Review of the Agricultural and Horticultural Levy Bodies

final report

October 2005

British Potato Council

the Horticultural Development Council

the Home Grown Cereals Authority

the Meat and Livestock Commission

Milk Development Council

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Foreword

It is well known that the agricultural and horticultural 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 recent 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.

That is why I was very pleased to be invited by Ministers, earlier this year, to undertake an independent Review of the five GB and UK statutory agriculture and horticulture levy bodies. These bodies, which are financed by statutory levies raised on production and, in some cases, first-stage processing, have each been involved in providing services to their levy payers for some years. But, although each of them has been the subject of individual reviews, this is the first occasion when they have been looked at as a group. The Review therefore provided an opportunity to examine in some detail what is going on in these industry sectors: what changes they have faced and are facing; what their needs are in the light of these drivers of change; what support can and should be made available to them in responding to the challenges they face; and what part levy bodies have played and might play in all this.

Understanding needs, and hearing the views of stakeholders about all these issues, has therefore been a primary focus for my Review. I wanted to collect views and opinions about what is going on and, in particular, to hear the views of levy payers themselves. Accordingly, I have devoted a great deal of time to this, time that has proved to be very well-spent. I have met a very wide range of individuals and organisations and have obtained and studied the views of many more. Annex B to this Report, which acknowledges and thanks all those involved, is testimony to this. But throughout my Review I have been impressed by the importance everyone attaches to the issues I have been examining: people have been willing to make time, at senior level and often at very short notice, to help me in this way. Whilst views on some of the detailed issues may differ, all are agreed that getting things right, or at least making them better, is of major importance to the sectors concerned, and thus to UK plc.

I hope, therefore, that the conclusions and recommendations set out in this Report will, indeed, help to make things better. In summary, I have concluded that, for the time being, there is still a case for retaining statutory levies but that some important changes now need to be made. Change is never easy, and doubtless my recommendations will not appeal to everyone. But I believe they can and will appeal to most, and in particular to the levy payers, and their representative organisations, who are, effectively, paying the bill for the services provided by the levy bodies. Value for money for them has to be the most important test.

Rosemary Radcliffe CBE
October 2005

Executive Summary

Background to the Review

1. On 15 March 2005 I was asked by UK and Devolved Administration Ministers to undertake an independent Review of the five GB and UK statutory agriculture and horticulture levy bodies: the British Potato Council (BPC); the Horticultural Development Council (HDC); the Home Grown Cereals Authority (HGCA); the Meat and Livestock Commission (MLC); and the Milk Development Council (MDC). I was asked to make recommendations to Ministers and to include, where changes to present arrangements were advocated, proposals on how such changes could be carried forward. I was asked to submit my findings and recommendations to Ministers by the end of October 2005. This Report meets this requirement.

2. In discharging my remit I have taken as a primary focus the need to understand the present and future requirements of the industries concerned, and in doing this to engage with all the stakeholders: the levy payers themselves; their representative organisations; and all the other stakeholders who have a direct or indirect interest in the issues. I have accordingly conducted a substantial exercise to obtain their views, and am most grateful to the very many individuals and organisations who have helped me in this way.

An introduction to the levy bodies

3. I have undertaken a comparative analysis of the five levy bodies and have drawn the following conclusions:

- Whilst there may be some broad similarities between the five bodies, there are also very considerable differences. Their broad statutory remits are similar – they all focus on the need to promote efficiency and productivity in the industries concerned – but the detailed remits vary. In terms of their governance arrangements, all five are NDPBs (Non Departmental Public Bodies) but there are variations with regard to board size and composition and to remuneration arrangements. Whilst the bodies undertake a similar range of activities the extent and degree of focus on particular activities varies considerably. Arrangements with regard to the levy are not uniform. And the size and scale of the bodies' operations varies greatly.
- Until recently, little was done to coordinate the work of the five bodies and to identify areas where making common cause would bring benefits. It is encouraging that steps have recently been taken to improve the degree of coordination between the efforts of the five bodies but these initiatives are still in their infancy.
- Consideration of the work of other bodies indicates, first, that in some industries arrangements can be made that do not require the backing of a statutory levy;

however, it may be argued that the circumstances in some of these industries are different in a number of material respects from those faced by the five bodies. Nonetheless, there are several other organisations quite properly operating independently but who might also be able to benefit from some degree of cooperation with one another in order to save costs.

The needs of the industries

4. I have examined the needs of the industry sectors the levy bodies were set up to serve. My principal conclusions are as follows:

- At first sight the economic significance of the agricultural sector to the UK economy is modest: it accounts for only 0.8% of gross value added in the UK economy as a whole and has been declining in relative importance for many years. But its output is a key input to the agri-food sector. The food processing sector is now the largest manufacturing sector in the UK. A further relevant issue relates to self-sufficiency: whilst the degree of self-sufficiency is no longer a specific objective of UK government policy it is relevant to an assessment of risk in the event of an interruption of trade. Self-sufficiency as a proportion of all foods is around two thirds and as a proportion of 'indigenous type foods' is nearly three quarters. The economic health of the primary production sector is thus indirectly of much greater economic significance than its direct size would suggest, a significance that is enhanced when the role of the sectors in the wider sustainability agenda is also recognised.
- The size and structure of the industry sectors has been changing significantly. In primary production there are still very many small producers, although fewer than there were. Further up the supply chain it is evident that, in keeping with all other sectors, the degree of concentration in the processing of agricultural products, in food manufacture and in retailing is increasing.
- The industries operate in a highly complex policy environment. Policy, and changes to policy, impact at the global level, where liberalisation of global markets is of great significance; at the EU level, where key considerations are the CAP and the reforms to it that have recently taken place, the State Aids regime and the framework of regulations; and at the UK level, where key issues include the sustainability agenda, animal health and welfare, health and nutrition, the need for efficiency in public services, the need to reduce regulatory burdens, and the implications of the devolution of agricultural policy to Scotland, Wales and Northern Ireland.
- In addition, these industry sectors, in common with many other businesses, face a very substantial array of other change drivers. All this amounts to a degree of challenge and need for change which is by any standards huge. And many of the businesses concerned are small, often micro, businesses. Primary producers, and some of the smaller processors, may have to be their own production director, marketing director, and finance director all in one.
- The industries have a number of key needs that must be met if they are to rise to the challenges of change. These needs may be summarised as the 'business performance' need; the 'business development' need; the 'producer market information' need; the 'consumer market information' need; the 'product promotion' need; and the 'crisis management' need arising from major issues such as climatic variation and animal and plant diseases.
- The range of organisations, including the levy bodies, providing services that may be relevant to these needs is large and complex. Much good work is going on, but the framework is not in all respects as effective as it might be. There are four issues that go beyond the scope of this Review but where comment is due. There are very many

organisations involved: there would appear to be considerable scope in principle for reducing the degree of complexity here through mergers and amalgamations. There is a highly complex framework of regulation to contend with: help with understanding the framework and implementing new approaches is essential. On the subject of scientific R&D, which is essential to underpin improved business performance in these industries, it would appear that the whole R&D 'supply chain' is not as robust as it should be. And the wide range of different quality assurance schemes is opaque to consumers. A clearer strategy in this area would be helpful.

- There are also four issues of particular significance to current levy body activity where improved focus is indicated: training and skills enhancement; export promotion; support for innovation; and the crucial requirement to ensure the whole supply chain is engaged in supporting the process of change in these industry sectors.
- In the wider context of the total framework of assistance, the levy bodies are quite small. Between them, their total budgets amount to only a little over £60 million. It follows that their contribution will be most effective when carefully focused on activities where they have a comparative advantage, and/or where they work in partnership with others. The levy bodies, with their role as independent, non-commercial, but 'industry-focused' bodies, have shown that they can be particularly good at partnership working and facilitating new approaches.

The role and performance of the levy bodies

5. I have examined the role and performance of the levy bodies, taking particularly into account the comments made in consultation by levy payers and other stakeholders. My principal conclusions are as follows:

- With regard to **governance and accountability**, I conclude that, although there do not seem to be major weaknesses in the bodies' compliance with the requirements imposed on them as NDPBs, the governance and accountability arrangements in relation to levy payers could do with improvement.
- With regard to **activities**, I conclude that much hard work is being done by the various bodies but that there are significant differences in priorities that would not appear to be fully explained by differences in the needs of the industries, and variations in the nature and degree of focus that may not be consistent with the best return for levy payers from the use of their funds.
- On **arrangements with regard to the levy**, I conclude that there are significant variations that do not appear to have a clear objective basis. Costs of collection vary substantially. Equity and efficiency considerations suggest that these arrangements would benefit from adjustment.
- On **operational issues**, I conclude that there is some scope for effecting savings in 'back-office' costs and reducing the cost and/or improving the quality of some of the services delivered by the levy bodies.

Options for the future

6. I have considered options in relation to the **statutory levy**, and to future **structural options**.

7. On the matter of the **statutory levy**, I conclude that there continues to be a case in principle, based on the application of the 'fragmentation test' and the 'scale of change test' of market failure, for a statutory levy in each of the product areas to which it currently applies. But the case is stronger in some product areas than in others and is likely to continue to weaken over the next few years in some of the areas. There is a need to continue to keep these issues under review and to be prepared to wind up arrangements that may, at some future date, outlive their usefulness. Moreover, while the case in principle for continuing with a levy is well made, it is necessary to ensure that, in practice, the levies deliver what the industries need in the most effective way. This, in my view, requires some important changes.

I therefore recommend that the statutory levy be maintained in each of the product areas to which it currently applies, but that changes should be made in respect of governance and accountability; activities; arrangements with regard to the levy; and efficient and effective service delivery.

- **Governance and accountability**. Given the nature of statutory levies, I consider that the arrangements for raising and spending levy money need to be, and to be seen to be, more clearly in the 'ownership' of the industries concerned than is the case at present. The levy bodies are not part of Defra's 'delivery landscape'; rather, they are there to spend levy payers' monies on meeting levy payers' needs. And there needs to be greater transparency and more consistent and effective reporting to levy payers on what is being done with their money ('accountability out') whilst at the same time continuing to ensure proper accountability for 'public' money ('accountability up').
- **Activities**. The work of the bodies in establishing priorities and planning activities would be assisted, and their ability to assess their own effectiveness and report thereon enhanced, if there were to be a more coherent common framework of activities linked clearly into the needs of the industries and the levy bodies' role, within the overall framework of assistance, in meeting these needs. Linked to this, there need to be arrangements actively to promote common working. Common approaches can reduce duplication and thus costs and can also lead to better quality fact-finding. And as and when these changes are implemented, there should be a 'Fresh Start' initiative entailing a 'bottom up' strategy and planning exercise to identify needs; consider how these can best be met; determine a set of value-for-money activities; and revisit rates of levy in the light of this analysis.
- **Arrangements with regard to the levy**. The two questions which I have considered are whether a levy should be raised only on primary production or also on processing; and whether the current bases for the levy and the collection arrangements are appropriate.
  - On the first question, the arguments for and against producer-only levies are finely balanced, with persuasive points on both sides. I have concluded, however that, for now, the arrangements should stay as they are, but should be kept under review and revisited in, say, two years' time when new arrangements have been implemented and the strength of the opposing arguments tested in practice. This issue may, however, be one on which Ministers will wish to consult before arriving at a final conclusion.
  - On the second question, I have considered a fair basis for the levy and concluded that it would be desirable to move to value-based arrangements for all products. I have considered the 'small producer/processor' exemption and concluded that, if exemptions are to be operated, they should be applied consistently across the product areas where possible. I have considered the matter of geographical coverage and concluded there is no need in general to move away from the current arrangements but that there is a particular issue to resolve in relation to meat that needs to be further investigated. On yield, I conclude that the current variations by sector in levy collected as a percentage of the value of output need to be looked at again as part of 'Fresh Start'. On scope, I am not aware of any major examples of

other products where a case for a statutory levy is well-made now, but circumstances can change and it would be desirable to keep this under review. On the mechanics of collection, I conclude that the aim should be to apply pragmatism so as to combine, as far as possible, equity with efficiency. Arrangements whereby levy is collected at first point of sale are relatively cheap; if the changes described above are implemented, arrangements of this kind would be appropriate in most product areas. Finally, there are in the meat sector two levies: a general levy and a species promotion levy. This latter is paid only by producers. I have concluded that the two levies should be combined into a single levy.

- **Efficient and effective service delivery**. Changes are required relating to the provision of back-office services and the provision of information services on a shared service basis.

8. With regard to future **structural options**, I conclude that these need to be appraised against a set of five criteria that reflect the relevant key business drivers.

9. Using these criteria, I have looked at a full range of options, including options involving mergers between existing bodies. Such options do not meet the appraisal criteria well. I conclude that, to meet all of the criteria I have identified, a new set of arrangements is needed.

I therefore recommend a move to a New Model that would recognise the importance of each of the five key business drivers I have identified.

10. The New Model has three components within a single structure, each component making its contribution to the overall requirements. The three components are:

- SectorCos, which are the basic 'building blocks' of the model, and would be responsible for the delivery of services close to the beneficiaries;
- NewCo, which would be in the role of a 'holding company', acting as guardian of the common framework and a common planning and performance monitoring system; and
- ServiceCo, which would be the vehicle for enhanced efficiency and reduced costs.

11. Together, the components of the model provide a framework for meeting all the criteria. The respective roles and responsibilities of each component are described in detail in Section V of the Report and in Diagram V.1.

12. I have examined the costs and benefits of change, looking at the one-off costs of transition to the new arrangements and at the on-going costs and benefits in comparison with the current situation. On the basis of the figures presented, which are based on relatively prudent assumptions, the project has a very short payback period; it breaks even during year two and delivers net savings in excess of £900,000 per annum thereafter:

Implementation of change

13. I have identified the key steps that would need to be taken to implement my proposals for change. I have identified four sets of issues that are crucial:

- **Legislative and other public administration arrangements** will need to be made, including the need for certain 'enabling' primary legislation and Statutory Instruments that will give effect to much of the important detail; there will also be a range of tasks related to the creation of NewCo and the abolition of the levy bodies and it will be necessary to obtain State Aids clearance from the European Commission for the new arrangements.

- **Project management arrangements** will be essential to successful implementation.
- **'Early Action' items** consist of communications, with all stakeholders but especially with levy body management and staff; the need for early management of important issues such as tax and pensions; and early recruitment to fill key positions in the New Model.
- **The timetable** assumes implementation from the start of the 2007/08 financial year. This is a challenging timetable but achievable. And in view of the net benefits of change to levy payers there is considerable advantage in implementing change as rapidly as possible.

Section I
Background to the review

Terms of Reference

1.1. On 15 March 2005 UK and Devolved Administration Ministers announced my appointment to undertake an independent Review of the five GB and UK statutory agriculture and horticulture levy bodies: the British Potato Council (BPC); the Horticultural Development Council (HDC); the Home Grown Cereals Authority (HGCA); the Meat and Livestock Commission (MLC); and the Milk Development Council (MDC).

1.2. The full Terms of Reference for the Review are at Annex A; in summary, they required me to undertake a 'cross-cutting and fundamental' review of the rationale for, and role, organisation, funding and functions of the five bodies. The Review was to take as given the devolution of agricultural policy, but was otherwise to take account of the evolution of the agriculture, horticulture and food industries in the UK and their needs for future development; the roles and responsibilities specifically placed on the bodies by Ministers; the concerns of those upon whom the bodies impact, of other relevant organisations and sector bodies and the wider stakeholder community; and the strategic priorities of the UK Government and the Devolved Administrations and their relationship to the bodies. I was asked to make recommendations to Ministers of the UK Government and the Devolved Administrations in relation to their respective interests and to include, where changes to present arrangements were advocated, proposals on how such changes could be carried forward.

1.3. I was asked to submit my findings and recommendations to Ministers by the end of October 2005. This Report meets this requirement.

Approach to the Review

1.4. At the outset of the Review I gave careful consideration to how, in the light of my Terms of Reference, I should conduct my work. In doing this, I was helped by early discussions with key stakeholders, including the Farmers' Unions as well as Ministers and senior officials in Defra and the Devolved Administrations and, of course, the Chairmen and Chief Executives of the five bodies concerned. I identified four key elements that should constitute the Review 'philosophy' and these have driven the structure and content of my Work Plan and of this Report.

- A primary focus of the Review needed to be an **understanding of the present and future requirements of the industries concerned**. This is particularly important at a time when very substantial change is taking place, and will continue to take place, in the circumstances these industries face.

- Against this background, it was imperative to **engage with all the stakeholders:** the levy payers themselves; their representative organisations; and all the other stakeholders who have a direct or indirect interest in the issues. This is a very substantial community and indicated the need for a commensurately substantial exercise to obtain views on the present and future requirements of the industries and on the role and performance of the five levy bodies. It also underlined the importance of an open and consultative approach throughout the Review process, not just in the fact-finding stages.
- In the light of an understanding of the drivers of change and the engagement with stakeholders, it was necessary to **assess how the five bodies have contributed and may in the future contribute to meeting the requirements of the industries**. It was important to understand what have been the successes and failures and what gaps there are in the framework of assistance.
- This analysis would lead, in turn, to the **identification of future options** and the determination of a **set of criteria** against which to evaluate them in order to reach **conclusions on the way forward**.

Work done

1.5. The four key elements described above have, accordingly, determined the Phases of my Work Plan and the time devoted to each Phase.

1.6. Phase One constituted an initial period of set-up during April and early May that included initial discussion with key interested parties as well as preparing a detailed project plan.

1.7. Phase Two, which extended over the ensuing four months, was taken up with fact-finding and initial analysis. This had three key components: work with the five levy bodies; work with stakeholders; and some focused desk research.

1.8. Work with the five levy bodies in Phase Two included, as well as meetings with Chairmen and Chief Executives, attending at least one meeting of each of the five governing bodies and meeting members of the management teams and their staff to explore activities and responsibilities in more detail. This was followed by more detailed work of analysis in respect of activities, administrative arrangements, including arrangements in respect of levy collection, and costs of service delivery and of administration.

1.9. Work with stakeholders in Phase Two has been a vital component of my fact-finding. It was my aim to ensure that, as far as possible, everyone who had a direct or indirect interest in the issues being addressed in the Review and who might wish to make an input to it would be able to do so, and in Annex B I provide a list of all the organisations and individuals who have contributed. The Annex shows the wide range of organisations and individuals who have helped me in this way. I am most grateful to them all.

1.10. Looking first at stakeholder organisations, during the course of the Review I have interviewed a total of 84 organisations, 24 of which have also made written submissions. I have also written to 217 other organisations inviting them to make a written submission if they so wished and 32 organisations have done so. I was particularly concerned to obtain the views of individual levy payers and have deployed various means to make sure they knew the Review was going on, to explain its scope and the areas where input would be particularly welcomed, and to indicate how they could make a contribution. These means included using the five bodies' own communication devices, together with coverage in the specialist press. This was supported by publicised attendance by me at key events attended by levy payers, and by a series of focus groups organised by stakeholder organisations; I have participated in 8 focus groups, involving 73 levy payers. A total of 193 individual levy payers have, via these various means, made a direct contribution to the review, through focus groups and meetings and via email, letter or telephone call.

1.11. Focused desk research in Phase Two has been undertaken to support, in particular, the understanding of industry requirements and the drivers of change. It has also encompassed a review of the findings of the quinquennial reviews to which the five bodies have been subjected as part of the oversight arrangements in the UK for Non-Departmental Public Bodies (NDPBs). Finally, this part of the work has also included looking at what approaches are being adopted in other jurisdictions that might be relevant to an assessment of how needs are being met and might be met in the future in the UK.

1.12. The work in Phase Three comprised detailed analysis and evaluation of options, the development of recommendations, and preparation of this Final Report. During Phase Three I undertook more detailed work with the five bodies, focusing on analysis in respect of activities, administrative arrangements and costs; I classified and analysed all the information and opinions obtained from the consultation exercise; and I collated information from that source and from the desk research to provide a picture of the needs and requirements of the industries concerned and a 'map' of the bodies and organisations involved in assisting in the process of change in these industries.

1.13. In doing this work I was guided in particular by the expressed views of stakeholders during the consultation exercise. This is returned to in some detail below in this Report, but here it may be noted that four issues featured prominently in the feedback from stakeholders, and in particular from levy payers and their representative organisations, and I paid particular attention to these during Phase Three. They relate to the governance and accountability arrangements in the light of today's circumstances; the activities of the five bodies, and in particular to the scope of activities, the priorities set and the return to levy payers in today's conditions; to arrangements with regard to the collection of levy; and to operational issues concerning the cost of service provision. Finally, towards the end of Phase Three and prior to finalising this Report, I shared my emerging ideas with key stakeholder groups, including the Farmers Unions as well as with the levy bodies themselves and with key officials from Defra and the Devolved Administrations.

Structure of the Report

1.14. In the light of the Review's Terms of Reference and the Review 'philosophy' described above, the structure of the remainder of my Report is as follows:

- **Section II** provides an **introduction to the five levy bodies**. It looks at the reasons for setting them up, their aims and objectives, their activities, their income and expenditure, their governance arrangements and how they are organised and managed. Section II also touches briefly on the role and activities of certain other bodies that are not financed by a statutory levy but whose operations have some features in common with the levy bodies.
- **Section III** examines **the needs of the industries** that the levy bodies were set up to serve. It provides some background to the sectors and sub-sectors concerned, the drivers of change impacting upon them, what this means in terms of the industries' needs in coping with change, and the key features of the framework of assistance

that they can draw upon in doing so. It highlights the part played by the five bodies in this framework.

- **Section IV** examines **the role and performance of the levy bodies** and the arrangements under which they operate. To do this, I use as a framework the four issues that featured prominently in consultation: governance and accountability; activities; arrangements with regard to the levy; and operational issues.
- **Section V** looks at **options for the future**. I look first at the fundamental question of whether or not a case in principle can still be made for statutory levies. I then identify what needs to change in practice in the light of today's conditions. I then examine options for the future, setting out the implications of these changes in terms of a set of business drivers that can be used as appraisal criteria and applying these to alternative options to reach conclusions as to the best way forward. Last, I describe the key features of a set of arrangements that best fit the business drivers and look at the costs and benefits of change.
- **Section VI** summarises the key steps that would need to be taken to **implement the arrangements** identified in Section V.
- **Section VII** summarises my **conclusions and recommendations**.

Section II

An introduction to the levy bodies

Introduction

2.1. In this Section of the Report, I provide an introduction to the five levy bodies. First I discuss some background issues: the origins of statutory levies in agriculture and horticulture and the principles upon which they are based. I then summarise and compare the key features of the five bodies, looking at their aims and objectives; their activities; their income and expenditure; their governance arrangements; and how they are organised and managed. I also describe some recent developments aimed at improving coordination between the various bodies, and touch briefly on the role and activities of certain other bodies that are not financed by a statutory levy but whose operations have some features in common with the levy bodies, before drawing some overall conclusions. Additional detail is provided in the following Annexes:

- **Annex C: Governance arrangements**
- **Annex D: Activities of the levy bodies**
- **Annex E: Levy arrangements**

Background

2.2. The principle of statutory levies in agriculture and horticulture has a long history in the UK. In many respects the modern levy arrangements have their origin in the agricultural depression of the 1930's. At that time a high degree of self-sufficiency in agricultural and horticultural products was a clear objective of government policy and there was great concern that market conditions were such as to threaten this objective by threatening the viability of primary producers; this gave rise to a perceived need to intervene in the market to protect continuity of domestic supply and thus to the establishment of statutory marketing arrangements. The legislative origins for the present arrangements, however, are to be found in the Industrial Organisation and Development Act of 1947; although each of today's five bodies were established after 1947, in a number of cases this was done under the provisions of the 1947 Act. The Act has thus proved remarkably durable in providing the legislative basis enabling agricultural and horticultural levy arrangements to continue up to today.

2.3. Since 1947, however, the agriculture and horticulture sectors and the markets in which they operate have changed dramatically. The UK joined the EU (then the EEC) in the 1970's and moved into a new framework of support for agriculture – the CAP – which has itself been the subject of significant recent reform. Global trade has expanded massively. Government's policy objectives have changed: self-sufficiency has ceased to be an objective. And many other new drivers of change have emerged; these are considered in more detail in Section III below. A fundamental question for this Review to address, therefore, is whether the principles underlying the 1947 Act, particularly in relation to statutory levies, have any relevance today. I return to this question in Section V of my report; here, however, it may be noted that one of the principles relates to what, in today's jargon, is known as 'market failure'. To the average levy payer this concept seems less than helpful; in a world where producers struggle to survive against a background of very low prices it may be self-evident that the market has failed! The term has, however, come to be used by economists and other policy-makers to refer to a specific state of affairs and it is worth examining the concept by way of background to the levy bodies. As I shall show in Section V, an updated version of 'market failure' is highly relevant to the question of whether or not statutory levies continue to be justifiable in today's circumstances.

2.4. The logic runs as follows. If markets are to work efficiently and effectively certain conditions need to be met. If some or all of these conditions are not present in a particular case then that market may 'fail' in that demand, supply and prices will not be at the optimum levels that a 'perfect' market would deliver. There are various instances of this: for example, efficient markets require reliable and accurate information to be available to producers and consumers so that they can take appropriate decisions. If this is not the case, as may well happen where there is 'fragmentation' on the supply side with a large number of small producers, there will be some degree of 'market failure'. And this 'failure' may be exacerbated where individual ('private') decisions necessarily do not take into account 'public' considerations and where these considerations are significant, as may well be the case in agriculture where, for example, environmental and other 'sustainability' issues are very important. The concept of 'market failure' is particularly relevant in the context of whether action by governments is required to compensate for, or correct, a failure, hence I return to it below in Section V; here, however, it may be noted that the 'market failure' arguments tend to be at their strongest in markets where there is a large number of small producers, where the market is undergoing substantial change, and where any attempt to make common arrangements to support the change process on a voluntary basis is likely to lead to those who are prepared to pay subsidising those who choose not to (what is sometimes termed the 'free rider' problem).

