure predicted for 2008-2009 have also been taken into account.

Separate schedules are also included showing details of the proposed levy rates and the amount of levy income budgeted for each sector for 2008-2009.

The financial projections from 2009-2011 incorporate the expected additional income and savings together with the exceptional costs of the change programme.

## **Budget summary 2008-2009**

The AHDB Group budget income is £54.6m and expenditure £58.7m producing a deficit of £4.1m drawn down from predicted reserves of £25.1m at 1 April 2008.

## **Levy rates**

Sector levy rates proposed for 2008-2009 are largely the same as those operated by the previous Levy Boards in 2007-2008 apart from a BPEX temporary levy reduction of 10p and there are some changes to their descriptions and applications. (See attached detailed proposals).

## **Financial projections 2009-11**

All levy rates are assumed to remain unchanged except that the BPEX levy is increased by 10p.

The underlying projection for 2009-2010 is close to break-even before exceptional income of £1.8m and exceptional expenditure of £9.5m – resulting in a deficit of £8.9m.

From 2010 onwards this deficit will be recovered from annual savings of £4.5m as predicted based on the Accenture business case analyses.

**AHDB FINANCIAL PROJECTIONS 2008-2011**

**SECTOR: BPEX**

**(£,000)**

<b>Income</b>	<b>2008/9</b>	<b>2009/10</b>	<b>2010/11</b>
Levy	6,500	6,410	6,000
<b>Total income</b>	<b>6,500</b>	<b>6,410</b>	<b>6,000</b>
Enhance value of pork & products	4,410		
Improve cost competitiveness	4,630		
<b>Total Activities</b>	<b>9,040</b>	<b>6,500</b>	<b>5,190</b>
Communications	290	300	310
Operations	490	500	500
<b>Total expenditure</b>	<b>9,820</b>	<b>7,300</b>	<b>6,000</b>
<b>Surplus/(Deficit)</b>	<b>(3,320)</b>	<b>(890)</b>	<b>-</b>
<b>Reserves b/fwd</b>	<b>7,200</b>	<b>3,880</b>	<b>2,990</b>
<b>Reserves c/fwd</b>	<b>3,880</b>	<b>2,990</b>	<b>2,990</b>

<b>AHDB FINANCIAL PROJECTIONS 2008-2011</b>				
<b>SECTOR</b>	<b>DAIRY CO</b>			
<b>(£,000)</b>				
<b>Income</b>		<b>2008/9</b>	<b>2009/10</b>	<b>2010/11</b>
	<b>Levy</b>	6,750	6,800	6,850
	<b>Non Levy</b>	105	235	500
	<b>Interest</b>	50	50	50
<b>Total income</b>		<b>6,905</b>	<b>7,085</b>	<b>7,400</b>
<b>MI</b>		734	769	795
<b>Research</b>		1,389	1354	1,365
<b>KT</b>		1,480	1,834	2,324
<b>Comms</b>		650	559	578
<b>MD</b>		1134	1080	1026
<b>Central</b>		916	833	860
<b>Business Development</b>		60	90	90
<b>UK IDF</b>		26	27	28
<b>IDF Conference</b>		30		
<b>DairyCo Board</b>		226	235	240
<b>Total expenditure</b>		<b>6645</b>	<b>6781</b>	<b>7306</b>
<b>Surplus/(Deficit)</b>		260	304	94
<b>Reserves b/fwd</b>		<b>2,231</b>	<b>2,491</b>	<b>2,795</b>
<b>Reserves c/fwd</b>		<b>2,491</b>	<b>2,795</b>	<b>2,889</b>

**AHDB FINANCIAL PROJECTIONS 2008-2011****SECTOR: ENGLISH BEEF & LAMB****(£,000)**

<b>Income</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
Levy -Cattle	6,400	6,400	6,400
Levy -Sheep	5,100	5,100	5,100
<b>Total income</b>	<b>11,500</b>	<b>11,500</b>	<b>11,500</b>
<b>Expenditure</b>			
Promoting Better Returns	2,300	2,300	2,300
Championing a Sustainable Industry	2,875	2,875	2,875
Stimulating Profitable Demand	6,325	6,325	6,325
<b>Total expenditure</b>	<b>11,500</b>	<b>11,500</b>	<b>11,500</b>
<b>Surplus/(Deficit)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Reserves b/fwd</b>	<b>3,500</b>	<b>3,500</b>	<b>3,500</b>
<b>Reserves c/fwd</b>	<b>3,500</b>	<b>3,500</b>	<b>3,500</b>