The five levy bodies: key features compared

2.5. Against this background, I provide in Schedule II.1a (non-meat bodies) and II.1b (meat bodies) at the end of this Section a summary of the key features of the five levy bodies. In the case of the MLC, it also gives information about the devolved bodies that now make up the levy structure in this particular industry. By using a consistent format, Schedule II.1 enables important features of the five bodies to be compared. In the next few paragraphs I look at the key features of each of the bodies.

The British Potato Council

2.6. The BPC was established in 1997. Its remit covers England, Scotland and Wales but not Northern Ireland, where different arrangements apply. Before the second world war, a Potato Marketing Scheme (PMS) was established to purchase potatoes from growers and sell them on; this scheme was wound up in 1997 but consultation with the industry at that time indicated a desire for a number of the functions of the old Potato Marketing Board (PMB) to be maintained, and these formed the basis of the BPC's remit. The BPC's aims were to increase efficiency and productivity in the potato industry and to improve and develop and/or render more economic the service given by the potato industry. These aims were to be achieved through three functions inherited from the old

PMB: in summary these were to promote and/or undertake scientific research; to provide market information; and to undertake market promotion. Further detail as to its functions is contained in the relevant secondary legislation referred to in Schedule II.1. Today the BPC's aims and objectives, as summarised in the mission statement in its strategy documents, are as follows:

> *"BPC activities aim to increase usage of potatoes and ensure that the GB industry is competitive going forward, so that it is in a position to take advantage of opportunities."*

2.7. Research underpins a number of the BPC's activities and is commissioned from various research institutes; work on potato storage, however, is conducted at the Sutton Bridge Experimental Unit (a wholly owned subsidiary of the BPC). In addition to R&D, Sutton Bridge also provides educational information and advice on storage and undertakes externally-funded research contracts. The promotion of potato consumption, potato exports and quality seed are of ongoing importance and, more recently, campaigns centred on health have also become a priority. The other main activity areas for the BPC include the provision of market information and technology transfer. Communications activities include events, publications and the work of field and supply-chain managers. For a fuller description of the BPC's activities over the last five years see Annex D.

2.8. In common with meat and cereals, the levy in the potato sector falls on processing as well as on primary production. Producers pay a levy based on hectarage; purchasers pay a levy per tonne of potatoes purchased. As Schedule II.1 shows, the BPC's income from the levy, at £5.9 million, places it ahead of the HDC (£4.7 million), slightly below the MDC (£7.3 million), somewhat below the HGCA (£9.8 million) and well behind the MLC (£26.3 million). Total yield from the levy stands at around 1.1%, greater than that of the other levy boards (which range from 0.2% for the HDC and 0.3% for the MDC to 0.4% for the HGCA and 0.8% for the MLC).[1] As Schedule II.1 also shows, BPC's costs incurred in collecting the levy are relatively high; at 6.9p per £ of levy income they are the highest of the five bodies.

2.9. Turning now to governance arrangements, the BPC has 16 members. Two are independent of the industry, including the Chairman. Nine members represent growers and three represent processors. The remaining two members represent marketing and distribution, and the industry's employees. All are appointed by Ministers. Annex C provides further details of governance arrangements.

2.10. Last, on the matter of organisation and management, the BPC has a Chief Executive, and Directors of R&D and Personnel and an Administration & Legal Director. It employs a total of 54 staff, which renders it slightly smaller than the HGCA and somewhat bigger than the MDC.

1 These figures were obtained by taking the amounts of levy collected by each levy board for each of the past 5 years and working these out as a percentage of the value of output for the sector concerned in each year. An average percentage was then calculated for each levy board to give the levy 'incidence' over this period. Taking an average for 5 years accounts for fluctuations in the sectors, such as a poor harvest. The data are limited by the fact that UK figures are used (in fact only the HGCA collect levy from Northern Ireland) and it is assumed that all those liable to pay levy have paid levy. The levy incidence for the sectors concerned are: meat 0.78%, dairy 0.26%, cereals 0.41%, potato 1.09%, horticulture 0.18%. Sources: Levy Board Annual Reports & Accounts and Chapter 6 of Agriculture in the UK 2004 (value of production figures 2000 – 2004).

The Horticultural Development Council

2.11. The HDC was established in 1986. It covers England, Scotland and Wales. A key factor in its inception was the change in government policy in relation to research and development in the field of horticulture. Until the mid-1980's, most of this work was government-funded; however, following a review of the commissioning arrangements for R&D, the decision was reached that growers should make a contribution to the costs as they were the principal beneficiaries. Government spending on near-market research was reduced, against an expectation that the industry would assume the responsibility for funding; however, it was far from clear that this could be achieved on a voluntary basis. Consultation with the horticulture sector revealed support for a compulsory levy, and the HDC was therefore set up, under the provisions of the Industrial Organisation and Development Act of 1947.[2] When it was first set up, therefore, the HDC's primary purpose was to commission R&D for the benefit of the GB horticultural industry.[3] This was to be achieved through commissioning scientific R&D and investigating methods of production etc., and communicating the results to growers. Its remit was, however, extended in 2003 to cover promotional activities, as recommended by the Policy Commission on Farming, and its aim, as given in its 2003 Corporate Plan, reflects this extension to its remit. HDC has so far made minimal use of this extended remit.

2.12. The HDC'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. In addition, the Council will sponsor market research or promotion of specific products where there is shown to be a collective need for such activity. The Council should provide clear value for money and be respected as making a major contribution to the profitability of the British horticultural industry."*

2.13. The HDC's principal activity, R&D, accounted for most of its spending in 2004/05 (£3.5 million). R&D is commissioned through horticultural research contractors such as Warwick HRI and Stockbridge Technology Centre. The HDC also supports a small number of PhD studentships. In addition, there has been ongoing commitment to knowledge transfer activities, such as conferences, road-shows, seminars and the publication of fact-sheets and guides, with a growing emphasis on electronic communications as the most effective means of disseminating information. The HDC has collaborated with industry and other organisations, both nationally and internationally, on wider issues such as pesticides; of particular relevance here is work on Specific Off-Label Approvals (SOLAs). In collaboration with other EU Member States, the HDC is also developing a residues database. Further details of the HDC's activities are given in Annex D.

2.14. Unlike meat, cereals and potatoes, the levy in horticulture is only on primary producers, not on processors. On most products, the levy is based on turnover: growers with a turnover in excess of £25,000 must make a return to the HDC and those with a turnover in excess of £50,000 must pay the levy. The apple and pear levy is, mainly for historic reasons, based on hectarage[4] and the mushroom levy on litres of spawn purchased. As

2 At the outset this excluded certain horticultural products, for which separate arrangements were to apply. The Apple and Pear Research Council, established in 1989, was merged with the HDC in 2003. Today, therefore, the HDC's remit covers the whole of the horticultural industry apart from cider apples and perry pears, and hops.

3 Following an economic evaluation of the Apple and Pear Research Council (APRC) in 2001/02, the functions of the APRC, concerning culinary and dessert apples and pears, were merged with those of the HDC from 1 April 2003.

4 To be liable to levy a commercial apple or pear grower must occupy land of at least 2 hectares planted with at least 50 trees.

Schedule II.1 shows, the HDC's income from the levy, at £4.7 million, makes it the smallest of the five bodies, the nearest in terms of levy income being the BPC and MDC, at around £6 million and £7 million respectively. Like milk, total yield from the levy is, however, relatively modest in comparison with the value of the industry as a whole; it stands at around 0.2%.[1] But, as Schedule II.1 also shows, although the HDC has to administer a system of annual returns, its costs incurred in collecting the levy are relatively modest: 1.3p per £ of levy income.[5]

2.15. In addition to statutory levy payers, the HDC also receives additional membership subscriptions on a voluntary basis. For example, small-scale growers whose total production is below the threshold for levy payment may still opt in so as to benefit from the HDC's activities.

2.16. With regard to governance arrangements, the HDC has 14 members in addition to the Chairman. Twelve represent the industry, one must have knowledge of marketing and/or distribution and one must represent the interests of those employed in the industry. All are appointed by Ministers. The HDC has a particular emphasis on sub-sectors: the horticulture sector is made up of many different products and markets and, in order to maintain a close degree of contact with this diverse industry and its needs, the HDC works through seven sector panels whose chairmen in turn sit on the HDC board. These panels are responsible for the detailed design of the R&D programmes for each of the sub-sectors concerned.

2.17. Finally, on the matter of organisation and management, the HDC has a Chief Executive but no management board structure. It employs only 14 staff, and is thus by far the smallest of the five bodies.

The Home Grown Cereals Authority

2.18. The HGCA was established under the Cereals Marketing Act of 1965. Its remit was extended in 1989 to cover oilseeds, hence today the HGCA covers wheat, barley, oats, rye, maize, triticale, rapeseed, linseed, soyabeans and sunflower seeds. Unlike the other four bodies, it covers the whole of the UK, not just GB. The HGCA's original objective was to improve the marketing of home grown cereals; this was amended in 1986 to include production as well as marketing, which permitted it to fund near-market research related to cereal production at a time when government was withdrawing from funding research of this kind. The HGCA meets its aims today by providing information and promoting research and development. Its stated mission is:

> *"To improve the production and wholesomeness and marketing of UK cereals and oilseeds so as to increase their competitiveness in UK and overseas markets in a sustainable manner. HGCA provides high quality services which are cost effective and designed to meet the needs of levy payers, whilst taking account of both consumer and environmental requirements."*

2.19. The HGCA's single greatest area of spend is on R&D, including variety evaluation trials, with focus on knowledge transfer through events and publications. There is also work done on strategic planning, economic analysis and benchmarking. Due to its historical focus on marketing and promotion, the HGCA also has considerable resource devoted to this aspect of its work, including researching and facilitating exports to the North African market. In the domestic field, the HGCA has conducted some of its marketing and

5 This is based on 'enforcement costs' of £61,000 in 2004, compared to a total levy collected of £4.3 million. See HDC Annual Report: 2003/04.

promotion in connection with the British Nutrition Foundation, emphasising the nutritional aspects of grain. In terms of training for producers, the HGCA runs risk management courses, as well as collaborating with colleges in East Anglia to deliver IT skills to growers. Recently, the HGCA has undertaken a Cereals Industry Review to assess priorities for HGCA action. The HGCA has also facilitated the establishment of the cross-sector Cereals Industry Forum, to address matters such as value chain analysis and crop benchmarking. Further details of HGCA's activities are given in Annex D.

2.20. In common with meat and potatoes, the levy in the cereals sector falls not only on primary production but also further up the supply chain. The precise arrangements are complex (see Annex E for details) but in essence the grower pays the bulk of the dealer levy and a processor levy is raised on cereals subject to an animal feed or other industrial process. On oilseeds there is no processor levy. The levy is per tonne of product. As Schedule II.1 shows, the HGCA's income from the levy, at £9.8 million, places it second only to the MLC at £26.3 million. Total yield from the levy is somewhat higher than for milk and horticulture when compared to the value of the industry as a whole; it stands at around 0.4%,[1] half that of meat but double that of horticulture. As Schedule II.1 also shows, the overall cost of levy collection equates to approximately 4p per £ of levy collected.[6]

2.21. With regard to governance arrangements, the HGCA has 16 members. The Chairman and Deputy Chairman must be independent. The fourteen ordinary members represent dealers (three), processors (four), and growers (seven). Growers in Scotland, Wales and Northern Ireland must each have a representative. The Chairman and Deputy Chairman are appointed by Ministers, the other members by Ministers after consultation with trade bodies. See Annex C for details on committees.

2.22. With regard to organisation and management, the HGCA has a Chief Executive and a management board with a further five members. It employs 61 staff and, in these terms, is thus of similar size to the BPC, although with a substantially greater income.

The Milk Development Council

2.23. The MDC was established in 1995. In common with the BPC, its existence followed the demise of statutory marketing arrangements. The Milk Marketing Boards in Great Britain were abolished in 1994, having been in existence since the early 1930's to administer Milk Marketing Schemes. In addition to their function of purchasing primary producers' milk and selling it to the dairy companies, the Boards had carried out other work to support the dairy industry and, although some of these functions, such as milk recording and AI services, were capable of transfer to the private sector, it was felt that others, including the funding of research, livestock improvement work, genetic evaluations, and the compilation and provision of market information, would not transfer in this way and the industry was concerned that these services should not lapse. Following consultation, the MDC was established by Order under the Industrial Organisation and Development Act of 1947. Its original focus was on research and development and on the collection and dissemination of industry information and statistics; however, its remit was extended in 2000 to cover the promotion of milk. The MDC's stated mission is to:

> *"provide the opportunities, insights and expertise that spur dairy farmers to improve profits in a changing world."*

6 See HGCA Annual Report & Accounts.

2.24. The MDC's activities focus on three main areas. First, there are marketing and promotional activities to increase demand, such as the 'White Stuff' campaign (in 2001), the current campaign aimed at encouraging teenage girls to consume milk,[7] National School Milk Week and the 'Say Cheese' campaign. The second main area of focus, R&D, has seen the establishment of MDC Evaluations Ltd, to produce genetic information on cows and bulls, as well as collaboration with cheese producers, research into animal disease, feeding programmes and waste management, and economic research The final focus area for the MDC concerns the production of market information, and improving levels of efficiency and business expertise, through initiatives such as '£1000 for 1000 cows', knowledge transfer events and publications. There is also a business benchmarking service in Wales (MilkBench). The MDC also co-funds the Dairy Council. Further details of MDC's activities are in Annex D.

2.25. Unlike meat, potatoes and cereals, the levy in the case of the MDC falls only on milk production, not on processing. The levy is per litre of milk delivered to processors or sold direct to the public. As Schedule II.1 shows, the MDC's income from the levy, at £7.3 million, is higher than the proceeds of the levy on potatoes and lower than that on cereals; total yield from the levy when compared to the value of the industry as a whole is a little higher at 0.3% than in the horticultural sector.[1] As Schedule II.1 also shows, the arrangements for collecting the levy are very low cost, estimated to be 0.6p per £ of levy income.

2.26. With regard to governance arrangements, the MDC has 11 members who are appointed by Ministers (England, Scotland and Wales). The Chairman must be independent. The other members should be representatives of producers (six) and of dairy industry employees (two), together with a marketing specialist and a second independent member. See Annex C on governance for details of committees.

2.27. With regard to organisation and management, the MDC has a Chief Executive together with a management team of five. It employs 44 staff and, using this measure, is smaller than the BPC, albeit with a slightly greater levy income.

The Meat and Livestock Commission

2.28. The MLC was established under the Agriculture Act 1967. Its broad aim has been to promote efficiency in the livestock industry (defined as cattle, sheep and pigs) in Great Britain, having regard to the interests of consumers. It is the only one of the five bodies to have consumer interests explicitly recognised in its remit and to have a statutory Consumers Committee. Its functions are broadly defined, encompassing the provision of a range of technical services as well as the commissioning of scientific research, the provision of market information, and promotion of product.

2.29. The MLC operated as a single integrated organisation until the late 1990's. This came to an end in 1999 when, following representations from the pig industry, which was going through a period of particular difficulty at that time, the British Pig Industry Executive (BPEX) was established, as an executive committee of the MLC, in order to give a greater degree of autonomy over the uses to which the levy would be put. Immediately thereafter, following the devolution of agricultural policy to Scotland and Wales, it was decided that regional bodies should be set up to cover Scotland and Wales, also with increased autonomy over livestock levy matters. These were established as separate

7 The EU Commission has awarded £1.5 million to the MDC to match-fund a two year campaign aimed at persuading teenage girls of the benefits of consuming milk, yoghurt and cheese.

legal entities: Quality Meat Scotland (QMS) and Hybu Cig Cymru (HCC). This left the English arrangements in relation to beef and sheep to be re-defined, which they were with the creation of a second 'executive committee board' of the MLC: the English Beef and Lamb Executive (EBLEX). The upshot of these developments, in summary, is that the MLC now operates a 'devolved' structure. In essence, the MLC continues to act as the statutory body empowered to collect levy and is accountable to Ministers for so doing; it then transfers the relevant monies to the four devolved bodies who then buy back, on an agreed basis, a range of services from the MLC. Each of the devolved bodies has its own approach to discharging its 'devolved' remit; whilst there are some features in common, there are also important differences in approach.

2.30. As a result of the organisational changes to the MLC, most activities are now delivered through the four federal bodies, although the extent to which services are delivered by the bodies themselves, as opposed to being bought from the MLC, varies. The main collaborative projects undertaken by the MLC on behalf of the bodies are the collection and dissemination of market information and industry statistics, policy analysis (e.g. CAP changes, OTMS), knowledge transfer of R&D and best practice, issues such as health and nutrition, and liaison with other organisations, such as the Applied Research Forum. The MLC has also had an important role to play in issues management such as on BSE and FMD and has taken the lead in establishing the cross-industry Red Meat Industry Forum.

2.31. Activities which some or all of the devolved bodies perform include: setting up and promoting quality standards and obtaining EU state aid approval; projects to improve business performance; model farms in Scotland and Wales (so-called 'monitor' farms); and marketing campaigns. Research priorities differ somewhat across the four bodies: for example BPEX has commissioned research into feeding and animal health issues specific to the pig sector while HCC reports research into breeding and disease resistance in the sheep sector. EBLEX adopted the research commitments of the MLC in 2003/04, for example a focus on lowering the costs of production. QMS has focused rather more on consumer research and research into export markets than on science-based R&D. A fuller description of the MLC and the activities of the federal bodies can be found in Annex D.

2.32. In the case of meat, in common with potatoes and cereals the levy is raised on primary producers and also on processors. The General Levy is paid on a per head basis by the slaughterer or exporter and 50% is recovered from the producer. The Promotional Levy is paid on a per head basis and is recovered 100% from the producer. As Schedule II.1 shows, the yield from the levy is, by an order of magnitude, the largest of the five bodies, at £26.3 million; when compared to the value of the industry this is 0.8%. This compares with potatoes at 1.1%, cereals at 0.4%, milk at 0.3% and horticulture at 0.2%.[1] At devolved body level the figures are still substantial by levy body standards; transfers of levy to QMS, HCC, BPEX and EBLEX amounting to £3.9 million, £3.4 million, £7.5 million, and £11.4 million[8] respectively. The cost of levy collection for the MLC as a whole is 2p per £ of levy income.

2.33. The MLC also has a significant and profitable commercial services operation which provides advice, logistics and inspection services to the meat and livestock industry on a commercial basis. These activities have supplemented levy income over the last nine years, contributing £9 million in pre-tax profits to the MLC. Commercial Services include an independent carcase classification service to abattoirs, agency services for the provision of technical staff, training and consultancy, breeding evaluations (through Signet Breeding Services), and a conference centre. In addition, MLC are joint owners with Campden and Chorleywood Research Association of the European Food Safety Inspection Services (EFSIS).

8 Figures from page 10 of MLC Accounts 2005.

2.34. With regard to governance arrangements, these now reflect the devolved arrangements. The MLC itself retains the statutory responsibility to collect the levy and thus, as the relevant NDPB, is accountable to Ministers in this regard. The MLC has eleven members, consisting of the Chairman and Deputy Chairman, the Chairmen of EBLEX, BPEX, QMS and HCC, and representatives of the farming, abattoir, processing, and retailing sectors together with one member independent of the industry. They are appointed by Ministers. MLC is the only body whose Chairman can be, but does not have to be, independent. The MLC Annual Report and Accounts include reports from the MLC Chairman, and the chairmen of all the devolved bodies, although both HCC and QMS also publish separate Reports and Accounts.

2.35. BPEX and EBLEX are executive committees, to which the functions of the MLC in respect of pigs, and beef and sheep in England, have been delegated. The Chairmen of BPEX and EBLEX are MLC Commissioners. The board of BPEX is composed of twelve members nominated by industry representative organisations. The board of EBLEX is composed of eleven members nominated by industry representative organisations.

2.36. MLC's functions in Wales are devolved to HCC, which is a company limited by guarantee. The MLC and the Welsh Development Agency are the members of the company and have appointed representatives to the board of HCC. There are eight directors of the company, including the Chairman.

2.37. In Scotland, MLC's functions (except levy collection) have been transferred to QMS: a company limited by guarantee. QMS is fully accountable to the Scottish Parliament and so QMS's Annual Report and Accounts are submitted to the Scottish Parliament. The MLC, the National Farmers Union Scotland, and the Scottish Association of Meat Wholesalers are the members of the company. The current board of QMS has thirteen members, including the Chairman.

2.38. With regard to organisation and management, the MLC has a Chief Executive together with a management team of 2. It employs 554 staff (of whom 125 people work in EFSIS and 318 in Commercial Services) and is by far the largest employer amongst the five bodies. In total, there are 71 levy-funded people working in the MLC Executive. The other people employed by the MLC are funded through fees and grants. As explained above, the MLC's role now is largely that of service provider to the devolved bodies, whose approach to employing their own staff directly varies: HCC has 4 team managers and a total staff of 17; QMS has 4 team managers and a total staff of 16; EBLEX has 27 and BPEX three.

Coordination between the five bodies

2.39. Recently some initiatives have been undertaken aimed at improving coordination between the five bodies. These are the Agricultural and Horticultural Levy Board Forum (AHLBF) and the Applied Research Forum (ARF).

2.40. The AHLBF was established in 2003 to explore the issue of collaborative working.[9] Membership of the AHLBF includes the five levy bodies, together with the British Beet Research Organisation (BBRO) and the Processors and Growers Research Organisation (PGRO).[10] The AHLBF has set in train a series of initiatives to examine areas where levy bodies can collaborate and co-operate for mutual benefit. These include examining

9 From Defra's 2004 Departmental Report

10 These latter two bodies are discussed further below.

best practice and benchmarking of activities; shared approaches and services; communications; shared locations and working together on cross-sector research issues.

2.41. The ARF was established in 2003 following a recommendation in the Report of the Policy Commission on the Future of Farming and Food to the effect that levy bodies and the Government should improve the co-ordination of their applied farming and food research in order to avoid duplication and maximise synergies.[11] The Forum provides a mechanism for industry levy bodies to collaborate in the development and integration of appropriate strategic and applied R&D programmes as well as associated knowledge transfer activities. It also influences Government prioritisation and investment in agri-food research.11 Membership of the ARF includes the technical director from each of the five statutory levy bodies, the BBRO, and the PGRO. There are also representatives from the Biotechnology and Biological Sciences Research Council, the Department of Agriculture and Rural Development Northern Ireland, Defra, the Food Standards Agency, the National Farmers Union, the National Farmers Union Scotland, the Scottish Executive Environment and Rural Affairs Department and the Welsh Assembly Government.11

2.42. The ARF encourages the sharing of information and best practice through a series of meetings, workshops and conferences. Since it was established in 2003, the ARF has held three meetings a year, when current issues are discussed and information is shared. The ARF held a conference on organic wastes and has held workshops on subjects such as soil management, Knowledge Transfer, and the Water Framework Directive.[11]

Other bodies

2.43. As indicated above, there are certain other bodies not financed by a statutory levy but whose operations have some features in common with the levy bodies.[12] These are discussed briefly below.

British Beet Research Organisation (BBRO)

2.44. BBRO is a company limited by guarantee that was incorporated in 2000. It is a non-profit making company set up jointly by British Sugar plc and the National Farmers' Union. BBRO's objective is to commission and implement both strategic and applied research and technology transfer designed to increase the competitiveness and profitability of the UK sugar beet industry in a sustainable and environmentally acceptable manner. This includes increasing sugar yield per hectare; reducing the costs of sugar beet production; ensuring crop and product safety; improving crop quality; reducing processing costs and improving the environmental impact of the crop.

2.45. BBRO's activities include strategic long-term and more immediate applied projects to ensure a profitable and healthy UK sugar beet crop. BBRO also undertakes technology transfer projects that are designed to communicate to growers the results of funded research, interpreted into best practice, and technical advice for the growing of sugar beet. These projects therefore investigate the performance of new varieties; crop physiology and nutrition; the control of pests, diseases and weeds; beet harvesting, handling and storage; soil management and crop establishment; and technology transfer.

11 From the Applied Research Forum website

12 There are, of course, very many organisations whose activities may overlap to some degree with those of the levy bodies. This subject is returned to in Section III; here I cover only those bodies that have similar remits to those of the levy bodies in respect of other agricultural and horticultural products.

2.46. BBRO is funded by a levy on growers for every tonne of sugar beet processed, along with matched funding from British Sugar plc, the single processor.[13] The current rate of levy is 12p for every tonne of sugar beet processed.

British Egg Industry Council

2.47. The British Egg Industry Council (BEIC) was set up in 1986 to represent the UK egg industry. It is funded by subscriptions from egg producers and purchasers. Members of the BEIC include 11 major organisations concerned with the UK egg industry.

2.48. The BEIC's remit includes representing the UK egg industry and its members at government and EU level; undertaking public relations for the UK egg industry; informing consumers and answering their questions about UK eggs and the UK egg industry; assisting with research and development, and health issues relating to the UK industry; and running the Lion Quality Scheme for eggs.

2.49. Egg producers who wish to use the lion logo on their eggs (as proof that their eggs meet the required standards) have to pay a levy to the Lion Quality Scheme. The scheme has a large number of members, despite the fact that it is voluntary.

British Poultry Council

2.50. The British Poultry Council is a voluntary trade association funded by subscriptions. It was formed in 2001 to replace the British Poultry Meat Federation that had represented companies involved in the rearing and processing of poultry meat in the UK. While the British Poultry Council undertakes similar work to that of its predecessor, its remit also includes major breeding companies and commercial hatcheries as well as duck and goose producers. Members include companies and individuals involved in breeding, hatching, rearing and processing chickens, turkeys, ducks and geese. The Council does not represent producers of table eggs who are represented by the British Egg Industry Council.

2.51. The British Poultry Council's remit includes promoting and protecting the sector's interests; representing the collective views of poultry breeders, farmers and UK processors to the government, the European Union and the media; monitoring and commenting on proposals for new legislation and assisting in the practical implementation and enforcement of existing legislation within the UK and European Union; participating in research on bird health and welfare and food safety as well as assisting with Codes of Practice and standards relating to all aspects of rearing and processing; assisting in drawing up technical programmes; and collecting and circulating information to members and other sector stakeholders.

British Wool Marketing Board

2.52. The British Wool Marketing Board (BWMB) was established by statute in 1950 to operate a central marketing system for UK fleece wool, with the aim of achieving the best possible net return for producers. Prior to the Board's formation, wool used to be collected by merchants but was not collected, and thus remained on farm, in years when the price was low. During the war an acquisition board was set up as the price was then high. Government agreed that, following the war, a Board would be set-up to help guarantee the price. The guaranteed price arrangements finished in 1993. Today, the

13 This is not a statutory levy but is contractual; growers selling their beet to British Sugar plc are obliged by the terms of their contracts to pay levy.

BWMB operates as a co-operative with statutory backing. It pays 50% of the estimated wool price at collection and the remainder the following year, following the sale of the wool. Once sheep are shorn, the wool belongs to the BWMB. Wool is weighed at the depot and graded and the farmer is paid according to the grade.

2.53. The BWMB's main objectives are to provide a secure market outlook for producers; stimulate demand by technical research, product development and promotion; improve the quality of the clip; and provide an efficient marketing service from collection to auctions. R&D is small-scale and is done in conjunction with other wool countries, i.e. New Zealand and South America. The Board also arrange sheep shearing training and have received £4 million from Europe for training. The training course is free for shearers. The Board intend to set-up a separate fund for training and is able to set up a training levy without needing further parliamentary approval.

2.54. The BWMB has a board of nine elected farmer members and two appointees. Farmers are appointed for 3-year terms and are nominated by their region. Board members do not have to be sheep farmers. The Board is UK-wide.

Cider Apples and Perry Pears

2.55. Cider apples and perry pears are not covered by the Horticultural Development Council as they were not within the remit of the old APRC, now merged with the HDC.

2.56. The cider industry uses 45% of all the apples grown in Britain and has invested approximately £100,000 per annum for its future development through work undertaken by both individual cider manufacturers and the National Association of Cider Makers (NACM). Such work includes research projects to improve orchards, and technical demonstrations where the latest technical information can be disseminated to growers. Many cider apple growers have long term contracts with the cider manufacturers and work in close partnership with their growers to ensure a long term viable and sustainable cider growing industry.

2.57. NACM was founded in 1920 to be the governing body of the cider and perry industry in the UK. It represents both larger and small scale producers by means of affiliated membership of the South West of England Cider Makers' Association and the Three Counties Cider and Perry Association. Its objectives are to set and control standards of production and ethics within the industry and to ensure the industry's viewpoint on key issues such as legislation and taxation are presented to government;

2.58. NACM's activities include operating its own Code of Marketing Practice; shaping the commercial, technical, scientific, legislative and fiscal environment which impinge on the producers of cider and perry in the UK; promoting the interests of cider and perry with consumers and fruit growers; encouraging the positive development of the industry and the companies within it; supporting and protecting the interests of cider makers in general; and fostering the responsible consumption of cider. The NACM also regularly monitors cider brands and takes action against any that are found not to comply with the Code of Practice. It also has a Pomology Research Committee and Field Officer working to improve the quality of fruit delivered to the cider mills and promote to growers a system of integrated pest management encouraging the use of pesticides.

National Hop Association of England

2.59. The National Hop Association of England was formed in 1996 to co-ordinate the activities of, and research for, England's hop growers.

2.60. Hops are marketed by five hop producer groups who provide their grower members with a range of services, and contribute towards the research and development of new ideas and modern growing techniques. The National Hop Association of England funds hop research programmes at HRI Wye College in Kent to develop and promote new varieties. It also supplies information to brewers, hop merchants in Britain and to markets world-wide.

The Processors and Growers Research Organisation (PGRO)

2.61. The PGRO undertakes applied research on peas, beans and lupins for animal feed. Its work takes the form of field trials and experiments on vining peas, green beans and lupins undertaken on a national basis. Investigations include the evaluation, in association with manufacturers, of new crop protection products and their development; the evaluation of new varieties in a range of environments; the study of seed vigour, health and protection; husbandry requirements for each crop; the control and commercial significance of pests, diseases and disorders; machinery evaluation; and crop management and timing.

2.62. A major source of PGRO's income is through a voluntary levy of 50p per tonne plus VAT on pulses. This is mainly collected by merchants and co-operatives trading pulses. Paying the levy entitles growers to PGRO literature, information and advice and the use of a range of technical services. Currently, the PGRO levy finances trials to maintain the NIAB Recommended List of Pea & Bean varieties, and projects at agronomy centres as well as the other work undertaken by PGRO. Levy from Scottish growers is mostly used to finance variety evaluation work through the Scottish Agricultural College. Funding for R&D and technical services in 2005 collected from the 2004 levy amounted to £288,000.

The Arable Group (TAG)

2.63. TAG is a charity whose objective is "to promote for public benefit the study and knowledge of agricultural science and the application of modern scientific techniques to agriculture". It was created in 2003 from the merger of two smaller farmer-controlled charities in order to be able to compete more effectively within a changing agricultural research environment and to ensure the retention of a strong independent voice in the industry.

2.64. TAG operates 23 trials centres from three regional offices spread across the main arable regions of England. It provides independent, agronomic information to arable farmers. It employs about 50 research staff and, in a wholly-owned consultancy business, a further 43 on-farm consultants.

Conclusions

2.65. The material presented above in this Section leads to the following conclusions:

- Looking first at the five levy bodies themselves, Schedule II.1 indicates that, whilst there may be some broad similarities between the five bodies, there are also very considerable differences. Their broad statutory remits are similar: they all focus on the need to promote efficiency and productivity in the industries concerned. In terms of their governance arrangements, all five are NDPBs but there are variations with regard to board size and composition and to remuneration arrangements. Whilst the bodies undertake a broadly similar range of activities the extent and degree of focus on particular activities varies considerably. Arrangements with regard to the levy are not uniform. And the size and scale of the bodies' operations varies greatly. Whilst some of these differences may have some degree of objective basis it is far from clear that they all do. This theme is returned to below in Sections IV and V of this report.

- Until recently, little was done to coordinate the work of the five bodies and to identify areas where making common cause would bring benefits. Improved coordination has, perhaps, been somewhat overdue. It is encouraging that steps have recently been taken, through the mechanisms of the AHLBF and the ARF, to improve the degree of coordination between the efforts of the five bodies, but these initiatives are still in their infancy.
- Last, consideration of the work of other bodies indicates, first, that in some industries arrangements can be made that do not require the backing of a statutory levy; however, it may be argued that the circumstances in some of these industries are different in a number of material respects from those faced by the five bodies. These matters are also returned to below in Section V; here, however, it may be noted that, in addition to the five levy bodies, there are several other organisations quite properly operating independently but who might also be able to benefit from some degree of cooperation with one another in order to save costs. This, too, is returned to below in Section V.

Schedule II.1a – An overview of the levy boards – non-meat bodies

	BPC	HDC	HGCA	MDC
Value of Sector[1] (whole chain value)	£518 million	£2,076 million[2]	£2,767 million[3]	£2,627 million
Income and expenditure[4]				
a) levy income	a) Total: £5,873k (Area levy: £4,750k Tonnage levy: £1,123k)	a) £4,673k	a) £9,756k	a) £7,278k
b) grants			b) £383k	b)£73k
c) other	c)£171k	c) £243k[5]	c)£458k	c)£188k
d) expenditure	d)£6,127k	d) £4,486k	d)£10,107k	d)£7,771k
Levy yield[6]	1.09%	0.18%	0.41%	0.26%
Statutory Basis				
Primary legislation	The Industrial and Organisation Development Act 1947	The Industrial and Organisation Development Act 1947	The Cereals Marketing Act 1965, as amended by the Agriculture Act 1986	The Industrial and Organisation Development Act 1947
Subordinate legislation	Potato Industry Development Council Order 1997 (as amended).	Horticultural Development Council Order 1986 (as amended).	The Cereals Marketing Act (Application to Oilseeds) Order 1989, the HGCA Levy Scheme (Approval) Order 1987, the HGCA Oilseeds Levy Scheme (Approval) Order 1990. The Home Grown Authority Levy Orders are made annually to establish the rate of levy.	The Milk Development Council Order 1995, as amended.
Geographic coverage	Great Britain	Great Britain	Great Britain and Northern Ireland	Great Britain

1 Source: Agriculture in the UK 2004 (2003 figures).

2 This value includes: fresh vegetables (including mushrooms), plants & flowers and fresh fruit.

3 This value includes: wheat, barley, oats, rye, triticale, oilseed rape and linseed, but excludes: maize, soyabeans and sunflower seeds.

4 2004/05 figures. Source: Annual Report and Accounts for the relevant levy boards and by correspondance with the BPC, HDC, HGCA and MDC.

5 Includes membership subscriptions, royalties, contributions to projects and bank interest.

6 See footnote to paragraph 2.9 for the basis of calculation of levy incidence.

Schedule II.1a – An overview of the levy boards – non-meat bodies

	BPC	HDC	HGCA	MDC
Statutory purpose	" The Council shall exercise its functions in such a manner as appears to it to be likely to increase efficiency and productivity in the industry, to improve and develop the service which the industry renders or could render to the community or to enable the industry to render that service more economically".	"The Council shall exercise its functions in such a manner as appears to it to be likely to increase efficiency and productivity in the industry, to improve and develop the service which the industry renders, or could render to the community or to enable the industry to render that service more economically".	"The HGCA .. shall perform the functions assigned to them… for the purpose of improving the production and marketing of home-grown cereals." (Cereals Marketing Act 1965, as amended)	"The Council shall exercise its functions in such a manner as appears to it to be likely to increase efficiency and productivity in the industry, to improve and develop the service which the industry renders, or could render to the community or to enable the industry to render that service more economically".
Statutory activities	**Scientific research.** **Research** as to **materials and equipment** and as to **methods of production, management and labour**, including the discovery and development of **new technology**, conduct of **experimental establishments** and of tests on a commercial scale. Production and marketing of **standard products**. Definition of **trade descriptions**. Research on **marketing and distributing** products. **Research** into **consumption or use** of industry goods and services. Development of the **export trade**, including publicity overseas. **Promoting** industry goods and services supplied to the UK public. Collection and formulation of **statistics**. **Advising Ministers** on matters relating to the industry (other than remuneration or conditions of employment). **Disseminating** information obtained.[7]	**Scientific research**. **Research** as to **materials and equipment** and as to **methods of production, management and labour**, including the discovery and development of new technology, conduct of **experimental establishments** and of tests on a commercial scale. **Disseminating information** obtained. Promoting measures for securing **safer and better working conditions**. Production and marketing of **standard products**. **Research** into improving marketing and distribution of products. Research into **consumption or use** of industry goods and services. **Promoting** industry goods and services to the UK public.[8]	Preparation and publication of **information** or estimates on **prices, supply, demand and other market conditions**. Encourage the adoption of, new marketing **systems**, and procedures. **Research** into **breeding and cultivation** and the **collection, storage, conservation, testing** and distribution of home grown cereals; **new uses** of, or processes to be applied to, home-grown cereals or straw. **Demonstrations** of the results of any such work or of any other **new technologies** for the production or marketing of cereals.	**Scientific research**. **Research** as to **materials and equipment** and as to **methods of production, management and labour**, including the discovery and development of new technology, conduct of **experimental establishments** and of tests on a commercial scale **Disseminating information** obtained. Promoting the adoption of measures for securing **safer and better working conditions**. Production and marketing of **standard products**. Research into improving marketing and distribution of products. **Research** into **consumption or use** of industry goods and services. **Promoting** industry goods and services to the UK public.[9]

7 Schedule 1 to the PDC Order 1987, as amended
8 Schedule 2 to the HDC Order 1986, as amended
9 Schedule 1 to the MDC Order 1995 as amended.

Schedule II.1a – An overview of the levy boards – non-meat bodies

	BPC	HDC	HGCA	MDC
Other statutory responsibilities	To establish and maintain a register of persons carrying on business in the industry. May with the approval of Ministers impose a levy. Submit an Annual Report and Accounts to Ministers and Parliament.	To keep a register of growers. May with the approval of Ministers impose a levy. Submit an Annual Report and Accounts to Ministers and Parliament.	Submission of annual estimate of the amount to be raised by levy for that year and the proposals as to the kinds of cereals on which levy should be imposed and apportionment between the different kinds. Weekly publication of Corn Returns. Submit an Annual Report and Accounts to Ministers and Parliament.	To maintain a register of producers. May with the approval of Ministers impose a levy. Submit an Annual Report and Accounts to Ministers and Parliament.
Principal activities[10]				
Business performance	51% (£3,100k)	98% (£4,380k)	63% (£6,323k)	24% (£1,823k)
Business development	8% (£482k)		6% (£579k)	9% (£685k)
Producer market information	13% (£820k)		13% (£1,260k)	25% (£1,940k)
Consumer market information	10% (£583k)		4% (£447k)	11% (£895k)
Product promotion	11% (£669k)	2%(£110)	5% (£509k)	30% (£2,342k)
Export promotion	4% (£221k)		8% (£848k)	
Crisis management	4% (£249k)		1% (£141)	1% (£86k)
Levy				
Basis of collection	Levy payable on hectarage planted; purchasers are required to pay a levy on tonnage bought. There is a registration threshold of 3 hectares for growers and 1000 tonnes for purchasers.	Every grower with sales of their own produce amounting to more than £25,000 a year is required to register with the Council. Registered growers are then asked to make an annual return of the value of their sales which if, after specified deductions exceed £50,000, is used to calculate the levy due. Mushroom growers who purchase more than 700 litres of spawn per annum are required to register with the Council and pay a levy. The levy on apples and pears is collected on farms growing two or more hectares or planted up with 50 or more trees.	Levy is payable on home-grown wheat, barley, oats, rye, maize, triticale, rapeseed, linseed, soyabean, and sunflower seed.	All cow's milk sold off-farm. The levy is collected either from the first purchaser of the milk or from the farmer directly.

10 Data provided by the bodies for the purposes of this Review. See Section IV: Table IV.1

Schedule II.1a – An overview of the levy boards – non-meat bodies

	BPC	HDC	HGCA	MDC
How calculated	Rates may vary annually. Levy rates applying in 2004/05 (from 1 July 2004): for growers of potatoes: £39 per hectare for payments received by the due date (£44 per tonne for payments received after the due date); and the levy rate for purchasers of potatoes: 17 pence per tonne for payments received by the due date (19 p per tonne for payments received after the due date).	Rates may vary annually. The 2004/5 rate of the levy was 0.5% of net sales turnover for horticultural produce. The mushroom growers levy was 8 pence per litre; and the apple and pear growers levy rate was £26.50 per hectare.	Payment of levy arises when property in the cereals and oilseeds passes to the purchaser. The levy is calculated on a pence per tonne basis	The levy rate is set on a pence per litre basis.
Scope (primary production, etc)	Levy is raised on both primary production and on 1st and 2nd purchases of potatoes on tonnes moved.	Primary production only.	Primary production and processors/dealers in cereals.	Primary production only
Collection costs per £ of levy income [11]	6.9p	1.3p	4.0p	0.6p[12]
Chairman	David Walker	Colin Harvey	John Page	Brian Peacock
How appointed	Appointed jointly by the Secretary of State for Environment, Food and Rural Affairs, the Scottish Ministers and the National Assembly for Wales under section 2(7) of the IODA 1947	Appointed jointly by the Secretary of State for Environment, Food and Rural Affairs, the Scottish Ministers and the National Assembly for Wales under section 2(7) of the IODA 1947.	Appointed jointly by the Secretary of State for Environment, Food and Rural Affairs, the Scottish Ministers and the National Assembly for Wales and the Northern Ireland Department for Agriculture and Rural Development under the Cereals Marketing Act 1965.	Appointed jointly by the Secretary of State for Environment, Food and Rural Affairs, the Scottish Ministers and the National Assembly for Wales under section 2(7) of the IODA 1947.
Term	Appointed for 3 years.	Appointed for 3 years.	Appointed for 3 years	Appointed for 3 years.
Remuneration[13]	inc. taxable benefits for 2004/05: £65,357	inc. taxable benefits for 2004/05: £44,169	2005: £25,000	2005: £33,999[14]

11 2004/05 figures from Annual Report and Accounts for the BPC, HDC, HGCA.

12 Figure provided by correspondance with MDC. Levy is in general collected by the processors at first point of sale. The interest earned on the balances collected remunerate the processors for the costs involved (See Annex E).

13 Annual Report and Accounts for the BPC, HDC, HGCA and MDC.

14 MDC Annual Report & Accounts 2005

Schedule II.1a – An overview of the levy boards – non-meat bodies

	BPC	HDC	HGCA	MDC
Biography	Independent of the potato industry. Formerly managing director of Cyanamid Agriculture and has held a number of senior commercial roles in the agrochemical industry.	Independent of the horticultural industry. Formerly worked for the Royal Dutch/Shell group of companies and was managing director, Downstream, Shell UK between 1995 and 1998.	Former Director General of the British Agrochemicals Association (now the Crop Protection Association), and was agricultural director of Barclays Bank from 1994-2000.	Experience in the dairy industry of production, processing and marketing. Previously Technical Director of Northern Foods Dairy Group.
Members	The Council is appointed by Ministers (England, Scotland, Wales) and consists of 16 members: 9 growers, 4 industry beyond farm, 2 independents, 1 labour representative. Appointed for 3 years. Council members are eligible for a £102 honorarium per meeting.	The Council is appointed by Ministers (England, Scotland, Wales) and consists of 15 members: 12 grower representatives, 1 labour representative, 1 independent, and 1 with knowledge of marketing/distribution. Appointed for 3 years. Council members are eligible for a £100 honorarium per day spent on Council activities.	The Authority should have at least 12 members and no more than 21 members. Currently, there are 16 members: 2 independents, 7 representing dealers and processors and 7 grower representatives (4 English, 1 Scottish, 1 Welsh and 1 from Northern Ireland.	The Council has 11 members: 2 independents (including the Chairman), 2 representing those employed in the industry, 1 marketing specialist, and 6 producer representatives.[15]
Key Committees	There are 5 Committees: Audit, Marketing & Communications, R&D, Market Information, and Seed Sector Group. The Seed Sectoral Group is a statutory BPC Committee.	There are 9 Committees: Appeals, Audit, bulbs & outdoor flowers, field vegetables, hardy nursery stock, mushrooms, protected crops, soft fruit, and tree fruit.	There are 3 HGCA Board Committees: audit, finance and remuneration. There are currently 4 Advisory Committees: British Cereal Exports, Market Development, Market Information, and R&D.	There are 9 Committees: farm management, economics & datum, finance, audit, communications, human resources, market development, MDC evaluations, and "Promise fertility".
Meetings	The Council held 4 meetings in the last 12 months.	The Council held 4 meetings in the last 12 months	There were 5 Board meetings in the last 12 months.	There were 7 Board meetings in the last 12 months.

15 The Council currently appears to have 7 producers (see annex on Governance).

Schedule II.1a – An overview of the levy boards – non-meat bodies

	BPC	HDC	HGCA	MDC
Reporting	The BPC issues a weekly newsletter, a monthly European newsletter (providing information on other countries) and a magazine - "Eyewitness" - on a bimonthly basis. The Annual Report is not available on the website. The Corporate Plan and the minutes of Council meetings are available on the web. Some web pages are only available to levy payers.	The HDC has increased the use of electronic communications with levy payers to save money. Weekly newsletters are sent by email and available on the web. Only levy payers can access some of the pages concerning research projects. A monthly journal "HDC News" is sent to levy payers. The August edition of HDC News provided a summary of key points from the Annual Report and details of how to obtain a full copy. The corporate plan is available on the website. Minutes of the Council meetings are not available on the web.	The "HGCA Bulletin" and "Oilseed News" are produced every week and are sent to subscribers. "Grain outlook" is produced monthly for levy payers and "MI Prospects" is a fortnightly publication. Growers guides and topic sheets are also available to all levy payers. The HGCA website is comprehensive and includes minutes of committee and Board meetings, the Annual Report and the Business Plan. There are also a range of interactive tools on the website.	The MDC produces two quarterly magazine "Milk Developments", and "Milking it!". It also produces a fortnightly "Dairy Market Update", and an annual "Dairy Facts and Figures". There is information on the website concerning various programmes such as breeding and feed, and further information in the form of manuals etc are available to levy payers. The website does not include the Annual Report or minutes of Council meetings.
Organisation Structure				
Chief Executive	Helen Priestley	Martin Beckenham	Jonathan Cowens	Kevin Bellamy
Remuneration	£84,713[16]	£70,931[17]	£72,000[18]	£96,733[19]
Key posts	Research & Development Director; Personnel, Admin & Legal Director	not applicable	Finance and Business Services Director, Crop Marketing Director, R&D Director, the Business Development Director and the Head of Communications.	Marketing Director, Financial Controller, Head of Farm Management Programme, Head of Communications, and a Market Analyst.
Staff numbers	54 staff members (including 5 part-time)[20]	15 (including the Chief Executive)[21]	61 (whole-time equivalents)[22]	44[23]
Employment costs	£1,849,000 in 2004/5[24]	£508,829[25]	£2,758,000[26]	£1,566,698[27]

16 Include taxable benefits relating to a car and health care, from BPC's 2005 Annual Accounts.

17 Salary, pension and taxable benefits (car) from HDC's 2004/05 Annual Report & Accounts.

18 Salary in 2004/05 accounts. A further £7,400 is paid by HGCA to the HGCA pension scheme.

19 Includes a car allowance, private health care provision and gross pension contributions, from MDC's Annual Report and Accounts 2005.

20 BPC Annual Report and Accounts 2004/05

21 HDC Annual Report and Accounts 2004/05

22 2004/05 HGCA Accounts.

23 The average number during the year was 43 for 2005 (Annual Report and Accounts 2005).

24 Employment costs (including wages, social security costs, pensions and redundancy) from BPC's 2004/05 Annual Report & Accounts.

25 Includes salaries, pensions, social security costs, contract staff, travel and subsistence and motor expenses and other staff related costs.

26 Staff employment costs include salaries, social security costs, pensions and short-term contracts from HGCA's 2005 Accounts.

27 Total staff costs includes salaries, social security costs, other pension costs, temporary staff, training costs, recruitment costs, private medical insurance, termination payments, and other staff related costs from MDC's 2005 Accounts.

Schedule II.1b – An overview of the levy boards – meat bodies

	MLC	EBLEX	BPEX	HCC	QMS
Value of Sector (whole chain value)[1]	£3,825 million	See MLC	£670 million[2]	See MLC	See MLC
Income and expenditure					
a) levy income	a) £26,333k[4]	a) £11,305k	a) £7,536k	a) £3,436k	a) £3,998k[5]
b) grants				b) £524k	b) £237k
c) other		c) £3,394k	c) £1,859k	c) £1,303k	c) £1,245k
d) expenditure		d) £13,810k	d) £9,292k	d) £3,568k	d) £5,459k
Levy yield[6]	0.78%				
Statutory Basis					
Primary legislation	The Agriculture Act 1967. The main amending legislation was the Agriculture (Miscellaneous Provisions) Act 1976.	EBLEX is an executive board of MLC.	BPEX is an executive board of MLC.	MLC has transferred its functions to HCC in respect of the Welsh industry. HCC is responsible for the strategy and deployment of all red meat levies raised by the MLC in Wales. It is a private company operating under public procedures for the spending of public funds.	MLC has delegated functions to QMS in respect of Scotland. QMS is a private non-profit making company that is fully accountable to the Scottish Parliament for the use of the Scottish levy.
Subordinate legislation	The Meat and Livestock Commission Levy Scheme (Confirmation) Order 1987, as amended. The Pig Industry Development Scheme (Confirmation) Order 2001.				
Geographic coverage	Great Britain	England (for beef and sheep)	England & Wales	Wales (for beef and sheep)	Scotland

1 Agriculture in the UK 2004 (2003 figures).

2 This value is for UK pig-meat in 2003.

3 2004/5 figures, from MLC Annual Report and by correspondence with EBLEX, BPEX, HCC and QMS. The MLC collects the meat levies and passes the proceeds to the four meat bodies. See Annex C.

4 This figure includes funds used to run MLC (£156,000); it is not all distributed among the other four bodies.

5 MLC annual report gives this figure as £3,900k

6 See footnote to paragraph 2.9 for the basis of calculation of levy incidence.

Schedule II.1b – An overview of the levy boards – meat bodies

	MLC	EBLEX	BPEX	HCC
Statutory purpose	The MLC has "the general duty of promoting greater efficiency in the livestock industry and the livestock products industry…" (Agriculture Act 1967, Part 1, Section 1).			
Statutory activities	Its functions are provided in Schedule 1 of the Agriculture Act 1967 and include: Promoting greater **efficiency** in the industry, having regard to the interests of producers. Arrangements for assessing the **breeding qualities** of livestock and management of herds and flocks on the basis of farm records. **Performance testing**, and progeny testing, of livestock. Acquiring and maintaining testing establishments. **Artificial insemination** services of livestock. **Registers** of cattle and pig herds and sheep flocks Promoting the use for breeding purposes of sires of approved **quality**. **Advice and information** for the Central Council for Agricultural and Horticultural Co-operation (this has now been replaced by **Food from Britain**) on commercial and technical aspects of production and marketing. Assisting the Council to **determine grants-in-aid** of co-operative activities in livestock production and marketing.			

Schedule II.1b – An overview of the levy boards – meat bodies

	MLC	EBLEX	BPEX	HCC	QMS
	Advising livestock producers on the commercial and technical aspects of introducing **co-operative arrangements** Advising on suitable and fair **terms of contracts** (other than financial terms) for the sale of livestock and meat. Advice and information to assist buyers and sellers of livestock and meat to **make bargains and do business.** Advice on efficient layout of livestock **auction markets**, design and operation of such markets. Advice and information on owning, conducting or using **slaughterhouses**; advising Ministers on these matters. Functions under the Beef Carcase (Classification) Regulations and the Pig Carcase (Grading) **Regulations**. Disseminating information about **supply, and demand, and market prices** for livestock and livestock products, whether produced in GB or elsewhere, and on market situations and future supply through collecting, **analysing, interpreting and collating information** to supplement that available from official sources. Advice and inform Ministers on this issue. Promoting, investigating or researching and disseminating **information** on the **production, marketing and distribution** of livestock and livestock products.				