**AHDB FINANCIAL PROJECTIONS 2008-2011****SECTOR: CEREALS & OILSEEDS****(£,000)**

<b>Income</b>	<b>2008/9</b>	<b>2009/10</b>	<b>2010/11</b>
Levy	9,782	10,213	10,347
Other	656	585	566
<b>Total income</b>	<b>10,438</b>	<b>10,798</b>	<b>10,913</b>
Market Opportunities	1,120		
New Markets	1,547		
Market Needs	5,404		
Market Volatility	228		
Healthy Diet	865		
Operations	2,128		
<b>Total expenditure</b>	<b>11,292</b>	<b>11,154</b>	<b>11,261</b>
<b>Surplus/(Deficit)</b>	<b>(854)</b>	<b>(356)</b>	<b>(348)</b>
<b>Reserves b/fwd</b>	<b>7,640</b>	<b>6,786</b>	<b>6,430</b>
<b>Reserves c/fwd</b>	<b>6,786</b>	<b>6,430</b>	<b>6,082</b>

**AHDB FINANCIAL PROJECTIONS 2008-2011**

**SECTOR: HORTICULTURE**

<b>(£'000)</b>	<b>2008/9</b>	<b>2009/10</b>	<b>2010/11</b>
<b>Income</b>			
Levy income	4,438	4,675	4,750
Other contributions	55	80	80
Other Income	165	120	120
<b>Total Income</b>	<b>4,658</b>	<b>4,875</b>	<b>4,950</b>
<b>Expenditure</b>			
Horticultural research	3,435	3,240	3,245
Communications	500	525	550
<b>Direct Costs</b>	<b>3,935</b>	<b>3,765</b>	<b>3,795</b>
Research Mgmt	703	732	763
Administration	338	353	367
<b>Indirect Costs</b>	<b>1,041</b>	<b>1,085</b>	<b>1,130</b>
<b>Total Expenditure</b>	<b>4,976</b>	<b>4,850</b>	<b>4,925</b>
<b>Surplus/(Deficit)</b>	<b>(318)</b>	<b>25</b>	<b>25</b>
<b>Reserves b/fwd</b>	<b>1,301</b>	<b>983</b>	<b>1,008</b>
<b>Reserves c/fwd</b>	<b>983</b>	<b>1,008</b>	<b>1,033</b>

**AHDB FINANCIAL PROJECTIONS 2008-2011**

**SECTOR: POTATO**

**(£,000)**

<b>Income</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
Levy	6,047	5,980	5,882
Non Levy	97	43	43
Interest	113	96	70
<b>Total income</b>	<b>6,257</b>	<b>6,119</b>	<b>5,995</b>
<b>Expenditure:</b>			
Improve profitability	1728		
Improve Knowledge transfer	364		
Improve supply chain relationships	233		
Accurate market intelligence	300		
Increase exports	133		
Increase % of growers using GB seed	70		
Monitoring consumers & marketplace	274		
Maintaining existing markets & grow new markets	994		
sub - total	4,096		
Support costs	2,500		
<b>Total expenditure</b>	<b>6,596</b>	<b>6,636</b>	<b>6,769</b>
<b>Surplus/(Deficit)</b>	<b>(339)</b>	<b>(517)</b>	<b>(774)</b>
<b>Reserves b/fwd</b>	<b>3,231</b>	<b>2,892</b>	<b>2,375</b>
<b>Reserves c/fwd</b>	<b>2,892</b>	<b>2,375</b>	<b>1,601</b>

**AHDB FINANCIAL PROJECTIONS 2008-2011**

**SECTOR: COMMERCIAL SERVICES**

**(£,000)**

<b>Income</b>	<b>2008/9</b>	<b>2009/10</b>	<b>2010/11*</b>
Levy	0	0	0
Other - Commercial	7,625	6,185	4,650
<b>Total income</b>	<b>7,625</b>	<b>6,185</b>	<b>4,650</b>
<b>Total expenditure</b>	<b>7,150</b>	<b>5,835</b>	<b>4,400</b>
<b>Surplus/(Deficit)</b>	<b>475</b>	<b>350</b>	<b>250</b>
<b>Reserves b/fwd</b>	<b>0</b>	<b>475</b>	<b>825</b>
<b>Reserves c/fwd</b>	<b>475</b>	<b>825</b>	<b>1,075</b>

\* It is anticipated that work currently sub-contracted by the Rural Payments Agency will decrease substantially as the Older Cattle Disposal Scheme comes to an end.