Schedule II.1b – An overview of the levy boards – meat bodies

	MLC	EBLEX	BPEX	HCC	QMS
	Investigating the demand (in GB or elsewhere) for livestock and livestock products, including prices paid. Collecting and disseminating the **results of investigations and research**. **Advertising** the merits, and increasing the sales (both in GB or elsewhere) of livestock and livestock products produced in Britain. Disseminating **information and advice to consumers** of livestock products. Encouraging and promoting the **training** of employees in the livestock industry. Offering **financial assistance** to achieve the objects of the Commission.				
Other statutory responsibilities	Collection of the levy, classification of carcases, giving advice and information to Ministers. Annual submission of Report and Accounts to Parliament.				
Principal activities[7]					
Business performance		16% (£2,165k)	22% (£2,057k)	6% (£221k)	13% (£517k)
Business development		2% (£246k)	9% (£802k)	13% (£456k)	14% £573k)
Producer market information		5% (£748k)	8% (£698k)	6% (£206k)	11% (£452k)
Consumer market information		4% (£585k)	7% (£746k)	10% (£374k)	10% (£394k)
Product promotion		62% (£8,596k)	48% (£4,430k)	51% (£1,810k)	42% (£1,665k)

7 Data provided by the bodies for the purposes of this Review. See Section IV: Table IV.1

Schedule II.1b – An overview of the levy boards – meat bodies

	MLC	EBLEX	BPEX	HCC	QMS
Export promotion		10% (£1,397k)	5% (£501k)	14% (£501k)	10% (£387k)
Crisis management		1% (£73K)	1% (£58k)		0.3% (£10k)
Levy					
Basis of collection	Collected on livestock (cattle, sheep, pigs) at slaughter or on livestock exported.	See MLC	See MLC	See MLC	See MLC
How calculated	Different rates are set for cattle, sheep and pigs. The Commission sets the levy rates within the maximum set by Parliament. The 2004/5 rates are: Cattle 215p general & 242p species promotion; sheep 33p general & 34p species promotion; and pigs are 40p general and 65p species promotion.				
Scope (primary production, etc)	The general levy is collected equally from the farmer and the slaughterer; the promotional levy is collected only from the farmer.				
Collection costs per £ of levy income[8]	2.0p	2.2p	1.7p	2.3p	1.9p
Governance					
Chairman	Peter Barr CBE	John Cross	Stewart Houston	Rees Roberts OBE	Acting Chairman: Donald Biggar from Oct 05.
How appointed	Appointed jointly by the Secretary of State for Environment, Food and Rural Affairs, the Scottish Ministers and the National Assembly for Wales under the Agriculture Act 1967.			Appointed by the members of the Company.	Appointed by the members of the Company.

8 MLC Annual Report and Accounts and by correspondance with EBLEX, BPEX, HCC and QMS.

Schedule II.1b – An overview of the levy boards – meat bodies

	MLC	EBLEX	BPEX	HCC	QMS
Term	Appointed for 3 years	Appointed for 3 years	Appointed for 3 years	Appointed for 3 years	Appointed for 3 years
Remuneration	2005 = £91,000[9]	Honorarium for Chairmanship = £25,000[10]	Honorarium for Chairmanship 2005 = £10,000[11]	Not available	Not available[12]
Biography	Retailing and managerial experience as former director of Fine Fare Supermarket, Chairman of the IGD's Food Project and of Hazelwood Foods.	Farms a mixed arable and livestock enterprise in North West Norfolk. He was formerly the Chairman of MLC's Beef and Lamb Promotion Council.	Experience in pig farming sector, Chairman of the National Pig Association and a member of National Farmers' Union Policy Board.	Experience in the sheep and cattle business and currently a member of the Agri-Food Partnership. He is past Chairman of the Welsh Sheep Strategy and Welsh Lamb and Beef Promotions Ltd.	Member of the QMS board until March 2005, appointed Acting Chairman October 2005.
Members	The Commission can have a maximum of 15 Commissioners but currently has 11. As well as Chairman and deputy Chairman, commissioners include representatives of EBLEX, BPEX, HCC and QMS, a consumers commissioner, a GB abattoir/processor representative, a multiple retailer and food service sector representative and an independent sector/organic farming representative.	There are ten members of the Board (plus the Chairman): 3 representing the processing sector, 5 farmer representatives, one from the auctioneers and one from the meat supply sector.	There are 12 members (including the Chairman) nominated by industry representative organisations: 4 representing the processing sector, six producer representatives, and one representative of the retailers.	There are 8 directors, including the Chairman. The MLC and the Welsh Development Agency are members of the company and have appointed representatives to the board.	There are13 members including the Chairman and the Chief Executive. The members of QMS appoint their own Board members.
Key Committees	The 1967 Act requires the establishment of a Consumers Committee. There is also an Audit Committee. BPEX and EBLEX are executive boards of the MLC.	Finance Committee		Audit Committee	Audit & remuneration, beef & lamb forum; pig forum; standards co-ordinating body; R&D; health, education & diet; standard setting body pigs; standard setting body feeds; standards setting body cattle & sheep; standard setting body auction marts; and standards setting body haulage.

9 Salary and expenses for 2004/05 from 2005 Annual Report and Accounts. This remuneration is met by Defra.

10 John Cross also receives a salary and expenses as a MLC Commissioner (which are paid by Defra).

11 Stewart Houston also receives a salary and expenses as a MLC Commissioner (which are paid by Defra).

12 QMS Annual Report for 2004/05 not available at the time of writing. QMS Annual Report for 2003/04 does not give any details of remuneration to Chairman or Chief Executive.

Schedule II.1b – An overview of the levy boards – meat bodies

	MLC	EBLEX	BPEX	HCC	QMS
Meetings	8 Commission meetings p.a.	6 meetings of the Board in a twelve month period.	8 board meetings p.a.	10 meetings were held in the last 12 months.	11 board meetings in the last 12 months
Reporting	Produces a number of publications, most of which are also electronic. The website is comprehensive and includes minutes of Board meetings, the latest Annual Report and the Corporate Plan. The website includes market reports, technical information and guidance. There is a separate educational part of the website which provides teaching resources and a section dealing with nutrition. Most of the website is publicly available but there are some parts where registration is required. The website provides a link to the four federal bodies.	Produces a number of publications. EBLEX's website provides information about market prices, events, news and technical information. Summaries of recent Board meetings are on the website and open meetings are held the evening before the meeting.	Produces a number of publications. "BPEX Update" is a tabloid inserted in "Pig World". "BPEX Weekly" is email newsletter to the industry. BPEX's website provides a list of publications on technical and general management matters on all aspects of pig production. Summaries of the Board meetings are available on the web.	Produces a number of publications. Monthly, quarterly and annual bulletins provide industry facts and figures and market information. HCC's website provides information about its technical work, together with consumer information and market prices (all in English and Welsh). Annual reports and minutes of Council meetings are not included on the website.	QMS communications are predominantly in electronic format, via its website or by e-mail (on request). Most of the website is publicly available, although pages on processor intelligence are restricted. Information is provided on market information, news, events and technical information. Annual Reports & Accounts and minutes of council meetings are not available on the website.
Organisation Structure					
Chief Executive	Kevin Roberts	Richard Ali	Mick Sloyan	Gwyn Howells	Jan Polley
Remuneration	2005 = £145,000[13]	Not available	Not available	Not available	Not available[12]
Key posts	Consumer Affairs Director, Corporate Strategy Director, Technical Director	Not applicable[14]	Not applicable[14]	Communications Manager, Industry Development Manager, Marketing Manager, Finance Manager	Communications Manager, Industry Development Manager, Industry Information Manager, Marketing Manager
Staff numbers	554[15]	27[15]	3[15]	17[16]	16[16]
Employment costs	£19,738, 000 in 2004/05[17]	See MLC	See MLC	£498,000 in 2004/5[16]	£596,000 in 2004/5[16]

13 MLC Annual Report and Accounts.

14 Both EBLEX and BPEX tend to use MLC employees on secondment, rather than employ a large staff structure, hence key posts will overlap with MLC.

15 MLC presentation, 26 August 2005. The staff numbers for MLC include over 400 staff who work in the Commercial Services division.

16 Annual accounts, HCC and QMS.

17 Employment costs (including wages, social security costs, pensions, travel and subsistence) from MLC's 2004/05 Annual Report & Accounts; these include employment costs for EBLEX and BPEX, and for commercial services. Commercial services account for the majority of staff costs.

Section III
The needs of the sectors

Introduction

3.1. As explained above, the industries that the levy bodies exist to serve are all undergoing very substantial change, and a primary focus of the Review has therefore been to look at the present and future requirements of the industries concerned against this background of change. In this section of the Report I examine these issues. First, I provide some background to the sectors concerned: their economic significance and their size and structure. Second, I comment on the policy environment within which they operate. I then review the factors, the 'drivers of change', that are impacting upon the sectors and will impact upon them in the future, and what the industry sectors need to help them cope with these changes. Last, I look at the framework within which the sectors operate, at the various bodies involved, both public and private, and at the extent to which this framework is providing appropriate support to businesses undergoing a process of substantial change. I highlight, in particular, the role currently played by the levy bodies in this framework.

Background to the sectors

Economic significance

3.2. Looking first at economic significance, the total agricultural sector accounts for 0.8% of gross value added in the UK economy as whole,[1] around half of the equivalent proportion for the pre-enlargement EU15. Its contribution to total employment is a little higher at 1.8% of total employment in the UK, or some 564,000 jobs. The sector is relatively more significant in Scotland and Northern Ireland than in England and Wales - it accounts for 2.7% of employment in Scotland and 4.5% in Northern Ireland - but it remains the case that, at first sight, the economic significance of the sector to the UK economy is modest and has, indeed, been declining in relative importance for many years.

3.3. It is important to emphasise, however, that whilst the agricultural primary production sector is modest in size, its output is a key input to the agri-food sector. Approximately two thirds of the output of the agricultural sector, £11 billion by value, goes into processing, accounting for 34% of total inputs by value,[2] and the food processing sector is now the largest manufacturing sector in the UK, accounting for 7.9% of gross value added (£77.3 billion) and 3.8 million jobs, or just under 15% of the total workforce.[3]

1 Agriculture in the UK 2004.

2 2004 figures supplied by the Food and Drink Federation.

3 Office of National Statistics; Agriculture in the UK 2004.

The economic health of the primary production sector is thus indirectly of much greater economic significance than its direct size would suggest.

3.4. Also relevant in assessing the importance of agriculture to the UK economy is the matter of the extent of international trade. Trade in agricultural products and in processed food and drink is significant: exports are around 5.5% of total visible exports[4] and 9.3% of imports. And of strategic relevance in this context is the self-sufficiency measure: whilst the degree of self-sufficiency is no longer a specific objective of policy it is relevant to an assessment of risk in the event of an interruption of trade. This is discussed further below in Section IV; here it may be noted that UK self-sufficiency as a proportion of all foods is 63%, and as a proportion of 'indigenous type foods' is 74%.[5] This has not changed significantly since 2001, although a decrease of around ten percentage points occurred between 1996 and 2001. This decline resulted both from exchange rate issues and from the impact of animal disease, including BSE and foot-and-mouth disease (FMD).

Size and structure of the sectors

3.5. As well as looking at overall economic significance, it is useful to examine the size and structure of the sectors involved.

3.6. Looking first at primary production, which is a key focus for each of the five levy bodies, the relative size of the different agricultural and horticultural sectors when compared with one another is relevant. Tables III.1 and III.2 give figures for 2003 in the livestock and arable sectors respectively. Table III.1 shows the total number of livestock by type; the number of holdings, the average number of livestock per holding; and the value of production. Table III.2 shows the total crop area for different arable crops; the number of holdings; the average crop area per holding; and the value of production.

Table III.1 Relative size of livestock sectors

Livestock Sector	Total number of livestock (thousand)	Number of holdings (thousand)	Average number of livestock per holding	Value of production (£ million)	
				Total (incl. subsidies)	Subsidies
Dairy	2192	26.6	82	2627	..
Beef	1699	59.6	29	2178	964
Sheep	17,599 (exc. lambs under 1 year old)	79.2	222	977	288
Pigs	3660	12.3	95 (breeding) 455 (fattening)	670	n/a
Poultry	116,792	2.9	39,698	1231	n/a
Egg-laying hens	38,907	32.3	1205	409	n/a

Source: Agriculture in the UK 2004, Tables 3.4, 6.13-6.17, 6.19 (2003 figures)

Notes: n/a denotes sectors where no subsidies are paid; they may however claim EU grants for Producer Organisations. Pigs, poultry and eggs are not subject to levy
..Denotes no information available at this level of detail

4 The ban on beef exports since 1996 has had an important impact on the trade in meat. Prior to the ban meat exports were running at some £1.2 billion. Since the ban the figure has fallen to £0.6 billion and imports of meat have risen by £1.3 billion (up 63% relative to 1995).

5 Agriculture in the UK 2004.

Table III.2 Relative size of arable sectors

Arable Sector	Total crop area (thousand hectares)	Number of holdings (thousand)	Average crop area per holding (hectares)	Value of production (£ million)	
				Total (incl. subsidies)	Subsidies
Cereals (exc. maize)	3059	58.7	52.1	2332	722
Oilseed rape	460	12.7	36.3	417	113
Sugar beet	162	7.4	21.8	321	n/a
Potatoes	145	12.2	11.9	518	n/a
Horticulture	176	10.7	16.1	2076	n/a
Peas & beans for stock-feed	228	..	..	146	65

Source: Agriculture in the UK 2004, Tables 3.2, 3.4, 3.7, 6.1-6.12 (2003 figures)

Notes: Many holdings are of mixed character, hence the average crop area will not be the total farm area.
N/a denotes sectors where no subsidies are paid; they may however claim EU grants for Producer Organisations.
Sugar beet and peas and beans for feed are not subject to levy
.. Denotes no information available at this level of detail

3.7. The tables show that, of the various sectors covered by the levy bodies, cereals, horticulture, dairy and beef all have output valued in excess of £2 billion including subsidies. The sheep sector is just under £1 billion, and pigs and potatoes are £670 million and £518 million respectively. The oilseed rape sector is much smaller, at £417 million. Sectors not subject to levy include the very substantial poultry sectors (in excess of £1.6 billion in total) and the smaller sectors of sugar beet (£321 million) and peas and beans for stock-feed (£146 million).

3.8. It should be stressed, however, that these total figures conceal important variations: the horticulture sector, for example, encompasses around 300 different products whilst the dairy sector is producing a single relatively homogenous product: liquid milk. This is relevant to the types of activity levy bodies undertake and is returned to below; however, here it may be noted that, as was mentioned above in Section II, the levy 'incidence', i.e. the value of the levy in relation to the value of output of the sector concerned, varies considerably from 0.2% in the horticulture sector to 1.1% in the potato sector.

3.9. As was noted above, very important in the context of the levy bodies is the number and size of holdings – the degree of 'fragmentation' – in the sectors they serve, and whether this is changing. Tables III.3 and III.4 provide further information by looking at the number of holdings.[6] Table III.3 shows, by type of livestock, the total number of livestock; the number of holdings; and the average number of livestock per holding for 1998 and 2003. Table III.4 shows for arable crops the total crop area; the number of holdings; and the average crop area per holding by sector for 1998 and 2003.

6 The number of producers is not the same as the number of holdings as some producers may have more than one holding.

Table III.3 Number and size of livestock holdings: 1998 and 2003

Sector (livestock)	1998 Total no. of livestock (thousand)	1998 Number of holdings (thousand)	1998 Av. no. of livestock per holding	2003 Total no. of livestock (thousand)	2003 No. holdings (thousand)	2003 Av. no. of livestock per holding
Dairy	2422	35.4	68	2192	26.6	82
Beef	1928	71.5	27	1699	59.6	29
Sheep (breeding)	21,064	87.2	241	17,599	79.2	222
Pig (breeding)	766	9.9	77	512	5.4	95
Fattening pigs	5193	10.7	486	3148	6.9	455
Poultry	97,173	2.9	33,659	116,792	2.9	39,698
Egg-laying hens	42,692	28.6	1495	38,907	32.3	1205

Source: Agriculture in the UK 2004, Table 3.4

Table III.4 Number and size of arable holdings: 1998 and 2003

Arable Sector	1998 Total no. of livestock (thousand)	1998 Number of holdings (thousand)	1998 Av. no. of livestock per holding	2003 Total no. of livestock (thousand)	2003 No. holdings (thousand)	2003 Av. no. of livestock per holding
Cereals (exc. maize)	3414	71.3	47.9	3059	58.7	52.1
Oilseed rape	506	18.1	27.9	460	12.7	36.3
Sugar beet	188	9.2	20.4	162	7.4	21.8
Potatoes	164	18.0	9.1	145	12.2	11.9

Source: Agriculture in the UK 2004, Table 3.4

3.10. The tables display the general trend towards fewer, larger holdings. In arable, for example, although the total area remained relatively constant over this five year period the figures for each crop all show a decrease in the number of holdings leading to an increase in average size. In livestock the picture is more complex, but in the dairy sector, for example, there has been a 9% drop in livestock numbers but a 25% drop in the number of holdings. Nevertheless, despite this increase in concentration there remains a significant degree of fragmentation in all sectors.

3.11. Further evidence of fragmentation in the primary production sectors is provided by data on net farm incomes. These data have a number of deficiencies, particularly in relation to the assumptions made about the value of some inputs, but they give an indication of relative orders of magnitude. Table III.5 shows average net farm incomes by type across the UK. The table shows an average net farm income in the UK across all sectors of £24,300 in 2003/04,[7] indicating that there is still a preponderance of 'micro' businesses in agriculture and horticulture. And this is also true at sub-sector level; only in specialist poultry, where a statutory levy does not apply, is there a relatively high degree of concentration.

7 It should be noted that net farm incomes can vary very substantially year-on-year, particularly in cereals and general cropping.

Table III.5 Average net farm incomes in the UK in 2003/04

Farm Type	Income £'000	Farm Type	Income £'000
Dairy	22.1	Specialist pigs	31.7
Grazing livestock (LFA)	14.2	Specialist poultry	52.0
Grazing livestock (lowlands)	7.1	Mixed	22.7
Cereals	35.5	All (inc horticulture)	24.3
General cropping	53.5		

Source: Agriculture UK 2004, Table 2.5 (2003/04 financial year)

3.12. In addition three case studies are presented at the end of this section looking in more detail at prices and profitability in red meat; milk; cereals and oilseeds.

3.13. Finally, some comments may be made about the degree of concentration further up the supply chain. It is evident that, in keeping with all other sectors, the degree of concentration in the processing of agricultural products and in food manufacture is increasing. In the meat sector, for example, the number of licensed abattoirs has fallen from 3,227 in 1962 to 403 in 2000 and to around 250 today.[8] The number of abattoirs slaughtering pigs has fallen in the last seven years from 287 to 189[9] and the five largest firms now account for nearly two thirds of total slaughters. In the milk sector the 17 largest dairy companies process 87% of milk in England and Wales.[10] In the milling industry two companies are responsible for over 50% of flour production whilst in malting four companies account for 75% of the market.[11] In food manufacture, although there continue to be many small producers, large enterprises with 250 or more employees account for more than two thirds of total turnover.[12] And in retail, around a half of household expenditure on key food items such as meat, milk, cereals and cereal products, potatoes and fresh vegetables is now accounted for by the three major supermarkets.[13]

The policy framework

3.14. Turning now to the policy framework, there are three levels at which policy is of particular significance to agriculture and horticulture: global; European (EU); and UK. Each is examined briefly below; the key drivers are also highlighted in the discussion of Drivers of Change below in this Section.

3.15. As far as **global policy** considerations are concerned, developments in relation to trade are of great importance. World Trade Organisation (WTO) negotiations have been taking place for some time, and are continuing, with the objective of establishing a fair and market-oriented international agricultural trading system. The Framework Agreement of August 2004 provides firm commitments across all three agricultural pillars:

8 Figures from the British Meat Processors Association; 2005.

9 Figures from BPEX; 2005.

10 MDC: Dairy Facts and Figures 2004.

11 Report of the Cereals Industry Review; 2004.

12 Office of National Statistics.

13 Expenditure and Food Survey.

of market access; domestic support; and export competition.[14] And the disadvantages faced by developing countries will be taken into account by reduced commitments.

3.16. Turning now to **EU policy**, three key considerations are the Common Agricultural Policy (CAP) and the reforms to it that have recently taken place; the State Aids regime; and certain other key EU regulations.

3.17. Looking first at **reform of the CAP**, historically a number of agricultural sectors were in receipt of CAP production subsidies: these applied to cereals and oilseeds; beef and sheep-meat; and peas and beans for stock-feed. All but the latter are the subject of a statutory levy.[15] Sugar and milk production also have price support mechanisms through the use of quota systems, although these are more complex and originally arose out of a need to limit production. Reform of the CAP in June 2003 established the principle of full decoupling of support from production, thus removing the built-in incentive for overproduction and encouraging farmers to re-connect with their markets. In addition, the reforms, which began to take effect in 2005, are intended to reduce damaging environmental impacts (so called 'cross-compliance') and also to reduce bureaucracy. The main existing direct aid schemes are consequently being replaced by a new Single Payment Scheme (SPS) from 2005. Reform of the dairy sector involves the gradual reduction of intervention measures; the introduction of direct payments in 2004 which will be incorporated into the SPS from 2005 onwards; and also an overall increase in milk quotas between 2006 and 2008.

3.18. Initially, the SPS will be based on historic subsidy payments, but gradually this will change until, by 2012, it will be based solely on land area, with special provisions for disadvantaged land areas.[16] During the transitional phase, there will be a general redistribution of subsidy from more intensive to less intensive producers and to land (and sectors) not formerly in receipt of subsidy. Consequently, sectors such as general cropping and horticulture will gain relatively, as they will be receiving payments that hitherto they did not, whereas the hitherto subsidised sectors will lose relatively, unless they are net beneficiaries as less intensive producers in disadvantaged areas. Overall, the pattern of 'winners' and 'losers' is complex, and the net effects very difficult to predict with accuracy.

3.19. The **State Aids** arrangements are also of significance for agriculture. These are also quite complex and are examined in Box III.1.

14 It should be noted that although the CAP reforms discussed in paragraph 3.8 were not explicitly concerned with trade measures, they help Europe make a better WTO offer than would otherwise have been possible. In particular, decoupling direct payments from production will reduce the amount of trade-distorting support in the EU, reducing the incentive to over-produce and thereby reducing the need for export subsidies. The direct payments to farmers will not be trade-distorting and are thus compatible with WTO agreements.

15 Production subsidies have never applied to potatoes, horticultural products or pig-meat to which a statutory levy does apply, or to sugar beet, poultry and eggs, to which it does not.

16 This applies in England. In Scotland and Wales, the Administrations have decided to adopt the historic method of allocation of payments. Northern Ireland has adopted a hybrid model of allocating payments under SPS.

Box III.1 State Aids

State aid is defined in the Treaty establishing the European Community as 'any aid granted by a Member State which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods' (Article 87). An agricultural aid favours the production, processing or marketing of agricultural goods (products listed in Annex 1 to the Treaty establishing the European Community),[1] and must have some cover under the State aid rules before these can go ahead. The Commission has exclusive responsibility for scrutinising State aid schemes. Having cover under the State aid rules means complying with the detailed rules about what sort of aid is allowed and following the necessary procedures before granting aid. This applies to statutory levies, since how they are spent is determined by Government. Specifically, R&D is classed as a state aid.[2]

There are 4 ways of getting State aid cover: by getting prior approval from the European Commission, by meeting the detailed requirements of the block exemption Regulation (1/2004), by meeting the requirements of the de minimis Regulation (1860/2004), or by operating an aid activity continuously since before the Treaty applied to the Member State concerned (in the UK's case, since 1973). Levy Boards established before 1973 are covered by the latter case (accession aid) and can carry on existing activities indefinitely, although the Commission has powers to investigate accession aids and propose changes to them. Moreover, we were obliged to bring all existing aids into line with the current State aid rules by 31 December 2000. Any substantive change to the current levy bodies or their activities, or any new activities, would require new cover.

The promotion and advertising of agricultural products using State funds is considered to be State aid. The State aid rules significantly restrict the State funding of advertising campaigns where product origin is a message. In particular, the State may not generally fund advertising campaigns on the home market where origin is the main focus of the campaign. However, since PGI/PDO status provides a link between origin and quality, the State aid rules are more relaxed with protected products.[3] The Commission will therefore generally allow public funding for advertising with a strong origin focus on the local market for products with PGI/PDO status. An example of a product with PGI status is West Country Farmhouse Cheddar. Moreover, QMS and HCC have applied for and gained PGI status for Scottish beef and lamb and Welsh beef and lamb respectively and actively market these products on the home market using levy funds. Other quality schemes, however, such as the EBLEX quality standard, cannot emphasise origin in publicly funded advertising, although they may make a secondary to reference to the origin. EBLEX is therefore allowed to advertise lamb which meets the English lamb quality standard within England, rather than English lamb. Nevertheless, State funding can be used for advertising campaigns on the basis of origin outside the region of production. It is therefore likely that EBLEX would be able to gain Commission approval to advertise English beef in Scotland because Scotland is not the home market for English beef.

1 The State aid rules for subjects not subject to the common organisation of the market (potatoes, horsemeat, honey, coffee, alcohol/vinegars of agricultural origin and cork) are currently more relaxed, although the Commission is reviewing the State Aid rules and, in the light of CAP reform, it is possible that this situation might change.

2 All promotion is State Aid, but some is covered by the advertising rules and some by the general rules and some forms of promotion are allowed whereas others are not.

3 The EU Protected Food Names Schemes came into force in 1993 and provide for a system for the protection of food names on a geographical or traditional recipe basis. Schemes such as Protected Designation of Origin (PDO) and Protected Geographical Indication (PGI) highlight regional and traditional foods whose authenticity and origin can be guaranteed through an independent inspection system.

3.20. Turning now to other **key EU regulations**, there are three that are of particular significance: the Water Framework Directive (WFD); the Waste Framework Directive; and Integrated Pollution Prevention and Control (IPPC). They are described in Box III.2.

Box III.2 Some key EU Regulations

The Water Framework Directive (WFD) came into force in December 2000, with far-reaching implications for all sectors whose activities impact on, or are impacted by, the water environment. These include the water industry, agriculture, and all businesses that have discharge consents, trade effluent licences or abstraction licences. The purpose of WFD is to prevent deterioration of, and to enhance, ecological water quality, ensure reduction/prevention of groundwater pollution (especially from hazardous substances), promote sustainable water use and contribute to the mitigation of floods and droughts. The WFD requires all inland and coastal waters to reach 'good status' by 2015. This is to be achieved by establishing a river basin district structure within which demanding environmental objectives will be set, including ecological targets for surface waters.

Agriculture was formerly excluded from waste management controls but will now be subject to a Directive due to come into force in early 2006 and be fully implemented by 2007.[1] The Agricultural Waste Stakeholders' Forum (AWSF) has helped with the development of the Regulations and is taking forward a vision and strategy plan for sustainable agricultural waste management.

Integrated Pollution Prevention and Control (IPPC) is an EU-instigated system which will introduce a more integrated approach to controlling pollution from industrial sources. The main aim of IPPC is to achieve a high level of protection of the environment taken as a whole by preventing or by reducing emissions into the air, water and land. In England and Wales IPPC is implemented through the Pollution Prevention and Control Regulations (PPC) 2000. These are currently in the process of implementation, which will be completed by 2007. Similar regulations will apply in Scotland and Northern Ireland.[2]

1 An example of the new controls is that the uncontrolled burning of waste (excluding wood and plant matter) and burial of waste in farm tips will be prohibited.

2 Under the new regulations, pig and poultry farmers must apply for a permit to operate if their livestock capacity exceeds: 750 sows, 2000 fattening pigs over 30kg or 40,000 poultry. Farms will be inspected twice a year to monitor compliance with regulations and progress on implementing improvement plans.

3.21. The other key consideration in the policy framework facing agriculture and horticulture is **UK government policy** in relation, in particular, to sustainability and to animal health and welfare. Also relevant is the government's agenda with regard to health and nutrition, to efficiency, to the reduction of regulatory burdens and with regard to the implications of the devolution of agricultural policy to Scotland, Wales and Northern Ireland.

3.22. Looking first at **sustainability**, the government's Strategy for Sustainable Farming and Food 2002 (SSFF) was launched in response to the Curry Report[17] of 2002, which had at its core the aim of reconnecting the public with farming, food and the countryside. It sets out the Government's agenda for economic, environmental and social sustainability in the agriculture and food sectors. This has been followed more recently by the Food Industry Sustainability Strategy 2005 (FISS), which aims to apply the principles of sustainability to the food industry beyond the farm gate.

3.23. These strategies aim to support the viability and diversity of rural and urban economies and enable livelihoods to be made from sustainable land management, both through the

17 Farming and Food: A Sustainable Future; report of the Policy Commission on the Future of Farming and Food, 2002.

market and through payments for 'public' benefits which may not accrue directly to participants in the market and would not be provided without intervention by government.[18] Overall, the aim is to reconnect the components of the food chain with its customers, the world economy, the countryside and the environment. In support, the strategies recognise that those living in rural areas must be helped to respond to changes in their communities. In many areas where agriculture formerly predominated, services of various kinds (often involving the food industry), and in particular tourism-related services, are now the major economic activities; this presents significant new challenges and also opportunities. There are three key themes that are of particular relevance in the context of the levy bodies.

- The England Rural Development Programme (ERDP) contributes to the delivery of the SSFF by providing a framework of ten separate, integrated schemes to encourage diversity and environmental responsibility, as well as providing new opportunities for rural businesses and communities. (These are divided into land-based and project-based schemes.)
- The Sustainable Farming and Food Research Priorities Group (RPG), set up in 2005 also in response to the recommendations of the SSFF, is the body charged with identifying the research agenda for Defra so as to underpin the SSFF. Its aim is to achieve better vertical integration in the research and development supply chain from the Research Council base through to the industries. At the same time, it aims to develop better cross-sector working and joint initiatives to achieve better cohesion in the farming and food research area.
- A priority of the SSFF is to improve training and skill levels in the agriculture and food sector, which were identified as being lower than in many competitor countries, and a barrier to increased productivity in this sector. In 2000, 78 % of farm holders apparently had no formal training, a figure that was essentially unchanged since a decade earlier. Addressing this was felt to be particularly important if farmers were to be adequately supported in their efforts to diversify.

3.24. Turning now to **animal health and welfare**, the UK has for many years been a world leader in terms of animal welfare, often adopting new legislation unilaterally or at any event earlier than in other Member States.[19] Changes in legislation concerning animal welfare,[20] when combined with several high profile outbreaks of disease in livestock, have had a profound impact on the farming sector in recent years. Following the BSE crisis, an increase in bovine tuberculosis, swine fever in 2000 and FMD in 2001, the government has made changes to legislation on disease control, animal feeds, imports, animal ID, and contingency planning for future outbreaks. In addition, the costs of animal diseases may in the future be subject to some degree of cost-sharing.

3.25. Of particular significance to the beef sector is the situation with regard to beef exports. The UK has recently met the two conditions (regarding BSE risk status and BSE controls) set by the European Commission for beginning discussions with Member States on lifting the beef export ban, which has been in place since 1996. At the time of writing, it remains uncertain when or whether EU Member States and the Commission will agree to lift the export ban, but Defra has launched a formal consultation on the amendments to UK export controls which would be needed to allow the export of live cattle born after July 1996 and beef and bovine products derived from them. At the same

18 See Section V for a fuller discussion of the arguments for government intervention of this type.

19 For example, the abolition of 'stall and tether' systems in pig farms was implemented in the UK ahead of the European schedule. This has a significant impact on the production cost of UK pig-meat relative to that of EU competitors.

20 See the Animal Health and Welfare Strategy for Great Britain; 2004.

time, the current Date-based Export Scheme (DBES) for UK beef and the export approved scheme (XAP Scheme) for beef of foreign origin would come to an end.

3.26. Recent governmental initiatives relevant to public bodies include Sir Peter Gershon's report into **public sector efficiency**[21] which was published in 2004, and Philip Hampton's report into **reducing administrative burdens**.[22] The Gershon exercise was undertaken at the request of the Prime Minister and the Chancellor to release resources in the public sector for use by front-line services. Efficiencies were defined by Gershon as lowering prices; or reducing inputs whilst maintaining the same level of service; or additional outputs for the same level of inputs; or improved ratios of outputs per unit cost of input; or changing the balance between different outputs aimed at delivering a similar overall objective in a way which achieves a greater overall output for the same inputs. The Hampton report was commissioned by the Chancellor to look at the scope for reducing administrative burdens on businesses without comprising regulatory standards or outcomes. Key recommendations in Hampton concern the use of risk-based inspection; reform of the penalty regime; consolidation of existing inspection and regulatory functions into thematic regulators; creation of the Better Regulation Executive to drive regulatory reform; and setting targets for reductions in information required from business.

3.27. It is also important to consider the agriculture and food industries in the context of the Government's wider agenda for health and nutrition. The Department of Health is currently working to produce a Food and Health Action Plan, which will contribute to the SSFF's key principle to 'produce safe, healthy products in response to market demands, and ensure that all consumers have access to nutritious food, and to accurate information about food products.'[23] The Nutrition Forum was established in 2002 to encourage communication and cooperation between stakeholders in the food and health sectors. Representatives from consumer and voluntary groups, health bodies, industry (including producers, manufacturers and retailers) and Government meet regularly to assist in the development and implementation of nutrition policies and support an effective, co-ordinated nutrition strategy.

3.28. Other schemes and programmes under this heading include the Welfare Food Scheme, reformed in 2004 to better reflect the nutritional needs of pregnant women and children, the 'Five a Day Programme', and the National School Fruit Scheme.

3.29. Last in relation to the UK policy framework is the **devolution of agricultural policy** to Scotland, Wales and Northern Ireland. While relations with the EU remain the responsibility of the UK Parliament and Government, the consequence of devolution is that there are differences in the detail of implementation of CAP reform, for example.[24] Sustainability measures are being implemented through devolved programmes analogous to the ERDP and these take into account the differing needs of farming across the UK, e.g. in Scotland this is linked to the Highlands and Islands Special Transitional Programme.

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21 'Releasing resources to the front line: an independent review of public sector efficiency.' Sir Peter Geshon CBE, July 2004.

22 'Reducing administrative burdens: effective inspection and enforcement'. Philip Hampton March 2005.

23 See www.dh.gov.uk for details on the forthcoming Food and Health Action Plan.

24 Devolution has also had implications for the structure of the levy body arrangements with respect to meat. These were discussed in Section II and are returned to below in Section V.

Drivers of Change

3.30. I have commented above on some of the changes taking place in the size and structure of the industry sectors served by the levy bodies and the very substantial changes in the policy environment faced by the sectors. To set a context for an assessment of needs it is useful to analyse what is happening by examining the entirety of change 'drivers' that are currently in operation. A helpful framework for doing this that can be applied to any business in any sector and then used to help the formulation of strategies and plans is to look at the 'change drivers' - the factors in the external business environment - by type. This is the STEEP framework, a schematic representation of which is given in Diagram III.1. It shows change drivers classified according to whether they are broadly social, technological, environmental, economic or policy-driven, together with some general examples, relevant to any business, of each type. Of course, the classification is somewhat arbitrary and the change drivers are in practice linked to one another in terms of their causes and consequences[25] but it does help to provide a basis for analysis.

3.31. If this framework is applied to the sectors with which the levy bodies are concerned a formidable array of change drivers is apparent. Just some of the more important drivers impacting on each of these sectors are summarised below under the five headings of the framework.

Social drivers

- Changing size and structure of the domestic population, with an increasing proportion in the older age groups
- Changing consumer tastes and preferences
- Increasing concerns about issues of nutrition and diet
- Increasing interest in how and where food is produced
- Support for schemes to underwrite quality

Technological drivers

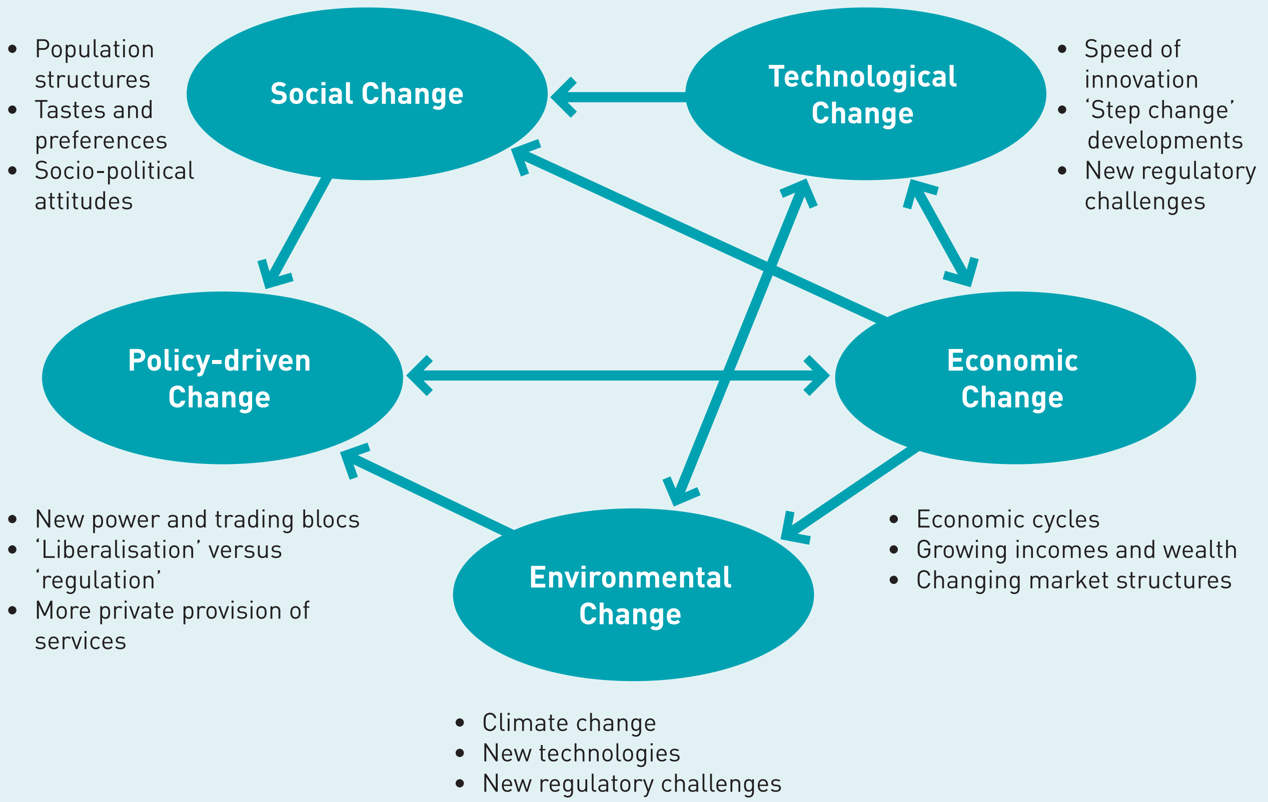
- Animal and plant genetics
- Productivity-enhancing innovations
- New processes for food production
- Use of crops for non-food purposes
- Availability of information using new technology

Economic drivers

- Growing incomes and wealth at home and rapid economic development abroad, especially in China and India
- Changing costs of energy and other inputs
- Labour market issues: availability, quality and cost of labour
- Structural change: consolidation of supply chains and concentration of ownership
- Exchange rates

25 For example, economic growth can drive technological change by providing resource for new ideas, and technological change, particularly when it is a 'step' change as with the introduction of personal computers and mobile telephony, can drive the size and composition of economic growth.

Diagram III.1 - Understanding the external business environment: the STEEP framework



Environmental drivers

- Climate change
- Water use
- Incidence of pests and diseases
- Waste management
- Increasing use of economic instruments by governments to implement environmental policy objectives

Policy drivers[26]

- Trade liberalisation
- EU agricultural policy framework: CAP; State Aids; regulation
- UK agricultural policy framework: sustainability; animal health and welfare; health and nutrition; devolution
- Labour market policies on remuneration (e.g. the minimum wage), deployment, training and skills.
- Policies on research and development

3.32. In addition to the change drivers impacting on all the sectors, there are special challenges faced by those sectors that have been the object of particular schemes under the CAP: cereals; milk; and beef and sheep-meat. Whilst the changes to the CAP, and in

26 Many of these have already been examined above in this Section.

particular decoupling and the Single Farm Payment, affect all sectors to some extent, as was explained above, the business environment facing the hitherto subsidised sectors of cereals and meat[27] has changed very substantially, and changes to the milk quota regime, too, will bring further change to an industry that has been beset by difficulty over a number of years.

3.33. It may be concluded that, whilst all businesses in all sectors of the economy have to adapt to a changing business environment if they are to survive, as Diagram III.1 illustrates, the scale and extent of the changes taking place in agriculture and horticulture are, by any standards, huge. And, as we have seen, many of the businesses in this area of economic activity are small, often micro, businesses. Primary producers, and the smaller processors, often have to be their own production director, marketing director, and finance director all in one. It is reasonable, therefore to enquire what such businesses need to do to cope with this scale of change and what framework exists to provide appropriate support to them in so doing.

Coping with change

3.34. In the light of the drivers of change identified above, agricultural and horticultural producers[28] in the sectors served by the levy bodies have a number of key needs and requirements if they are to survive at all, still less prosper, in the future. These needs will be returned to below when we look at the framework of assistance and the role of the levy bodies;[29] here they may usefully be summarised as follows.

3.35. Such producers are, in general ‘price takers’: they are often producing ‘commodity’ products where, in the hitherto subsidised sectors, the price has been determined ‘within the system’; now, in unprotected markets, price will in all cases be determined by the forces of competition, often in global markets. Each producer therefore needs to drive for improved efficiency so as to reduce unit costs and thereby maximise returns. This may be termed the **‘business performance’** need and, if it is to be adequately met, is likely to require the following:

a) Scientific R&D aimed at improving yields, reducing costs, and/or reducing risks.[30]

b) ‘Best practice’ and benchmarking schemes that can also improve business performance by helping the weaker performers to emulate the approaches of the better performers.[31]

c) Schemes aimed at improving the performance of particular inputs, for example schemes to encourage improved management competencies, management information systems and training schemes, and schemes aimed at helping producers manage risk and uncertainty.

3.36. Because at present many of these businesses are producing ‘commodity’ products, they need to exploit opportunities to move up the value chain and produce new and/or

27 The beef sector faces a particular challenge, and opportunity, in the context of the lifting of the beef export ban.

28 Also first stage processors where these are also small and many in number.

29 They also link in to the concept of ‘market failure’ as a justification for intervention in markets that was introduced in Section II and is discussed in detail in Section V. Note, however, that it is not suggested that it should be the responsibility of the levy bodies to address all of these needs. This too is returned to below.

30 Note that the results of such R&D need to be packaged in a ‘useable’ form for producers. This point is returned to below.

31 Such schemes have had considerable success in other industries and are now being extended in agriculture and horticulture. They are returned to below.

improved products so as to increase the realised value of their output. This may be termed the **'business development'** need and is likely to require the following:

a) Support for innovation and new product development

b) Development of and participation in 'quality assurance' and other schemes that can increase realised prices for existing products.

3.37. In markets where the demand drivers are changing (e.g. changing consumer tastes and preferences) at the same time as the conditions of supply are also changing, as is the case particularly in those product areas affected by CAP reform, there is a need to ensure that good quality information is available to producers so that they can make sound strategic decisions. This may be termed the **'producer market information'** need and meeting it is likely to require the collection, analysis and dissemination of information on what is happening in the policy environment and the implications for producers, and information both on demand and on supply, (i.e. policy research and analysis and economic and market research and analysis).

3.38. There is also a parallel need to improve the workings of the market so as to enable consumers to make better informed decisions in the expectation that this will increase sales and/or realised prices. This may be termed the **'consumer market information'** need. There is some overlap here with 'producer market information', but it is likely also to require the collection, analysis and dissemination of information aimed directly at consumers on nutrition, the benefits of a balanced diet, and the dietary characteristics of particular commodities.

3.39. There is also a need actively to promote particular products with a view to increasing sales (or minimising falls in sales). This may be termed the **'product promotion'** need. It is quite close in some respects to the 'consumer market information' need but relates to the specific objective of increasing sales, rather than merely having better-informed consumers, by focusing on (promoting) particular product features in particular markets. This need requires careful analysis as it does not necessarily amount to a need for promotion in the form of 'generic' advertising of commodity products. This is returned to below in Sections IV and V specifically in the context of levy body activity but here it may be noted that advertising is an entirely appropriate business activity when undertaken in relation to a branded product with the aim of increasing that product's market share. Thus, in these markets the promotion of new or innovative high-value products, which may be equivalent to 'building a brand', may well be helpful, as may promoting particular products in export markets by focusing on the attributes of the UK product. But it is much more difficult to see advertising as meeting a clear need when it is directed at increasing the sales of an undifferentiated commodity product.

3.40. Last, but by no means least, these sectors have a need for support in dealing with the management of risk, and in particular crisis management. Industries undergoing significant and rapid change are prone to sudden and unexpected 'shocks' that have to be managed. These sectors have a particular problem in this regard by virtue of their exposure to issues such as climatic variation and animal and plant diseases. Meeting this need involves providing common 'project management' of the consequences of such shocks, including communications, working with other agencies, and providing information to producers on how best to deal with the consequences of crisis.

The framework of assistance

3.41. If the above are the needs of the industries, it is pertinent to enquire what bodies currently provide services that are relevant to these needs, what are the overlaps and gaps, and where the levy bodies fit in.

3.42. To help answer these questions, Schedule III.1 at the end of this Section provides an analysis of the existing bodies, public and private, whose aims include supporting, in various ways, all or some of the industry sectors. It gives, for each body, a summary of its aims and indicates which sector or sectors it supports.

3.43. Schedule III.1 indicates that there is a formidable array of organisations doing good work against the framework of needs described above. In order to provide some useful background for further consideration of the role and performance of the levy bodies, however, I have sought to identify what have emerged from the consultation phase of this Review as some of the more important issues for the future. In doing this I have been greatly helped by the very many organisations and individuals who have contributed their views, including many of those listed in Schedule III.1. The key issues are as follows:

- First, and most obviously, there are very many organisations involved in providing help and support of one kind or another. From the viewpoint of levy payers, the array must be both complex and daunting. To comment on the scope for simplifying this array through mergers and amalgamations goes far beyond the scope of this Review but there would appear to be considerable scope in principle for this, to everyone's benefit. In any event, there will doubtless continue to be a need for objective help and guidance on where to go for what, and the levy bodies, and others, have a part to play in this.
- Looking now at regulation, there is, as was indicated above in this Section, a complex framework to contend with.[32] It is obviously appropriate for agriculture and horticulture to face an extended regulatory framework in comparison with some other industries by virtue of its role in, for example, human and animal health and the environment. It is beyond the scope of this Review to comment on whether this framework is fully appropriate today[33] but in any event help with understanding the framework and implementing new approaches is essential for levy payers. The levy bodies can and do play a part here.
- Scientific R&D, as was noted above, is essential to underpin improved business performance in these industries and all the levy bodies are involved in this. During consultation, however, anxieties were expressed by many as to whether the whole R&D 'supply chain' in this area is as robust as it should be. The levy bodies are concerned with 'near market' research but, of course, success here depends on a flow of new ideas from the more strategic end of the supply chain. Comments have been made to me about both funding and staffing: many of the relevant experts are in their middle years and there do not, in the eyes of many, seem to be enough young people entering this part of the R&D arena. Again, this issue goes well beyond the scope of this Review but it does point up the continuing need for levy body involvement in individual projects and also in approaches that ensure best use of resources in the R&D supply chain.

32 Much of this regulation is EU rather than UK-driven.

33 Defra is shortly to publish strategic approaches for the UK..

- Training is another issue that was commented upon during consultation. Training and skills enhancement are essential to support any industry undergoing change. Here there has to be a question as to whether enough of the right kind of support is available to levy payers.[34] They do not need training that leads to formal qualifications so much as practical skills enhancement in, for example, business management and business development skills. As was noted above, many levy payers have to be their own production director, marketing director and finance director all in one. Lantra is working on new strategies in this area and some of the levy bodies are also involved[35] but this would appear to be an area for improved focus, and more joint working with Lantra and others, in the future.
- Help with exports is another issue raised by many. Food from Britain has the key role here but, with limited resources, cannot address all the possibilities for development. Some of the levy bodies are engaged in these activities; again, as with training, better focus and more joint working would help.
- Quality assurance schemes were commented upon frequently during consultation. I was told that, looked at from the point of view of the consumer whose interests these schemes exist to serve, the range of different schemes is complex and it is not clear what their distinguishing characteristics are. Again, analysis of the various schemes in operation goes beyond the scope of this Review but this is an area where some of the levy bodies have played a part, though not usually in the lead, and a clearer strategy in this area could only be helpful.
- New and innovative products present another set of opportunities. This can involve new uses and new applications for old products or, perhaps, the introduction of new ones. As was noted above, this is a crucial area for levy payers. Schedule III.1 reveals that there are various bodies involved in this field: some specialist to particular sub-sectors and some, including, for example, the Non-Food Crop Centre, with a wider remit. And the levy bodies can get involved in this area too.[36] Good work is being done. But in relation to the importance of innovation for the industries, and in relation to the emphasis placed on it generally in the context of UK government policy, this area appears to attract a lower priority than it should.
- Finally, there is the crucial matter of engaging the whole supply chain in supporting the process of change. It is clear that the problems of levy payers, whether those of primary producers or first-stage processors, can only be solved in the context of an understanding of the entire supply chain, from primary production to final consumption. Again, there are various organisations addressing this issue but the levy bodies have, potentially, a particularly important part to play here. Several of them have supply chain representation on their boards and have actively sought to plan their activities in this broader context. And some have been active in facilitating new approaches. The Red Meat Industry Forum, for example, which brings together the elements of the supply chain and is actively addressing problems of business performance in primary production and first-stage processing, came into existence as a result of efforts by the MLC. And the Cereals Industry Forum, with a similar remit, followed suit as a result of efforts by the HGCA.

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34 See comment above from the SSFF to the effect that many farmers report having no formal training at all.

35 But not, perhaps, to the extent that might be expected given the importance of the issue. See Section IV.

36 Although levy bodies can apparently sometimes be restricted in what they can do in this area. The HGCA, for example, is actively engaged in the development of new non-food crop uses for cereals and actively supports the work of the NNFCC. But I was told of an example where oilseed producers wishing to produce a high-value cold-pressed oil for human consumption found it very difficult to get support.

3.44. In summary, this analysis of the framework of assistance reveals that, although there are very many organisations involved, the levy bodies can have an important part to play, in general and in the context of some special issues of importance. It should be stressed, however, that against the background of the total framework of assistance, the levy bodies are quite small. Between them, their total budgets amount to only a little over £60 million.[37] It follows that their contribution is likely to be most effective when carefully focused on activities where they have a comparative advantage, and/or where they work in partnership with others. The levy bodies, with their role as independent, non-commercial, but 'industry-focused' bodies, can be particularly good at partnership working and facilitating new approaches, as the examples of the RMIF and the CIF have shown.