**AHDB FINANCIAL PROJECTIONS 2008-2011**

<b>SECTOR:</b>	<b>TRANSITIONAL</b>		
<b>(£,000)</b>			
<b>Income</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
Levy			
Other			
<b>Grant from Advantage West Midlands</b>	750	1,750	
<b>Total income</b>	<b>750</b>	<b>1,750</b>	<b>0</b>
<b>Expenditure:</b>			
Redundancy/severance		7,136	
Relocation		2,518	
Recruitment		955	
Set up costs -relocated staff & new recruits		832	
Implementation		740	
Other		326	
Total per business case		12,507	
Total lease severance per business case		944	
Contingency per business case		500	
Central costs	750		
<b>Total Extra expenditure</b>	<b>750</b>	<b>13,951</b>	<b>0</b>
<b>Less savings</b>			
Per business case – efficiency savings		3,442	3,527
Rent free 5 years		960	960
<b>Total savings</b>	<b>0</b>	<b>4,402</b>	<b>4,487</b>
<b>Total net expenditure</b>	<b>750</b>	<b>9,549</b>	<b>(4,487)</b>
<b>Surplus/(Deficit)</b>	<b>0</b>	<b>(7,799)</b>	<b>4,487</b>
<b>Reserves b/fwd</b>	-	-	<b>(7,799)</b>
<b>Reserves c/fwd</b>	-	<b>(7,799)</b>	<b>(3,312)</b>

**AHDB FINANCIAL PROJECTIONS: 2008 - 2011**

(Including transition income and costs)

Line No		A 2008/09 £'000	B 2009/10 £'000	C 2010/11 £'000
	<b>Income</b>			
1	Net levy	45,017	45,578	45,329
2	Non-levy income	8,866	7,394	6,079
3	Exceptional income	750	1,750	
4	<b>Total income</b>	<b>54,633</b>	<b>54,722</b>	<b>51,408</b>
	<b>Expenditure</b>			
5	Operating expenditure	(55,979)	(54,056)	(52,162)
6	Exceptional costs less savings	(750)	(9,549)	4,487
7	<b>Total expenditure</b>	<b>(58,729)</b>	<b>(63,605)</b>	<b>(47,675)</b>
8	<b>Surplus/(Deficit)</b>	<b>(4,096)</b>	<b>(8,883)</b>	<b>3,733</b>
9	<b>Opening reserves</b>	25,103	21,007	12,124
10	<b>Closing reserves</b>	21,007	12,124	15,857

**PROPOSED LEVY RATES INCLUDED IN THE EARLIER  
FINANCIAL SECTION**

**AHDB      BPEX      PIGS**

**PROPOSED LEVY RATES FROM 1 APRIL 2008 TO 31 MARCH 2009**

<b>Levy category (Rates per head)</b>	<b>Proposed 2008/09</b>	<b>Maximum</b>	
<b>Pigs</b>	producer	£0.75	£1.075
	Higher rate for late payment	£0.825	
	slaughterer	£0.20	£0.275
	Higher rate for late payment	£0.22	
	exporter	£0.20	£0.275
	Higher rate for late payment	£0.22	

**LEVY BUDGETED FOR YEAR TO 31 MARCH 2009**

<b>(£'000)</b>	<b>Gross levy</b>	<b>Collection costs</b>	<b>Net levy</b>
<b>Pigs</b>	6,600	100	6,500

**SI reference s 6(4) ; Schedule 3 Part 2**

## PROPOSED LEVY RATES FROM 1 JULY 2008 TO 31 MARCH 2009

<b>LEVY RATES – Pence per Tonne (Exclusive of VAT)</b>	<b>Proposed 2008/09</b>	<b>Maximum</b>
Cereal Grower Levy	40.00	60.00
Higher rate for late payment	44.00	
Cereal Buyer Levy	3.30	5.00
Higher rate for late payment	3.63	
Cereals Processor Standard Rate Levy	8.25	12.00
Higher rate for late payment	9.075	
Cereals Processor Reduced Rate Levy	4.00	6.00
Higher rate for late payment	4.40	
Oilseeds Levy	65.00	98.00
Higher rate for late payment	71.50	