Conclusions

3.45. The analysis above in this Section has demonstrated the continuing significance of agriculture and horticulture directly and indirectly in the wider economy, a significance that is enhanced when the role of the sectors in the wider sustainability agenda is recognised. But the analysis has also emphasised the complexity of the policy environment they face and the scale and extent of the total array of change drivers they must address, an array which is, by any standards, huge. The industries have a number of key needs that must be met if they are to survive and prosper. Against this background of needs, the framework of assistance is commensurately large and complex, but during the course of the Review a number of issues have emerged that suggest it is not in all respects as comprehensive and effective as it might be. The levy bodies have had an important part to play in all this, albeit that, set against the framework of assistance as a whole, their resources are limited. It is, however, reasonable to enquire to what extent they have been able to play an effective role and to this subject I turn in Section IV of my report.

37 Total expenditure in 2004/05 was £62 million. Levy income was £54 million.

Schedule III.1 The Framework of Assistance

	Sector
Sector Governmental bodies	
Defra/ Department of Agriculture & Rural Development Northern Ireland (DARDNI)/ Department of the Environment in Northern Ireland/ Scottish Executive Environment & Rural Affairs Department (SEERAD)/ Welsh Assembly Government Agriculture & Rural Affairs Department (WAGARAD) Departments whose remits are the pursuit of sustainable development bringing together economic, social and environmental concerns. This relates to all aspects of the environment, rural matters, farming and food production; is a focal point for all rural policy, relating to people, the economy and the environment. SEERAD, WAGARAD and DARDNI are also the paying agencies in Scotland, Wales and Northern Ireland respectively for all the CAP schemes.	All
Rural Payments Agency An executive agency of Defra. RPA is a major delivery body for Defra providing a range of services in support of the department's objectives. These include making rural payments and carrying out rural inspections. The RPA administers fruit and vegetable, arable, milk quota/dairy, and meat schemes for the respective industries on behalf of the European Community.	All
Environment Agency Government agency concerned with protecting and improving the environment in England and Wales. The Agency is responsible for implementing regulations associated with the agricultural industry. These include the agricultural waste regulations that will come into force early in 2006, and the Integrated Pollution Prevention Control Directive for pig and poultry farmers. The Agency is also one of the specialist inspection agencies assessing farms for compliance with the Action programme for Nitrate Vulnerable Zones, Groundwater Regulations, and the Regulations for Controlling the Use of Sewage Sludge in Agriculture.	All
Scottish Environment Protection Agency (SEPA) SEPA is responsible for the protection of the environment in Scotland. Responsibilities include regulating discharges of liquid and solid waste to water, waste sites, illegal waste disposal and pollution incidents.	All
HM Revenue & Customs Responsibility includes collecting the bulk of tax revenues and paying tax credits. It is responsible for managing environmental taxes such as landfill tax. HM Revenue & Customs also enforces the National Minimum Wage.	All
Horticultural Marketing Inspectorate An inspectorate within Defra responsible for the enforcement of EU Marketing Standards for fresh fruit, vegetables, salad crops, nuts, flowers and bulbs throughout England and Wales, wherever fresh produce is grown, imported, exported, bought or sold. Scotland and Northern Ireland have their own horticultural marketing inspectorates that are part of SEERAD and DARDNI respectively.	Hort
State Veterinary Service (SVS) A Government Executive Agency, the SVS works on behalf of Defra, SEERAD and WAGARAD as the delivery agent responsible for animal health and welfare in England, Scotland and Wales. It delivers Government policies to farmers and keepers of livestock to ensure that kept animals are healthy, disease free and well looked after.	Milk Meat
Veterinary Service Group Northern Ireland An integral part of DARDNI, the Veterinary Service Group provides advice on the formulation of Government policy in respect of animal health and welfare and veterinary public health. It also implements the Department's and the Food Standards Agencies' policies in this area.	Milk Meat
Veterinary Laboratories Agency (VLA) An Executive Agency of Defra, the VLA aims to safeguard public and animal health through veterinary research and surveillance. It has a network of 16 veterinary laboratories that provide all sectors of the animal health industry with animal disease surveillance, diagnostic services and veterinary scientific research.	Milk Meat
Veterinary Medicines Directorate (VMD) An Executive Agency of Defra responsible for issues concerning the use and manufacture of veterinary medicines in the UK. It aims to protect public health, animal health, the environment and promote animal welfare by ensuring the safety, quality and efficacy of all aspects of veterinary medicines in the UK.	Milk Meat
Food Standards Agency (FSA) A Government department set up to protect the public's health and consumer interests in relation to food. It enforces and controls food hygiene and labelling as well as promoting best practice within the food industry.	All
The Dairy Hygiene Inspectorate acts on behalf of the FSA to administer and enforce the dairy hygiene regulations. This involves registering dairy farms, inspecting milking premises, equipment and animals, and enforcing statutory standards. It also provides guidance and advice on compliance with the Regulations.	Milk

Schedule III.1 The Framework of Assistance

	Sector
The Meat Hygiene Service is an executive agency of the FSA and is responsible for the enforcement of public and animal health and welfare legislation in licensed meat premises in Great Britain. It provides hygiene supervision and meat inspection services in licensed slaughterhouses, cutting plants, cold stores, farmed game handling facilities and wild game facilities. It has a statutory duty to provide these services on demand, 24 hours a day, 365 days a year in England, Wales and Scotland. The Veterinary Service in Northern Ireland undertakes the role in Northern Ireland on behalf of the FSA.	Meat
Health and Safety Executive Responsible for ensuring that the agricultural industry in Great Britain follows health and safety legislation. This involves farm inspections and enforcement.	All
Health and Safety Executive Northern Ireland Executive Non Departmental Public Body sponsored by the Department of Enterprise, Trade and Investment. Responsible for ensuring that the agricultural industry in Northern Ireland follows health and safety legislation.	All
Welsh Development Agency (WDA) WDA is a sponsored body of the Welsh Assembly Government. It is the Economic Development Agency for Wales where it aims to create prosperous communities by helping businesses to develop. The WDA's Food Directorate provides the executive resources for the Agri-Food Partnership, an industry–led partnership that brings together all the interest groups in the food chain to build on the industry's existing market strengths. The Partnership aims to enable the Welsh Agri-Food sector to keep in touch with market demand and respond quickly and profitably to new opportunities which arise.	All
Central Science Laboratory (CSL) An Executive Agency of Defra, the CSL undertakes research for sustainable crop production, environmental management and conservation and in food safety and quality. The CSL also undertakes a range of analytical, diagnostic and consultancy services to support land-based and food industries.	All
Local Authorities One of the tasks of Local Authorities is to carry out enforcement in relation to food and some agricultural issues. They work in partnership with the SVS, Defra and the devolved regions to ensure that animal health and welfare requirements are followed.	All
Pesticides Safety Directorate (PSD) An executive agency of Defra, PSD aims to ensure the safe use of pesticides for people and the environment and encourage reductions in pesticide use by introducing alternative ways to control pests, weeds and diseases. Its responsibilities include providing controls on pesticides used in agriculture, monitoring pesticide use and taking enforcement action where this is necessary. It also provides advice to Ministers, supports reviews of the safety of pesticides on the market and co-ordinates a programme of Research & Development to complement the approvals system and support policy objectives.	Cereals Hort. Potato
Plant Health and Seeds Inspectorate (PHSI) An inspectorate within Defra responsible for carrying out import and export inspections, issuing phytosanitary certificates, overseeing eradication campaigns and the operation of the EU plant passport regime. It also certifies crops in relation to statutory and voluntary certification schemes, and undertakes work on seed certification and enforcement. PHSI works in conjunction with the Welsh Assembly Government while plant health matters in Scotland and Northern Ireland are the responsibility of SEERAD and DARD respectively.	Cereals Hort. Potato
Small Business Service (SBS) An Executive Agency of the Department of Trade and Industry, the SBS aims to champion a culture that prizes and fosters enterprise, and ensure that government support services are accessible, relevant and of high quality.	All
The levy bodies	
British Potato Council See Schedule II.1a.	Potato
Horticultural Development Council See Schedule II.1a.	Hort.
Home Grown Cereals Authority See Schedule II.1a.	Cereals
Milk Development Council See Schedule II.1a.	Milk
Meat and Livestock Commission See Schedule II.1b.	Meat
English Beef and Lamb Executive See Schedule II.1b.	Meat
British Pig Executive See Schedule II.1b.	Meat
Quality Meat Scotland See Schedule II.1b.	Meat
Hybu Cig Cymru (HCC) See Schedule II.1b.	Meat

Schedule III.1 The Framework of Assistance

	Sector
Other public bodies	
Agricultural Wages Board An autonomous body of 21 members that sets the minimum wage rates as well as other terms and conditions agricultural workers in England and Wales.	All
Scottish Agricultural Wages Board Empowered to make Orders fixing minimum wage rates, holiday entitlement and other conditions of service for agricultural workers in Scotland. The board consists of 17 members.	All
Agricultural Wages Board for Northern Ireland Established under the terms of the Agricultural Wages (Regulations) (Northern Ireland) Order 1977 to regulate the minimum rates of wages, and other related matters, for workers in agriculture. The Board consist of 15 members.	All
Lantra (Sector Skills Council for the Environmental and Land-Based Sector) Works with industry employers to highlight and address training issues in the UK. This includes shaping strategies for the future with employers, the Government, funding agencies, learning providers, trade associations and the media. Lantra offers action plans for farmers to identify their skills needs and on advertising staff vacancies.	All
Biotechnology and Biological Sciences Research Council (BBSRC) An NDPB, BBSRC promotes and supports basic strategic and applied research, and related post-graduate training concerning understanding and exploitation of biological systems.	All
Farm Animal Welfare Council (FAWC) Keeps the welfare of farm animals under review and advise Government of legislative and other changes required. Also publishes such advice independently.	Milk Meat
British Wool Marketing Board (BWMB) The BWMB was established in 1950 to operate a central marketing system for UK fleece wool, with the aim of achieving the best possible net return for producers. It is a non-profit making farmer-run organisation. Its scope includes providing a secure market outlook for producers, stimulating demand by technical research, product development and promotion, improving the quality of the clip and providing an efficient marketing service from collection to auctions.	Meat
Food From Britain (FFB) FFB was set up by Act of Parliament to tackle the perceived market development failure within the primary agriculture and the processed food sector. Its objective is to help British food and drink companies build international businesses and provide help and advice to regional speciality food and drink companies in the UK.	All
Farming Connect A service that is supported by the European Agriculture Guidance and Guarantee Fund of the European Union, the Welsh Assembly Government, the Welsh Development Agency/ Agri-Food Partnership and other key agencies to help farming families in Wales develop a successful future for their businesses. The service includes an examination of the strength of existing or proposed farm business opportunities and an evaluation of the impact of any future investment on the business.	All
Centre for Alternative Land Use (CALU) Wales The CALU is a partnership between the Welsh College of Horticulture, ADAS Wales Ltd, Coed Cymru and Coleg Llsfasi. It is funded by WAGARAD and the Welsh Development Agency. The centre exists to transfer technology to any business in Wales that is interested in horticulture, biomass, alternative crops, alternative livestock and/or farm woodlands.	All
International Agriculture & Technology Centre A Government-sponsored organisation that provides support and advice to British companies in the agri-technology sector looking for new market opportunities across the globe. The Centre is a joint initiative between UK Trade and Investment, Defra, the Royal Agricultural Society of England and Advantage West Midlands. Its aims include acting as a focus for the UK agri-technology sector in promoting and supporting international trade, developing a programme of support the industry for international trade development as well as providing a focus and first point of contact for all international enquiries.	All
Sustainable Development Commission The Government's independent advisory body on sustainable development. The Commission reports to the Prime Minister and the First Minister of the Devolved Administrations.	All
National Non Food Crop Centre (NNFCC) A not-for-profit limited company that provides a single, independent source of information on the use and implementation of non-food crop products and technologies in the UK. It disseminates scientific and technical information on these issues to increase knowledge and understanding, and to initiate and facilitate technology uptake. It provides information and advice and undertakes technology translation activities.	Arable

Schedule III.1 The Framework of Assistance

	Sector
Livestock and Meat Commission (LMC) for Northern Ireland Founded by statute in 1967, the LMC for Northern Ireland is charged with the responsibility for the provision of resources to Northern Ireland's beef and sheepmeat Industry, and with advising DARD on matters relating to the sector. The main areas the LMC serves in are the provision of market information to producers and processors, the representation of the Industry on all appropriate occasions and the development and implementation of generic level marketing initiatives in the home and export markets.	Meat
Cross-sector Bodies	
Farmers Unions (NFU, NFU Scotland, NFU Wales, Farmers Union of Wales, Ulster Farmers Union, Women's Farming Union) Provide guidance and advice to their members and lobby the Government on various agricultural issues.	All
Country Land and Business Association Aims to safeguard the interests of those responsible for land, property and business throughout rural England and Wales. As well as providing advice and guidance to its members, it lobbies on their behalf.	All
Scottish Rural Property and Business Association Represents the role and interests of those involved with rural property and businesses connected with the land in Scotland. As well as providing advice and guidance to its members, it lobbies on their behalf.	All
Tenant Farmers Association Represents the agricultural tenanted sector throughout England and Wales. Activities include representing and advising its members on all aspects of tenancy and lobbying the Government on relevant issues.	All
Tenant Farmers Association of Scotland Seeks to support and enhance the position of tenants within the Scottish landlord-tenant system. It advises and represents members on all aspects of agricultural tenancy and ancillary matters.	All
Consultants e.g. ADAS Can be used to provide information and advice on particular farm or policy issues.	All
Federation of Small Businesses Represents the interests of small firms by providing advice and information to its members as well as lobbying Government.	All
Universities/Colleges and Research Institutions e.g. Scottish Agricultural College, Harper Adams, University of Reading. Undertake research on a range of areas, some of which is funded by levy bodies.	All
Assured Food Standards Independent organisation set up to manage the 'Red Tractor' logo. The logo means that the food has been produced on a farm that is registered as a member of a specific food assurance scheme administered by Assured Food Standards, and that the food meets the quality standards of that scheme.	All
Linking Environment and Farming (LEAF) LEAF demonstrates Integrated Farm Management principles through a nationwide network of volunteer Demonstration Farms. These provide working examples of how integrated farming can produce affordable food in harmony with the environment.	All
Food and Drink Federation (FDF) FDF is a trade organisation that represents the UK food and drink manufacturers, including processors and primary processors. It provides information to its members, undertakes technology transfer and deals with commercial matters. It also lobbies on behalf of its members.	All
Northern Ireland Food and Drink Association (NIFDA) A voluntary organisation committed to helping Northern Ireland food and beverage companies compete successfully and to represent and promote their interests. It aims to enhance, promote, inform and develop member businesses.	All
Soil Association A membership charity that works to raise awareness about the health and environmental benefits of organic food and farming. It raises public awareness to influence Government and industry attitudes to agricultural issues, sets standards to ensure the integrity of organic food and other products, provides information and advice to its members, and enforces high standards of organic integrity through its certification system.	All
IGD Having charitable status, IGD aims to provide leadership and supply chain best practice for the food and grocery industry. It provides a forum for discussion, learning and opportunities for improvement and the development and sharing of best practice. IGD operates the Food Chain Centre (see below).	All

Schedule III.1 The Framework of Assistance

	Sector
Food Chain Centre (FCC) The FCC was formed as part of a national strategy to improve the competitiveness and profitability of UK food and farming. It aims to support an efficient UK food chain with an effective flow of information by mapping and measuring the chain, searching for inefficiencies, recommending ways to reduce cost and waste, testing and promoting techniques to improve the chain, publishing best practice and encouraging team work amongst all members of the chain. The Food Chain Centre is operated by IGD.	All
Farm Crisis Network Helps families in farming and related activities who are experiencing problems. The network is based on local groups whose members have a combination of technical and pastoral understanding and are able to respond quickly and confidently to requests for help.	All
Royal Agricultural Society of England (RASE) RASE aims to play a leading role in the development of British agriculture and the rural economy through the uptake of good science, the promotion of best practice and an impartial approach to wide-ranging rural issues. Its work includes supporting business and social welfare in rural communities, education and organising shows and events.	All
Royal Highland and Agricultural Society of Scotland The Society's activities include building business for Scotland's land-based and allied industries, and creating a wider public understanding of the management of the land and rural resources. It is responsible for organising the Royal Highland Show.	All
Royal Welsh Agricultural Society Ltd Responsible for promoting the interests of farming in Wales. It organises a number of events throughout the year including the Royal Welsh Show.	All
Royal Ulster Agricultural Society Responsible for promoting the interests of farming in Northern Ireland. It organises events such as the annual Balmoral Show in Belfast.	All
Sector bodies: Arable Producers, Potato Growers, Horticultural	
British Society of Plant Breeders (BSPB) Represents the industry as a whole on technical, regulatory and intellectual property matters. Its members include all the major private and public sector plant breeders in the UK.	Arable Potato Hort
Sector bodies: Potato growers	
British Seed Potato Association Aims to make growers aware of the importance of the seed potato sector and encourage the sector to value its importance by encouraging players to work together.	Potato
Seed Potato Trade Association Promotes the interests of the industry and lobbies on its behalf.	Potato
Virus Tested Stem Cutting Growers' Association Promotes the interests of the sector and acts as a voice to Government.	Potato
Potato Processors' Association Represents businesses that process potatoes by providing information and lobbying.	Potato
National Federation of Fish Fryers The National Federation of Fish Fryers promotes and protects the interests of fish and chip shop proprietors throughout the UK. It also offers training for those who wish to enter the fish and chip trade.	Potato
Sector bodies:- Horticulture	
Institute of Horticulture Organisation representing all those professionally engaged in horticulture in UK and Ireland.	Hort.
Horticultural Trades Association A non-profit making organisation that represents retailers, growers, landscapers, manufacturers, distributors of garden materials and service providers. It provides information and advice to its members and represents the views of the industry. It also provides a voice for its members in the media.	Hort.
Commercial Horticultural Association Trade Association for manufacturers and suppliers of plants, products and services to commercial horticulture world-wide. It works with Government to promote British horticultural technology throughout the world.	Hort.
National Horticultural Forum A co-ordinating body that identifies major R&D needs and the contribution horticulture makes to society.	Hort.
Royal Horticultural Society Charity that aims to advance horticulture and promote good gardening. It undertakes R&D, runs horticultural shows, provides advice and educates commercial and private growers.	Hort.
British Bedding and Pot Plants Association Represents specialist growers of bedding and pot plants by providing services and advice.	Hort.

Schedule III.1 The Framework of Assistance

	Sector
Plant Propagators Ltd Association of 25 plant propagators who produce seedling plants for food consumption. Promotes best practice to its members through its assured plant propagation scheme.	Hort.
Scottish Seed and Nursery Trade Association Members represent 90% of seed sold in Scotland. Provides information and advice to its members.	Hort.
Fresh Produce Consortium Forum within which UK importers, growers, packers, wholesalers, and retailers can meet and share problems and opportunities within the produce industry. It informs members about key issues and relevant legislation.	Hort.
East Malling Trust for Horticultural Research The Trust aims to benefit research development and disseminate useful results of research in matters directly affecting horticultural crops, with an emphasis on the fruit, hop and nursery stock industries as well as results relating to work conducted at East Malling research Station.	Hort.
British Independent Fruit Growers Association Represents the interests of independent fruit growers by lobbying and providing information.	Hort.
Vegetable Consultants' Association Provides advisory and development services to growers, marketing organisations and retailers on a range of vegetables. It provides advice and information on all aspects of crop production including storage, marketing and business management.	Hort.
British Carrot Growers Association Represents the interests of carrot growers by lobbying and providing information.	Hort.
British Herb Traders Association Represents the interests of those involved with the commercial production of herbs by providing information and promoting the concerns of the industry to political organisations.	Hort.
British Iceberg Growers Association Represents the interests of growers of iceberg lettuces and provides information on all aspects of growing, distribution and marketing.	Hort.
British Onion Producers Association Represents the interests of onion producers by providing information, addressing issues at UK and EU levels and undertaking promotional activities.	Hort.
Mushroom Growers Association An autonomous specialist branch of the NFU that represents mushroom growers in the UK by organising meetings, providing information and advice, and liaising with official bodies at all levels to facilitate the profitable development of members' businesses.	Hort.
British Tomato Growers Association Represents UK and Channel Islands tomato growers by promoting British tomatoes to consumers. It also supports the industry technically by co-ordinating R&D priorities as well as providing and disseminating technical information.	Hort.
Cucumber Growers' Association Looks after the collective interests of UK cucumber growers. It provides a voice for its members, promotes the British cucumber and directs technical developments.	Hort.
Brassica Growers' Association Represents members and promotes brassicas to consumers.	Hort.
Allium and Brassica Centre Ltd The Centre advises growers and co-operates in all aspects of bulb onion and brassica production and storage. It undertakes in-house trials and development, co-operates with Research and Development organisations, provides technical updates, regular market information and holds meetings with growers. It also provides technical advice.	Hort.
Leek Growers' Association A grower controlled and financed body to support the activities of UK based leek growers.	Hort.
Radish Growers' Association Represents specialist growers of bedding and pot plants by providing services and advice.	Hort.
English Apples and Pears Represents apple and pear growers by providing information and advice.	Hort.
National Hop Association of England The Association was formed to co-ordinate the activities of, and research for, England's hop growers. It funds hop research programmes at HRI Wye College in Kent to develop and promote new varieties. It also supplies information to brewers, hop merchants in Britain and to markets world-wide.	Hort.
Processed Vegetable Growers Association (PVGA) PVGA provides commercial support for members growing vegetables for processing and provides market intelligence services.	Hort.
Chrysanthemum Growers' Association Assists bedding and pot plant growers to communicate together by providing information and guidance. It also seeks to strengthen the status of the industry and ensure that R&D resources are directed to meet the needs of industry members.	Hort.

Schedule III.1 The Framework of Assistance

	Sector
Sector bodies: Arable industry	
The Arable Group (TAG) Largely funded by farmers' subscriptions, TAG undertakes a network of agronomic trials to provide independent, agronomic information to arable farmers.	Arable
Cereals Industry Forum (CIF) Funded by HGCA and the Food Chain Centre, the Cereals Industry Forum exists to promote and identify best practice within the British cereals supply chain, and to deliver practical help to producers and the industry.	Cereals
British Crop Production Council (BCPC) Members from a wide range of organisations cover issues that include research, the agrochemical industry, agricultural engineering, plant breeding/ biotechnology, overseas development, and government and regulatory concerns. It has recently changed its name from the British Crop Protection Council.	Cereals
Maltsters Association of Great Britain (MAGB) The MAGB, the trade association of the UK malting industry, aims to promote an understanding of the industry's requirements for raw materials, ensures their quality and supply, monitors and interprets legislation affecting the industry and promotes the safety and the wholesomeness of malt. It also aims to identify and promote the beneficial application of technology and promote standards of excellence within the industry by training and best industry practice.	Cereals
Processors and Growers' Research Organisation (PGRO) Funded by a voluntary levy on pulse crops, the UK centre for applied research on temperate peas and beans. Research topics include new crop protection, products, new varieties, seeds, husbandry requirements, control of pests and diseases, machinery evaluation and crop management. It also provides information and advice to producers.	Arable
British Beet Research Organisation (BBRO) Set up jointly by British Sugar plc and the NFU, the British Beet Research Organisation (BBRO) commissions and implements research and technology transfer to increase the competitiveness and profitability of the UK sugar beet industry in a sustainable and environmentally acceptable manner. It undertakes research and communicates this information to growers via best practice and technical advice. It is funded by a levy on growers plus matched-funding from British Sugar plc, the monopoly processor.	Arable
National Association of British and Irish Millers (NABIM) NABIM is the representative organisation for the UK flour milling industry. It provides information and advice to its members, promotes the flour milling industry to Government, the media and other interested parties.	Cereals
Association of Bakery Ingredient Manufacturers Represents and promotes the common interests of UK companies who manufacture and supply ingredients to the bakery industry.	Cereals
Association of Cereal Food Manufacturers Represents the interests of all major manufacturers of breakfast cereal products in the UK. It provides advice and information to its members.	Cereals
British Edible Pulse Association A trade association that represents the processors and users of British produced pulse crops. It encourages the consumption of pulses by promoting them as healthy, high protein and high fibre foods, and provides a forum where members can exchange views, agree policy and develop their businesses.	Arable
Federation of Oils, Seeds and Fats Association An international contract-issuing and arbitral body concerned exclusively with the world trade in oilseeds, oils, fats and edible groundnuts.	Arable
Maize Growers Association Run by growers, the Association consists of farmer-led Research and Development Committees that commission research on maize agronomy, nutrition and environmental issues. It transfers results to members through monthly mailings, demonstration sites, conferences and study tours.	Arable
British Oat and Barley Millers Association (BOBMA) BOBMA represents the interests of UK millers of oats and barley for human consumption. It represents the industry on a wide range of issues and is a member of the European Breakfast Cereal Manufacturers' Association where it plays as active role on its Oat Millers' Committee.	Cereals
Sector bodies: Milk producers and Meat industry	
Breed Societies Provide advice and information on the particular breed they represent. They also hold events and lobby Government on particular issues regarding the breed.	Milk Meat
Royal College of Veterinary Surgeons (RCVS) The RCVS is the regulatory body for veterinary surgeons in the UK. It aims to safeguard the health and welfare of animals committed to veterinary care, and to act as a source of informed opinion on animal health and welfare issues, and their interaction with human health.	Milk Meat

Schedule III.1 The Framework of Assistance

	Sector
British Veterinary Association (BVA) The national representative body for the veterinary profession. The BVA develops and maintains communications with various sectors, including the Government, parliamentarians and the media.	Milk Meat
British Cattle Veterinary Association (BCVA) This is the cattle specialist of the British Veterinary Association. It aims to promote the discussion and exchange of information and the advancement of knowledge pertaining to cattle, encourage collaboration between the BCVA and other related organisations, and provide information on bovine matters.	Milk Meat
North of Ireland Veterinary Association (NIVA) NIVA exists to promote and advance veterinary and allied sciences. It is the regional Territorial Division of the BVA and it represents all veterinarians working or retired in Northern Ireland.	Milk Meat
Northern Ireland Veterinary Education Trust (NIVET) NIVET is a charitable organisation whose aim is to advance the continuing education of those who are involved in alleviating the suffering of animals and who are engaged in or associated with the practice of the art and science of veterinary medicine and surgery, all primarily but not exclusively within Northern Ireland.	Milk Meat
RSPCA Provides information and advice on animal care.	Milk Meat
Sector bodies: Milk producers	
Royal Association of British Dairy Farmers (RABDF) An independent organisation that provides information and training for its members. The RABDF also lobbies Government on dairy issues and organises events such as the Dairy Event.	Milk
Dairy UK Represents milk processors and co-ops, providing information and advice to its members, as well as collaborating with other industry organisations, and lobbying Government. The advice that Dairy UK provides to processors may be disseminated to producers.	Milk
Dairy Council Joint funded by MDC levy and Dairy UK. Provides material on the nutritional benefits of milk. Publications include a general guide on animal welfare.	Milk
Dairy Supply Chain Forum (DSCF) The DSCF was established to encourage co-operation in the dairy supply chain. It provides a framework within which all parties in the dairy supply chain can come together to discuss the challenges facing the industry and develop constructive solutions. The Forum is chaired by Lord Bach.	Milk
British Cheese Board Aims to increase cheese consumption by promoting the benefits of eating cheese to consumers. It also provides information and advice to its members.	Milk
Specialist Cheesemakers Association An alliance of cheesemakers, retailers and wholesalers that provides an opportunity for the sharing of ideas and increasing sales of British cheese. The Association also provides a common voice to the Government and the media, aims to encourage excellence in cheesemaking, and raise the profile of traditional British cheeses.	Milk
Sector bodies: Meat industry	
Sheep Veterinary Society A division of the British Veterinary Association, the Sheep Veterinary Society promotes sheep health and welfare through meetings, workshops and by attending events. It also supports the certificate and Diploma in Sheep Health and Production.	Meat
Pig Veterinary Society A division of the British Veterinary Association, the Pig Veterinary Society assists members to care for pigs through the dissemination of knowledge about health, disease, the pig's welfare and its management.	Meat
British Pigs Association (BPA) Official breed society that maintains herd lists for traditional British pig breeds. It registers the birth of all pedigree litters of pigs and provides certificates for producers planning to sell their pigs for meat. The BPA provides services and guidance to its members and represents the interests of pedigree breeders to the Government.	Meat
National Beef Association (NBA) Represents beef producers by providing information and services to its members and lobbying the Government on their behalf.	Meat
National Pig Association (NPA) Represents UK pig producers. Provides services and information to its members and lobbies the Government on their behalf.	Meat
National Sheep Association (NSA) Represents the interests of UK sheep producers by providing information, guidance and services as well as lobbying political authorities in the UK, Europe and around the world on their behalf.	Meat

Schedule III.1 The Framework of Assistance

	Sector
Red Meat Industry Forum A consortium jointly sponsored by the Government, the MLC, the NFU and the trade that is managed and administered by the MLC. It aims to assist all players in the red meat supply chain to adapt their businesses to meet future challenges, especially changes resulting from CAP reform and globalisation. It works to improve the efficiency of the supply chain, reduce the costs of production, processing and delivery, and to communicate consumer needs more rapidly down the chain	Meat
Assured British Meat Maintains and develops standards within the red meat industry covering food safety, animal welfare and environmental protection. It also promotes integrated beef and lamb assurance to provide consumers and retailers with confidence about product safety.	Meat
Welsh Lamb and Beef Promotions A farmer-controlled agricultural co-operative which promotes branded Welsh lamb and beef in target markets at home and abroad.	Meat
British Meat Processors Association Represents the interests of those involved in the slaughtering, processing, manufacturing, wholesale distribution and the packaging sectors of the meat industry. Provides information and guidance and lobbies the Government on behalf of its members.	Meat
Association of Independent Meat Suppliers Represents small and medium sized abattoirs by emphasising their role in serving local livestock farmers, and meeting a range of consumer needs, including butchers and meat and meat products distributors.	Meat
Small Abattoir Federation Represents the concerns of small abattoirs throughout the country. It promotes the importance of small, local abattoirs and lobbies the Government.	Meat
Scottish Association of Meat Wholesalers (SAMW) SAMW is a trade association that represents the majority interests of the slaughtering, wholesaling, and processing sectors of the Scottish red meat industry. It issues regular newsletters and other information to its members to keep them fully briefed on current issues and developments. It also represents meat industry views and the interests of its members to the Government in Edinburgh, London and Brussels.	Meat
National Federation of Meat Traders (NFMT) NFMT represents mostly independent small retailers and abattoirs. It provides services to its members and lobbies on their behalf. Its members are principally from England and Wales but the NFMT does undertake work with Northern Ireland and Scotland.	Meat
International Meat Traders Association Represents all international meat traders. Provides information and services, and lobbies the Government on behalf of its members.	Meat
Assured British Pigs Has the objective of providing effective assurance to internationally recognised standards throughout the whole pig meat production chain, from animal feed manufacture to meat processing and distribution.	Meat
AgriSearch AgriSearch was formed to provide a mechanism through which dairy, beef and sheep farmers in Northern Ireland could have a direct involvement in near market research. Funds contributed to AgriSearch are used to commission research into the improvement and development of sheep, beef and dairy farming and to disseminate and publish the results.	Meat

Case Study: Cereals & Oilseeds[38]

Structure and Profitability

- There has been a general decline in cereal prices (although yield has remained fairly constant): net farm income for predominantly cereal farms has decreased from £300 per hectare. in the mid 1990s to just £40 per hectare in 2001 (partly due to 35% of farms in England and 45% in Scotland recording negative incomes in 2001).
- At extremes, there was a difference of £300 per hectare in net farm income between the most and least profitable businesses, although the bulk of producers achieved quite similar results.
- The average wheat price received by growers in 2003/04 was estimated to be £85/tonne (having risen from £60/tonne in January to £120/tonne in December), boosting average net farm income to £180 per ha (HGCA farm income model), the highest level in seven years.
- Most UK wheat is delivered straight from the farm to the mill, in contrast to central storage and testing in other countries; this ensures UK farmers receive a greater proportion of the purchase price of grain than overseas rivals (there are some negative implications regarding variation in supply, quality, etc).
- An estimated 25% of holdings account for 80% of acreage (cereals); 10% of holdings account for 40% of acreage (oilseeds).
- Winter wheat has been the most profitable crop in the last few years, with a gross margin in the Eastern counties of £600 per hectare compared to barley and oilseeds, both of which have gross margins of approximately £400 per hectare.

Processing industries

Milling (2003 figures)

- UK millers use 5.5 million tonnes of wheat per year, 80% of which (4.4 million tonnes) comes from UK producers.
- In total, the milling industry is worth £1 billion pa., producing 4.5 million tonnes of flour.
- The number of milling firms has decreased over the past 50 years from over 200 to 33. In 2003, two of these (RHM and ADM) accounted for over 50% of flour production, with another 20 making a significant contribution and the rest small specialist single-site operations.

Malting and Distilling (2002 figures)

- The brewing and distilling industries consume about 70% of total UK malt production, with the food industry using about 4%. The balance is exported and imports account for less than 2% of demand.
- UK processors account for the following consumption of total UK malt production: sales maltsters: 78%; brewer maltsters: 11%; distiller maltsters: 12%.
- The number of malting companies has decreased: in 1990 there were 28, operating 62 sites; in 2001 there were only 17, operating 40 sites. In the UK brewing industry, four large companies had about 75% of the market share in 2003.

38 Source: Report of Cereal Industry Review, 2004

Oilseeds crushing industry

- Currently there are four companies operating five mills, two of whom are responsible for over 90% of production.

Animal Feed

- Traditionally, the animal feed industry is split into three categories: national compounders, independents and co-operatives.
- There are currently only two national compounders, compared with six twenty years ago. These two have over 50% of the market, mainly dealing in pig and poultry feed.
- The independents concentrate mostly on feed for cattle, while the other major producers of feed, and users of cereals, are the integrated poultry units.

General points across all cereals

- Assurance, traceability, enforcement of regulation and quality control procedures are regarded as strong in the UK relative to competitor countries.
- The supply chains in the UK generally have a good size structure providing opportunities for economies. The UK farm sector is seen as providing a stable supply of raw material, well located for usage outlets.
- Weaknesses include: lack of cooperation within the supply chain, lack of specific training and education, problem of recruiting and retaining skilled staff, lack of benchmarking and sharing good practice, concern that productivity improvement is threatened by the erosion of the UK research base, general lack of confidence in the future of the sector which is impeding entrepreneurship and innovative strategic investment.

Case Study: Milk

Prices and Profitability of Dairy Farms in England and Wales[39]

Overview of Profitability

- Farmers tend not to factor in the cost of their own labour (or that of spouses and other family members) when assessing the profitability of their businesses. When imputed costs of this labour are factored in (as in the data below), many farms reveal net margin losses.
- In 2002/03, 60% of dairy farms in England and Wales made a net loss and 40% of milk was produced at a cost in excess of 18ppl, and was therefore loss making.
- The average producer milk price was 16.89ppl, compared to an average production cost of 18.33ppl.
- 29% of milk was produced at below 16ppl on 18% of farms. This has increased from 12% of milk produced in 1996/97 on 5% of farms.
- A farm-gate price of 25ppl in 1996/97 meant that 80% of producers had a positive net margin.
- The average net margin per cow in 2002/03 was minus £13. This fell further in 2003/04 despite dairy premiums due to increased cost of feed and quota prices and is still negative in 2004/05.

39 Economics of Milk Production, England and Wales 2002/03; Colman et al.

- Average milk yield per cow has been increasing steadily since 1994. Generally production cost has fallen since 1996/97, although in small herds (<40 cows) this has actually risen.
- Despite improvements in cost efficiency since 1996/97 it has been insufficient to counter the drop in milk prices and revenue.

Economies of size

- There is a strong relationship between herd size and profitability due to lower fixed and overhead costs, particularly labour.
- Labour cost per cow is far greater in small herds: £570 (64 hours) per cow in herds of less than 40; £226 (24 hours) in herds of over 150 (these are based on imputed costs – see above).
- Labour is mostly unpaid in small herds, while in herds of over 150, over half the labour is paid.
- Net margins in 2002/03 only became positive at 110 cows.
- On average, the production cost/litre exceeds 20p for herds of less than 84.
- On average, farms with less than 40 cows (20.6% of the total in 2002) have a net margin loss even when the labour cost of the farmer and spouse is removed from the calculation, especially in upland farms. The average producer milk price for herds of under 40 cows was 28.9/26.8ppl lowland/upland.
- In Wales, herds tend to be smaller (by 20 cows on average) and produce less milk per cow (500 litres less per year) and be generally less profitable (lower milk price by 0.66ppl).
- Larger herds tend to obtain slightly higher milk prices.
- Some small herds achieve comparable margins/litre per cow to larger herds, although the overall margin per herd is modest. Similarly, some of the larger herds recorded net margin losses. This suggests that improving efficiency is not simply a case of consolidation.

Trends

- The number of registered dairy holdings in England and Wales fell from 28,093 in 1995 to 18,686 in 2002 (although the average herd size is increasing). 2004 census data gives a figure of 13,264 for England.
- The average age of those managing dairy farms is increasing: the proportion below 40 fell since 1997/98 whilst those in their 40s, 50s and 60s increased.
- Over the past ten years producer margins have fallen, processor margins have remained fairly constant, and retailer margins have grown.
- The proportion of dairy farmers with some or full agricultural training grew slightly between 1990 and 2000, from 28% to 32%. While this compares reasonably well with other sectors, the vast majority still have practical experience only.

Comparative Performance of Upland and Lowland Herds

- Upland herds are smaller on average, with two thirds the number of cows in lowland herds.
- Yields were 10% lower in upland herds.
- Gross margin was £83 less in upland herds (almost entirely due to labour costs).

- Average net margin was £20 per cow in lowland herds compared to minus £119 in upland herds.

Other Considerations

- When assessing performance standards, the criteria for assessment need to be chosen carefully. Farms with the lowest production costs may not necessarily have the highest margins.
- Farm-gate prices are driven by commodity markets, i.e. there is a large pool of commodity milk, which is available to undercut any price that rises significantly above the commodity price.

Table III.6 Overview of relationship between herd size, costs and margins (Economics of Milk Production 2002/03)

	Herd Size (cows)				
	10-40	40-70	70-100	100-150	Over 150
			Upland Herds (ppl)		
Proportion of herds in each category (%)	16.3	25.9	21.1	21.0	15.7
Gross Margin	7.64	9.54	9.2	9.47	9.25
Total cost	28.88	20.32	17.97	17.58	16.68
Total labour cost	11.26	6.37	4.6	3.7	3.1
Net Margin	-10.3	-1.94	-0.03	0.87	1.48
Net margin plus farmer & spouse labour	-0.04	3.36	3.32	2.53	2.43
			Upland Herds (ppl)		
Proportion of herds in each category (%)	20.6	27.4	20.4	18.8	12.8
Gross Margin	8.34	8.27	9.87	9.38	8.04
Total cost	26.80	21.25	18.90	17.25	17.48
Total labour cost	11.42	6.68	5.17	3.36	3.88
Net Margin	-9.54	-3.77	-0.46	0.91	0.73
Net margin plus farmer & spouse labour	-1.58	1.22	3.00	3.30	2.19

Case Study: Red Meat

Prices and Profitability of the Red Meat Sector in the UK[40]

- There was an overall decrease in net farm income and cash income for LFA cattle and sheep farms between 2003/04 and 2004/05, mainly due to a small fall in livestock output combined with a similar increase in costs. Output has fallen due to lower prices for some classes of cattle and sheep whilst inputs such as fuel, fertilizer and depreciation have also increased.

40 Economic Position of the Farming Industry; February 2005

Profitability in key commodity sectors

Lowland Sheep

- In 2003, lowland sheep flocks made a very small positive net margin for the first time in several years. This was due to firmer prices for finished lambs as tight supplies kept the market buoyant.
- The average price for 2004 was 2% higher than that of 2003. Total mutton and lamb imports were up 10% on 2003; tighter domestic supplies have encouraged imports, which were especially high between April and June 2004.

Lowland Beef

- Net margins for 16-22 month beef fell in 2003, and remained negative in 2004. Although beef prices were firm, the increased price of store cattle has reduced profitability for this sector.
- For the ten months to October 2004, liveweight cattle prices were consistently higher than those seen in 2003. Prices peaked in July at 108ppkg but subsequently fell back towards the end of the year, finishing at 96ppkg in December. This decline was due to an increased supply of finished cattle, poor domestic demand, imports from Ireland and South America and competition between retailers. Year on year, prices were 6% higher in 2004 than 2003.
- In 2003, total supplies for consumption were very similar to 2002, with little change in production. Similar supply and consumption levels were shown in the first nine months of 2004.
- In the nine months to September 2004, UK fresh and frozen beef imports were 7% higher than 2003 levels.
- The value of UK beef imports are following a general upward trend, which so far peaked at £600 million in December 2003.
- Suckler cow margins increased in 2004, following a general trend. This reflects higher calf prices and suckler cow premium receipts.

Hill Livestock

- Gross margins (excluding Hill Farm Allowance payments) for 2003/04 continued to increase, reflecting higher finished lamb prices and firm prices for store sheep and store cattle which are a major component of output on LFA farms.
- Sheep annual premium accounted for approximately 40% of the gross margin in 2003.

Section IV

The role and performance of the levy bodies

Introduction

4.1. Having introduced the five levy bodies and examined the needs of the industries they exist to serve, in this Section of the Report I look at the role and performance of the levy bodies and the arrangements under which they operate. In doing this, I draw on two key sources: the information and opinions gained through the consultation exercise; and my own work with the five bodies. As was explained in Section I above, four issues featured prominently in the feedback from stakeholders and their representative organisations and to which I therefore paid particular attention during the third phase of my work. I use these four issues to provide a framework for the discussion below of role and performance; they are: governance and accountability; activities and priorities; arrangements with regard to the levy; and operational issues that affect the efficiency and effectiveness of service delivery. Each is discussed below, followed by a brief conclusion. The analysis is supported by Annexes C to F to this Report that present some more detailed information relevant to each of the four issues.

Governance and accountability

4.2. Problems with governance and accountability arrangements in any type of organisation tend not to manifest themselves directly but to give rise indirectly to other problems. In a commercial organisation governance weaknesses, such as boards made up in such a way that they do not have access to an adequate range of skills and competencies to exercise good oversight, lead to poor performance and, in the limit, to business failure. Poor reporting and disclosure, an important aspect of governance, lead to shareholder dissatisfaction and, in the limit, to an inability to finance necessary investments. It is therefore pertinent to ask, in looking at different types of organisation, whether they display any symptoms that might suggest issues of governance and accountability that need to be addressed.

4.3. During the consultation phase of this Review levy payers and others raised a variety of criticisms of the levy bodies. This should come as no surprise: these individuals and organisations were being given an opportunity to raise concerns and criticisms and they duly took it. But it is interesting to examine the kinds of points being made and how frequently they arose.

4.4. Some common themes emerge. The levy bodies can seem remote from levy payers and from their representative organisations. They do not always seem adequately to understand levy payers' problems or to represent their interests. They do not always communicate well with levy payers and, in particular, they do not report back effectively on aims and objectives, performance and progress in a way that levy payers can understand. They can sometimes be regarded as 'part of government' rather than 'part of industry'. And, on occasion, they are criticised for appearing bureaucratic rather than fleet of foot. It must be stressed that these are not criticisms being made of all of the bodies all of the time, merely of some of the bodies some of the time. But they are points made with sufficient frequency that it seemed appropriate to look in more detail at the governance and accountability arrangements in operation to see whether these may be exacerbating, or failing to expose, other problems. These problems could include, for example, dissatisfaction with other aspects of levy body performance, such as the range of activities undertaken[1] or the priorities set, or even issues outside levy body control. These are, after all, industries facing, as we have seen, huge problems of adjustment and it would not be surprising if there were a tendency to apportion blame beyond where it should reasonably lie.

4.5. In the third phase of my Review I accordingly examined the governance and accountability arrangements currently in operation to see whether they need improving. This has involved looking at relevant documentation and also talking to relevant people in the five bodies. My conclusions, in summary, are as follows:[2]

- Looked at from the levy payer's point of view (and that of other industry stakeholders), the levy bodies do indeed appear more 'part of government' than 'part of industry'. This is in part an inevitable consequence of their NDPB status. Quite properly, levy bodies have to be regarded as 'public' in the sense that they are financed by a levy raised by statute, but they are 'special' kinds of public body in that they exist to serve a specific group of people who are themselves directly financing the bodies' activities through the levy. They are not part of the Government's 'delivery landscape'. This point is further developed in Section V below; here it may be noted that some of the constraints imposed on the composition of boards and ways of appointing board members, together with the complexities of NDPB accounting and reporting arrangements, can make them appear remote from levy payers. For example, the chairmen of the bodies have to be independent: they may not be levy payers.[3] And there is extensive involvement in principle by Ministers in matters relating to the levy.[4]
- One specific aspect of involvement by Ministers relates to decision-making as to whether or not a particular levy should be wound up. Levy payers feel they should be more engaged in such decisions; 'sunset clauses' along the lines of those in operation in Australia[5] were frequently mentioned during consultation. Under the current arrangements, levy payers may be consulted as part of quinquennial review arrangements but the decision is not theirs, and they feel that in some instances the views expressed do not appear to have been adequately reflected in the final decision. This serves to increase levy payers' feeling that the levy bodies are 'part of government' not 'part of industry'.
- While the bodies in general do aim to get representation on their boards from across the supply chain, some are better-balanced than others in this respect and there is, with some notable exceptions, little direct representation from the 'upstream' supply chain beyond first stage processing. The need to engage with the whole supply chain is now recognised by many levy payers as essential if producers are to 'reconnect' with their markets in the new competitive environment.[6]

1 This is considered further below in this Section.

2 Background information relevant to some of these conclusions is presented in Annex C.

3 Except theChairman of the MLC.

4 The extent of ministerial involvement varies from case to case. This is discussed further below in this Section and in Annex E.

5 In Australia levy payers vote every five years in a ballot to determine whether or not the levy should continue.

6 This is not universally true. Some levy payers evidently would prefer to see a return to the 'old world' but they are becoming a minority.

- The bodies do make efforts to achieve effective working but some are hampered by the size of their boards and/or have problems exacerbated by not making maximum use of committees. Meetings can sometimes appear to be over-frequent and over-long, with members not always sure if they are adding full value in relation to the time spent. This, too, can derive in part from being NDPBs.
- In most cases the bodies comply fully with all the requirements of NDPB status but this is not universal; there are, for example, a few instances of non-compliance with government guidance in relation to audit committees.[7] Audit committees, as the private sector now well-recognises, are a crucial component of oversight and governance and should be one of the elements that give confidence to levy payers that the system as a whole is working well.
- A further observation is that different arrangements apply from body to body as to the terms and conditions under which chairmen and other board members serve.[8] Whilst these may be justified by different levels of responsibility and time commitment, it is not clear that this is always the case. Such differences, when unexplained, can give rise to questions amongst levy payers.
- Communication with levy payers, including formal reporting back to them on performance, has, levy payers report, not been as good as it should be. This criticism appears to some extent to be a reflection of the past rather than the present: each of the boards has of late been taking initiatives of various kinds designed to improve the quality of communications and these have undoubtedly helped to address some of the problems in this area.[9] And communication in all industries, but perhaps particularly where, as here, there are very many small businesses to communicate with, is never easy: good communication is a two-way process. But there is still a way to go for some of the bodies with regard to effective communications, especially with regard to reporting on performance.
- In summary, I conclude that, although there do not seem to be major weaknesses in the bodies' compliance with the requirements imposed on them as NDPBs, the governance and accountability arrangements in relation to levy payers could do with improvement, and this subject is accordingly returned to in Section V below.

Activities and priorities

4.6. In Section II I commented on some of the features of the activities undertaken by the levy bodies and in Section III I looked at the needs of the industries as they seek to cope with the challenges of change, at the very wide range of organisations that are relevant to levy payers in this regard, and how the levy bodies fit into this framework. During consultation the matter of the activities the bodies engage in, and their priorities, was raised by virtually everyone. Inevitably, differing views were expressed both about the appropriateness of particular activities and about how successful the bodies have been in delivering services but, as with the governance and accountability issues mentioned above, some common themes emerge.

4.7. Levy payers, and all other stakeholders, recognise the clear need to drive for improved efficiency in production: this equates to the 'business performance need' identified in Section III. This means they value, for example, the scientific research and development

7 Sometimes these are perfectly reasonable departures by virtue of the body being small in size. But, although other infringements, such as delayed responses in addressing issues identified, do not appear on the face of things to be very serious they really should not arise at all.

8 Moreover, there is inconsistency as to who bears the cost. In general, this is borne by levy payers but in the case of the MLC part of the cost is borne by Defra.

9 The issue of communications is returned to below in this section when levy body activities are discussed..

undertaken by the bodies,[10] but they stress the importance of the results of this R&D being packaged and delivered to levy payers in 'useable' form, i.e. the importance of effective knowledge transfer. They also recognise the need to move up the value chain – the 'business development' need identified in Section III – but examples were quoted of perceived inadequate support for innovation and new product development. Quality assurance schemes were also the subject of special mention: many stakeholders drew attention to what seemed to them to be a plethora of arrangements not always giving value in terms of increased realised price. The provision of producer and consumer market information is also clearly valued by levy payers, whether these be primary producers of milk or primary producers and processors in the potatoes, grain and meat sectors.[11] Activities relating to promotion, however, attract a wider range of views: whilst there was quite widespread support for well-focused activities aimed at promoting exports, for example, there was less enthusiasm for the use of more general advertising.[12] And, finally, there was evinced support for activities related to 'crisis management'.[13]

4.8. All in all, the consultation phase raised many issues about activities and priorities, and these have, accordingly, been the focus of special attention during the third phase of my Review.

4.9. Before summarising my conclusions in these areas a couple of general points should be made. First, it is not easy to obtain clear and consistent information on activities across the five bodies so that comparisons can be made. While each body produces information of varying degrees of detail, the bodies can and do use the same words to apply to different activities and different words to apply to the same, or similar, activities. I have therefore sought, with the help of the levy bodies concerned, to put together information on a common basis. In doing this, I have used the overall framework of activities that relate to needs which was presented in Section III. Such exercises have their limitations: not all of the levy bodies were able to provide figures in the format requested; and doubtless they were obliged to make approximations and simplifications when they provided the figures. Nevertheless, I believe the exercise to be of some value; the results are set out in Table IV.1.

4.10. Second, some comment is due on the evaluation of performance. It is not easy to measure performance in relation to activities such as those undertaken by the levy bodies. Certainly, to attempt an evaluation of performance across their portfolios of activities taken as a whole would be fraught with hazard; there are too many other variables in operation for this to produce meaningful results. It should in general be possible, however, to develop approaches that examine the effectiveness of particular projects and programmes. Here, matters are furthest advanced in the field of scientific R&D; techniques are now quite widely used in this sector to relate projects to outcomes and the levy bodies generally follow this practice. Elsewhere, efforts have been made by some of the levy bodies to evaluate other activities but this is not done consistently by all. To attempt such an exercise now in relation to past performance would go way beyond the scope of this Review; however, here it may be noted that common approaches to the evaluation of performance would help levy payers and others to see where and how value for money is best being delivered when looking across all the levy bodies and would thus serve to enhance confidence in their activities.

10 The HDC, in particular, was praised in this regard; its use of sector panels to identify research needs was favourably commented on by many, though not quite all, levy payers.

11 The HDC provides very little in the way of information of this type; its emphasis is primarily on R&D and knowledge transfer. See further below.

12 The high cost of advertising, and the constraints imposed by State Aid rules on some promotional activities were also frequently mentioned.