## LEVY BUDGETED FOR YEAR TO 31 MARCH 2009

	Year to 31.3.09
LEVY INCOME (£'000) (Exclusive of VAT)	
Cereals Levy Income	8,320
Oilseeds Levy Income	1,412
Total Levy Income	9,782

SI reference s 6(4) ; Schedule 3 Part 3

**AHDB DAIRY SECTOR**

**PROPOSED LEVY RATES FROM 1 APRIL 2008 TO 31 MARCH 2009**

<b>(pence per litre)</b>	<b>Proposed 2008/09</b>	<b>Maximum</b>
<b>Levy on buyers and direct sellers of milk</b>	0.060	0.08
Higher rate for late payment	0.066	

**LEVY BUDGETED FOR YEAR TO 31 MARCH 2009**

	<b>Litres ( '000)</b>	<b>Levy £'000</b>
0.06 pence per litre	11,250,000	6,750

**SI reference s 6(4) ; Schedule 3 Part 5**

AHDB EBLEX CATTLE AND SHEEP

PROPOSED LEVY RATES FROM 1 APRIL 2008 TO 31 MARCH 2009

Levy category (Rates per head)	Proposed 2008/09	Maximum	
<b>Cattle (excl calves)</b>	producer	£3.495	£5.25
	Higher rate for late payment	£3.845	
	slaughterer	£1.075	£1.75
	Higher rate for late payment	£1.183	
	exporter	£1.075	£1.75
	Higher rate for late payment	£1.183	
<b>Calves</b>	producer	£0.070	£0.50
	Higher rate for late payment	£0.077	
	slaughterer	£0.070	£0.50
	Higher rate for late payment	£0.077	
	exporter	£0.070	£0.50
	Higher rate for late payment	£0.077	
<b>Sheep</b>	producer	£0.505	£0.60
	Higher rate for late payment	£0.556	
	slaughterer	£0.165	£0.20
	Higher rate for late payment	£0.182	
	exporter	£0.165	£0.20
	Higher rate for late payment	£0.182	

LEVY BUDGETED FOR YEAR TO 31 MARCH 2009

(£'000)	Gross levy	Collection costs	Net levy
<b>Cattle &amp; calves</b>	6,581	181	6,400
<b>Sheep</b>	5,189	89	5,100
<b>Total levy budget</b>			<b>11,500</b>

SI reference s 6(4) ; Schedule 3 Part 2

**AHDB HORTICULTURE SECTOR**

**PROPOSED LEVY RATES FROM 1 APRIL 2008 TO 31 MARCH 2009**

<b>Levy category</b>	<b>Proposed 2008/09</b>	<b>Maximum</b>		<b>Levy Income £'000</b>
Horticulture products Higher rate for late payment	0.50% 0.55%	0.6%	on sales turnover	4,310
Mushroom spawn agaricus Higher rate for late payment	8.0p 8.8p	20 pence	per litre	127
Mushroom spawn non- agaricus Higher rate for late payment	2.0p 2.2p	8 pence	per litre	1
<b>Total Levy income</b>				<b>4,438</b>

**SI reference s 6(4) ; Schedule 3 Part 4**



**AHDB POTATO  
SECTOR**

**PROPOSED LEVY RATES FROM 1 APRIL 2008 TO 31 MARCH 2009**

		<b>Proposed 2008/09</b>	<b>Maximum</b>
<b>Levy on potato growers</b>	per hectare	£39.00	£50.00
Higher rate for late payment		£44.00	
<b>Levy on buyers of potatoes</b>	per tonne	£0.17	£0.25
Higher rate for late payment		£0.19	

**LEVY BUDGETED FOR YEAR TO 31 MARCH 2009**

	<b>Hectares (‘000)</b>	<b>Tonnes (‘000)</b>	<b>Levy £’000</b>
£39 PER HECTARE	123.5		4816
17p PER TONNE		7241.2	1231
<b>Total</b>			<b>6047</b>

**SI reference s 6(4) ; Schedule 3 Part 6**