13 This was mentioned particularly in the context of the MLC's role in relation to BSE and FMD.

Table IV.1 Summary of Activities

	All Boards	BPC	HDC	HGCA	MDC	EBLEX	BPEX	HCC	QMS	MLC Corp
		Costs allocated by each existing levy body								
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
1. Business performance										
Sub-total	23,119	3,105	4,376	6,323	1,823	2,165	2,057	221	517	2,532
% Total	37.0%	50.7%	97.6%	62.6%	23.5%	15.7%	22.1%	6.2%	12.9%	77.6%
2. Business development										
Sub-total	3,823	482	0	579	685	246	802	456	573	0
% Total	6.1%	7.9%	0.0%	5.7%	8.8%	1.8%	8.6%	12.8%	14.3%	0.0%
3. Producer market information										
Sub-total	6,855	820	0	1,260	1,940	748	698	206	452	731
% Total	11.0%	13.4%	0.0%	12.5%	25.0%	5.4%	7.5%	5.8%	11.3%	22.4%
4. Consumer market information										
Sub-total	4,024	583	0	447	895	585	746	374	394	0
% Total	6.4%	9.5%	0.0%	4.4%	11.5%	4.2%	8.0%	10.5%	9.9%	0.0%
5. Product promotion										
Sub-total	20,131	669	110	509	2,342	8,596	4,430	1,810	1,665	0
% Total	32.2%	10.9%	2.4%	5.0%	30.1%	62.2%	47.7%	50.7%	41.6%	0.0%
6. Export promotion										
Sub-total	3,855	221	0	848	0	1,397	501	501	387	0
% Total	6.2%	3.6%	0.0%	8.4%	0.0%	10.1%	5.4%	14.0%	9.7%	0.0%
7. Crisis management										
Sub-total	617	249	0	141	86	73	58	0	10	0
% Total	1.0%	4.1%	0.0%	1.4%	1.1%	0.5%	0.6%	0.0%	0.3%	0.0%
Total	**62,424**	**6,129**	**4,486**	**10,107**	**7,771**	**13,810**	**9,292**	**3,568**	**3,998**	**3,263**
Gross Levy Income (£000s)	**54,031**	**5,873**	**4,673**	**9,756**	**7,278**[14]	**11,305**	**7,556**	**3,436**[15]	**3,998**[2]	**156**

Source: Data provided by the levy bodies to the Review: Gross Levy income from Annual Reports and Accounts 2004/05

NB The four devolved meat bodies buy back many of their services from the MLC. The MLC delivers its own services out of non-levy income.

14 *General costs given by MDC have been allocated by the Review pro rata to activities*

15 *Expenditure analysis shown for HCC and QMS is only against Levy Income. QMS staff and overhead costs have been allocated by theReview pro rata to activities*

4.11. Against this background, my conclusions in relation to activities and priorities are as follows:

- The levy bodies are engaged in a very wide range of different activities. Annex D looks at these in some detail, going back over the last five years. The levy bodies have undoubtedly been extremely active in developing and delivering services to levy payers. But are they sufficiently focused and do their priorities match levy-payers' needs? Here, Table IV.1 raises some interesting issues. Subject to the limitations on these comparisons mentioned above, the Table sheds some light on priorities as between different types of activity and as between different bodies.[16]
  - Whilst business performance is, on average, the most important activity,[17] accounting for nearly 40% of funding, its importance varies considerably across the bodies. The proportion of funding going to these activities, for example, is highest in the case of HDC,[18] at 97.6%, with HGCA spending nearly two thirds of its resource in this way and the BPC one half. The MDC and the meat bodies spend proportionately much less.[19]
  - Business development is generally low; apart from HCC and QMS, these activities attract less than 10% of funding. This is interesting in the light of the views expressed by levy payers that innovation and new product development, for example, are very important.[20]
  - Producer and consumer market information, again, varies in importance as between the different bodies. MDC spends over a third of resources on this. BPC spends 23%, QMS spends 21% and the HGCA 17%, comparable to BPEX and HCC.
  - Product promotion is a focus of the meat bodies and of milk: EBLEX stand out in devoting over 60% of its resources to this activity, whilst the other meat bodies and the MDC all spend between 30% and 50%.
  - Export promotion is on a much smaller scale but is a focus for the meat bodies and the HGCA.[21]
  - Crisis management appears to be much less of an issue; however, a comparable analysis for earlier years would doubtless have highlighted this as a priority for the meat bodies.
- Clearly, some differences in priorities can and should be expected: the needs of the industries that were examined in Section III, whilst they have much in common, also display differences. But it is not clear that the differences in priorities as between the different levy bodies revealed in Table IV.1 are fully explained by differences in industry needs. Why should promotional issues, for example, feature so prominently in some product areas but much less so in others? Part of the explanation, it seems, lies in decisions about focus. Clearly, some of the bodies have decided to focus to a much greater extent than have others. The clearest example of this is the HDC,[22] which has decided to focus only on business performance and, in particular, on R&D

16 The allocation of funds to activities relates, as the table indicates, to total funds. Gross levy income is shown for purposes of comparison.

17 It should be noted, however, that this relates largely to scientific R&D and, in some cases, to best practice and benchmarking schemes. As noted above in Section III, less attention than appears merited is devoted to training.

18 See also Footnote 17 above.

19 HCC appears particularly low at 6.2%, but this reflects the fact that HCC was getting some benefit from R&D done and, effectively, paid for by the other meat bodies.

20 Innovation is, of course, also an extremely important focus of Government policy generally, not just in agriculture and horticulture.

21 By virtue of the nature of the product, milk exports are negligible.

22 The HDC is empowered since 2003 to undertake promotional activities (see Annex C) but has hitherto made minimal use of its extended remit.

and knowledge transfer. The HGCA, and to a lesser extent the BPC, have also focused on these activities, supported by a significant role in the collection and dissemination of information. Focus is a very important issue for the levy bodies: I noted in Section III that the total volume of resource available from the levy is modest, and this will remain so; it must follow that this resource should be focused on where it can provide the best return for levy payers and not on activities that may be important but are high-cost and may be better undertaken by others. It is not clear that this is happening in all cases now.

- One factor contributing to this is the approach to planning and budgeting in the levy bodies. Some do engage in 'bottom up' strategy planning, whereby they start with an analysis of needs before deciding on programmes of activities.[23] But sometimes the approach can be driven more by current levels of levy than by fundamental re-appraisal of what is needed. Thus it can be characterised as: 'We have this likely level of levy income: what shall we do with it for the best?', rather than as a process of identifying needs, considering which body or bodies are best-placed to meet the needs identified, determining appropriate value-for-money activities and costs, and establishing what this might mean in terms of rates of levy.[24]
- A final point can be made about communications. This is not identified as a separate activity in Table IV.1 as all activities require a communications effort of some kind and this is included in each set of figures.[25] This, however, conceals the substantial efforts made by the levy bodies in recent times to improve their performance in this regard; this was also referred to above in the discussion of governance and accountability arrangements. Nonetheless, as I concluded above, despite these efforts improvements can still be made with regard to effective communications, especially with regard to reporting on performance.
- Overall, on activities and priorities I conclude that much hard work is being done by the various bodies but there are significant differences in priorities that would not appear to be fully explained by differences in the needs of the industries, and variations in the nature and degree of focus that may not be consistent with the best return for levy payers from the use of their funds. I accordingly return to this subject in Section V.

Arrangements with regard to the levy

4.12. We saw above in Section II that different arrangements apply with respect to the levy in each of the product areas covered by the five bodies and that the costs of collection vary considerably. These issues were also raised by stakeholders during consultation; varying views were expressed as to the best basis on which to raise a levy and on the mechanics of collecting it but all were agreed that, if statutory levies were to be retained, it was essential to raise them equitably and collect them as efficiently as possible.

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23 The HGCA provides a good recent example of this, with the Cereals Industry Review. See Annex D.

24 Of course, when this is done the level of levy implied may not be acceptable to levy payers, although acceptability is much more likely to be achieved if good quality value-for-money tests are applied and the results communicated to levy payers.

25 Thus the cost of transferring the knowledge derived from R&D projects to levy payers in 'useable' form is included in expenditure on Business Performance.

4.13. In the third phase of this Review I therefore examined arrangements with regard to the levy in more detail. My conclusions, in summary are as follows:[26]

- Looking first at overall oversight, the extent of Ministerial and Parliamentary involvement in the setting of levy rates varies from body to body. The arrangements with regard to cereals and oilseeds require the rate to be approved annually by Ministers and then submitted to Parliament. In the cases of milk, potatoes and horticulture, the rates are subject to Ministerial approval within the maxima set down in legislation. The meat arrangements have the least degree of Ministerial involvement: maxima are set in legislation but there is no requirement to seek Ministerial approval prior to setting individual levy rates. It is far from clear that there are objective reasons for these variations.
- Looking at geographical coverage, levies on milk, meat, potatoes and horticulture are collected on a GB basis: in the case of meat the proceeds are then distributed to the federal bodies. Cereals and oilseeds have UK coverage. It is therefore worth considering whether this is appropriate; here it may be noted that, with the exception of meat, there have been no representations made during the course of this Review for any enhanced degree of regional influence over levies in comparison with the existing situation.
- Turning to the scope of the levies, levies are raised only on primary production in milk and horticulture but on primary production and on processing in the meat, cereals (but not oilseeds) and potato sectors.
- The 'yield' from the levy (i.e. levy collected as a percentage of the value of the output of the sector concerned) varies significantly. It is not clear that these variations reflect the differential needs of the sectors.
- Whilst most agricultural and horticultural products are subject to statutory levy, not all are.[27] It is therefore worth enquiring whether these variations cause distortions and whether other products, therefore, should be subject to levy.
- Because levy is payable by purchasers of cereals and potatoes, member co-operatives have to pay the producer's levy; as co-operatives they also have to pay the purchaser's levy. A number of co-operatives have expressed dissatisfaction with this.
- The scope of levy can also vary at a more detailed level: for example, grain fed to animals on farm escapes levy. The use of exemptions varies: registration thresholds exist in potatoes and horticulture that have the effect of exempting very small producers but these do not apply in the other sectors. And there are some special issues in the horticulture sector relating to apples and pears and mushrooms.
- The basis upon which levy is collected also varies by sector. Two of the levies on primary production amount to something close to turnover. The horticulture levy is actually based on turnover figures, derived from producer accounting returns. In the case of milk, the producer levy is deducted at first point of sale on a pence per litre basis. In the case of grain and oilseeds the producer levy is similarly deducted from the amounts due from purchasers to producers on a weight basis. As liquid milk is for all practical purposes a commodity realising a standard unit price, these arrangements may be regarded as approximating to turnover. In the case of cereals, however, although there may be standard unit prices these do vary by quality. But grain destined for animal feed attracts the same rate of levy per tonne as does grain

26 Further detail on the arrangements in respect of the levy is contained in Annex E.

27 For example, some meats e.g. venison, do not attract levy. Some products have other arrangements: sugar beet production is subject to a contractual levy and pulses to a voluntary levy. Poultry and eggs, similarly, have voluntary arrangements.

for milling into flour. The potato levy is not in any way related to turnover; the production levy is based on area planted and the processor levy is based on tonnage. And the meat levy is not turnover-based, being applied per head of cattle, sheep and pigs. These methods all have different implications for the scale and predictability of levy income.

- Levy can be invoiced directly to the grower, as with horticulture, potatoes, and some milk producers, and/or it is collected at first point of sale, as with cereals and oilseeds, potato processing, most milk, and all meat. In general collection costs are lowest when the first point of sale approach is used but the levy body may then lose the ability to make direct contact with levy payers because it will not necessarily know who they are.
- In summary, I conclude that there are significant variations in the arrangements with regard to the levy that do not appear to have a clear objective basis, and costs of collection, as noted above in Section II, vary substantially. Equity and efficiency considerations suggest that these arrangements could benefit from adjustment and this is accordingly returned to in Section V.

Operational issues

4.14. Throughout the consultation period levy payers and others stressed the importance of providing services as efficiently and effectively as possible. There were three questions raised by levy payers:

- Might there be economies of scale to be realised by, for example, providing 'back-office' services in common to each of the levy bodies?
- Where similar services were being offered by more than one body or similar inputs being purchased by more than one body, might there be scope for cost savings by managing things differently?
- In the case of the levy, might there not be savings to be realised, again, from doing things differently?

4.15. The third question has already been addressed, and answered in the affirmative, above. Here I turn to the first two questions, which have also been the subject of further work during the third phase of the Review. My conclusions are as follows:

- On the matter of 'back office' services, at present the levy bodies incur, between them, around £3.4 million of administrative expenses of this kind, including the cost of office accommodation. Most of the bodies have their own separate office accommodation, which they occupy under different terms and conditions as to leases etc.[28] They make their own arrangements with regard to other back-office services such as 'company secretarial', accounting and finance, IT, HR, and other support services.[29] Common sense suggests that, in principle, savings could be made here. The extent to which these can be realised in practice may be more limited, however. For example, in the case of accommodation, whilst there are no powerful reasons for any of the bodies to locate where they are now if they were making decisions to-day, changing existing arrangements[30] and moving staff and activities is not costless. Co-locating over a period of time, as lease arrangements permit, may be a more

28 More information on property arrangements is given in Annex F.

29 Some of what the levy bodies need in this regard is driven, as was mentioned above, by their status as NDPBs.

30 Some of these arrangements are highly favourable, e.g. the terms on which the HDC occupies its premises.

realistic and lower cost option.[31] Nonetheless, co-location is not a necessary precondition to effecting savings in back-office service costs. And there would be other advantages, as we have seen, in the levy bodies working to common systems with regard to defining and accounting for activities and evaluating performance.

- On the matter of duplication in service provision, the following points are relevant:
  - To the extent that the bodies focus on business performance, and in particular on scientific R&D, it is not obvious that big savings could accrue from detailed changes to ways of working because such projects tend often to be highly sector-specific (although some concentration of expertise in the letting of contracts might offer benefits as might shared approaches with regard to benchmarking and best practice schemes).[32] In this area, benefits are more likely to arise from commissioning in a coordinated way, rather than on the basis of individual actions by individual bodies,[33] research projects where the benefits will accrue to more than one group of levy payers. Such issues, as was noted in Section III, are featuring ever more prominently in the array of change drivers faced by these industries.
  - Reference to Table IV.1 indicates that four of the bodies provide producer and consumer information of various kinds to their levy payers and others, and expend significant resources in so doing. Whilst some of this is sector-specific, some is drawn from the same or similar sources and some, particularly in the areas of policy analysis, and economic and consumer information, could certainly be provided in common to more than one body. One example would be information on changes to the EU and UK policy framework and their effect on levy payers; a second example is given by work to monitor the food market in GB. Organising data purchase, for example, under a single contract could bring savings, and new approaches might deliver benefit to all. Furthermore, there is the matter of analysing and presenting the data so that it can be used effectively as management information: skills of analysis, interpretation and presentation are not sector-specific. Here there may be economies of scale but also of scope: in other words, the quality of the product may be enhanced as well as its costs reduced.
  - Promotional activities, as Table IV.1 above showed, are assigned very different priorities by the different bodies which, in turn, do different things in different ways from each other.[34] But there may be savings to be effected in the area of export promotion, for example; whilst the products are very different some of the information, approaches and contacts may be similar. This is more speculative than the other areas mentioned above but the issues are worth exploring in the light of the levy bodies' detailed plans in this area.
- I conclude that there is some scope for effecting savings in 'back- office' costs and reducing the cost and/or improving the quality of some of the services delivered by the levy bodies. I accordingly return to this below in Section V.

31 Co-location undoubtedly does confer benefits where the bodies concerned are conducting similar activities. Not only does it make cost savings easier to achieve, it also promotes better coordination and new ideas: for new service or for delivering existing services better.

32 This happens to some degree now. The Cereals Industry Forum supported by the HGCA, for example, has modelled some of its approaches in this area on the work of the Red Meat Industry Forum supported by the MLC.

33 A degree of coordination has recently been introduced, as noted above, with the setting up of the Agriculture and Horticulture Levy Board Forum and the associated Applied Research Forum but this is in its early stages and there would appear to be scope for more activity to be undertaken in common in this way. See Section V below.

34 A special issue arises here with regard to meat. Because levy board responsibility in this sector has a geographical and not just a species dimension, there is a special need to ensure that duplication or wasteful competition is avoided. This point was made repeatedly by levy payers, from all three regions, during the consultation phase of this review.

Section V
Options for the future

Introduction

5.1. In this section of the Report I turn to a consideration of future options. I first address the fundamental question of whether or not a case in principle can still be made for a statutory levy in the product areas covered by the present arrangements. I go on to look at the respects in which, in practice, the present arrangements need to change in the light of today's conditions. I then look at options for the future, setting out the implications of these changes in terms of the key business drivers that, in turn, form a set of appraisal criteria that I then apply to alternative options for the future to reach conclusions as to the best way forward. Last, I describe the key features of a set of arrangements that, in my view, best meet these key business drivers, and look at the costs and benefits of change.

Is a statutory levy still needed?

5.2. In Section II above I introduced the concept of 'market failure', which has been used in the past when deciding whether or not a case can in principle be made for intervention by governments in a particular market. In the agricultural and horticultural sectors the concept has been used, originally at the time that the levies were introduced in the various sectors, and subsequently when the levy bodies were subject to quinquennial review, to support the case for a statutory levy. Traditionally, the case has reposed on certain key features of the production and marketing of agricultural and horticultural products: the sectors have historically been made up of a very large number of often very small businesses, producing largely homogenous commodity-type products and supplying them to a processing sector that was also made up of a large number of, often small, different businesses. In these circumstances, the argument went, producers, and in some cases processors, were too small to be able to resource some important business functions themselves. Examples of this might be investment in projects aimed at improving productivity and reducing costs and the provision of the information needed to support sound business decisions. The market would not be able to undertake such projects on its own and in order to achieve better outcomes – to address 'market failure' in the jargon – arrangements needed to be made to undertake them collectively.

5.3. It might be asked why this could not be done on a voluntary basis. The problem with such an approach is that it is difficult to restrict the benefit to those who choose to pay, who thus subsidise those who take the benefit without paying, a state of affairs known in the jargon as the 'free rider' problem.

5.4. The above arguments, in essence, made up the basis of the case for statutory levies. It is therefore relevant to ask whether the structure of the industries concerned, with many small suppliers, is still such as to support the case. This I refer to below as the 'fragmentation test'.

5.5. There is, however, another factor that, in my view, is also relevant to the 'market failure' argument. It relates to the scale and speed of change in a market. Free markets do not necessarily produce, quickly or at all, efficient outcomes where temporary or permanent significant changes in market conditions are taking place. Unpredictable temporary changes in supply tend, of course, to feature in many agricultural and horticultural product areas where weather or disease, for example, can affect yields substantially. But change can also be driven by other factors in the external environment. We saw in Section III that the industries the levy bodies exist to serve are currently exposed to a very substantial, and for many producers bewildering, array of drivers that are generating massive changes that need to be managed. These range from reform of the CAP – with producers in some areas no longer operating within a framework of product-related subsidies – through a changing regulatory environment, to the impact of disease, to major technological change, to changing consumer tastes and preferences. In such circumstances 'market failure' can also be present and it is reasonable to enquire whether it is present to such a degree as to support the case for a statutory levy. This I call the 'scale of change test'.

5.6. There is one final point that is sometimes mentioned as being relevant to the case for a statutory levy; it relates to the 'market failure' that can result when decision-making in a particular market generates some costs or benefits that are not only 'private' i.e. they accrue directly to the participants in that market, but are 'public' in that they accrue at least in part to others. This is the 'public good' argument for market intervention and is particularly pertinent to agriculture and horticulture because of, amongst other things, their interaction with the landscape and environment, and human and animal health. In this sense the Government's whole sustainability agenda fits into the wider 'market failure' framework: Government is quite properly using a range of policy instruments to address issues that markets left to their own devices would not address. It is important, however, that these arrangements are not confused with the 'market failure' tests for statutory levies of the kind that are the subject of this Review. Government may wish to impose charges or cost-sharing arrangements on these and other industries to achieve its wider sustainability objectives but these should not be confused with levies aimed at correcting market failures due to fragmentation or to the need to manage major change. They require different structures and arrangements.[1]

5.7. In the light of the above arguments, I have applied the two tests of 'fragmentation' and 'scale of change' to today's circumstances in each of the industries to which a statutory levy currently applies. I have used some of the data presented in Section III and also material obtained as part of my consultation exercise. My conclusions are, in summary, as follows.

5.8. In the case of **meat**, it is appropriate to look separately at **beef and sheep-meat** and at **pig-meat**. Taking **beef and sheep-meat** first, it is clear that there continues to be a considerable number of producers, many of them small. While the number of producers fell between **1998** and **2003**, by 17% in the case of beef[2] and by 9% in the case of sheep,[3] the current numbers are still very substantial. And the producers continue, on average, to be quite small: the average number of animals per holding has remained relatively

1 This point is referred to below when I consider future options. See paragraph 5.28.

2 From 71,500 to 59,600. Table 3.4, Agriculture in the UK 2004.

3 From 87,200 to 79,200. Table 3.4, Agriculture in the UK 2004.

stable in recent years.[4] Overall, therefore, the fragmentation test is still met today in primary production. And when the scale of change test is also taken into consideration the overall case in principle for continuing with a statutory levy on production, certainly into the medium term, i.e. beyond five years, is very strong. Producers have to respond to the particular challenges of a new world without production subsidies as well as to all the other change drivers. As to processing, the question of whether the statutory levy should apply only to primary production or also to processing, as it does in three of the sectors, including meat, is one that raises important issues of principle that are examined in detail below in this Section. Here, however, it may be noted that the degree of fragmentation in processing is much less pronounced than it was. The number of licensed abattoirs has fallen from 3,227 in 1962 to 403 in 2000 and to around 250 today,[5] partly due to increased economies of scale and partly due to new EU hygiene regulations.[6]

5.9. Turning to **pig-meat**, the degree of fragmentation both in production and processing is now much less marked than it was five years ago. The industry has contracted substantially and a much larger proportion of production is now undertaken under contract to the larger processors. It is estimated that 40% of pig production capacity is owned by 30 farming businesses. And the UK processing industry is now highly concentrated. Over the last seven years, the number of abattoirs in Great Britain slaughtering pigs has fallen from 287 to 189; of these, the five largest firms account for nearly two-thirds of total slaughters.[7] On the fragmentation test, therefore, the case looks weak; on the other hand, on the scale of change test it is much stronger. Although it has not had the degree of protection via subsidy that beef and sheep-meat have enjoyed in the past, the industry has been going through a period of major change amounting to crisis, and is not out of it yet. In the last five years, the national pig herd has declined by approximately 40%[8] as a result of high investment costs, poor prices, the impact of animal disease (including PMWS, FMD and classical swine fever) and increased international competition. There would therefore appear to be a powerful case, based on this second test, for continuing with a statutory levy for the time being, but recognising that this may well continue to be appropriate for the medium term only.[9]

5.10. Turning now to **milk**, the case for a statutory levy on milk production is strong on both tests. Fragmentation in production is still significant, with a total of 26,600 producers and an average dairy herd size of 82 in 2003.[10] Moreover, it is certainly the case that the dairy sector has been undergoing substantial change and that this process is set to continue. Milk quotas are set to be increased between 2006 and 2008, with a view eventually to their being phased out entirely, but this process is not scheduled to be complete until 2015. (On the processing side, no levy is currently raised on milk processing, although it may be noted that the processing sector is becoming more concentrated and this, too, seems set to continue; currently the 17 largest dairy companies process 87% of milk in England and Wales.)[11] The case for continuing with a levy on production, therefore, seems clear. It may be that in the longer term the structure of the industry will change sufficiently to enable it to do what is needed to

4 Agriculture in the UK 2004. In beef the average rose from 27 to 29 and in sheep it fell from 241 to 222.

5 BMPA, 2005.

6 This change has, of course, been mirrored by a reduction in the number of retailers.

7 BPEX figures 2005.

8 Table 3.4, Agriculture in the UK 2004.

9 The BPEX Board itself recognises this; its medium term strategy focuses on getting the industry to a state where, on the two market failure tests, a statutory levy may no longer be needed.

10 Table 3.4, Agriculture in the UK 2004.

11 Dairy Facts and Figures 2004: MDC.

promote a smoothly-working and efficient market[12] but that state of affairs does not obtain today.

5.11. Looking at **cereals and oilseeds**, there continues to be a large number of producers although, in common with other sectors, the number of producers is falling and the size of holdings is rising. In 1967 there were around 172,000 holdings in the UK with a cereal enterprise. By 2000, the figure was around 65,000.[13] At the same time, the average size of enterprise has doubled. Currently 10,000 to15,000 growers (about a third of those 30 years ago) are responsible for 80% of production.[14] The oilseeds sector is much smaller (12,700 producers in 2003), but both the area grown (around 470,000 hectares) and yields fluctuate significantly year on year. It may be concluded that, although the degree of concentration is increasing, there continues to be a sufficient degree of fragmentation in production to support a case for continuing with a levy on these products, a case that is strengthened in the light of the scale of change test. The ending of production subsidies heralds a period of substantial change in this sector and the case for levy, certainly into the medium term, is well-made. Like meat, in the case of cereals (but not oilseeds) there is also a levy on processing; in this sector, too, there has been substantial concentration in recent years. For example, in the milling industry, two companies are responsible for over 50% of flour production, while in the malting industry four large companies have around 75% of the market.[15]

5.12. In the case of **potatoes**, changes in the structure of the industry in recent years have weakened the fragmentation arguments for a statutory levy. During the consultation phase of this review I was told that a much larger proportion of production is now grown under contract to a very small number of processors than was the case a few years ago, although there are still small producers growing for the wholesale and retail fresh market who are much more exposed to risk. Data on the number of producers and the area under cultivation provide evidence of a reducing degree of fragmentation: the number of registered potato growers (with holdings larger than three hectares) is currently 4,156; of these, the 14% with the largest holdings (over 50 hectares) account for nearly 60% of the area under production.[16] The total number of holdings fell by a third between 1998 and 2003, while the average crop area increased by 30%.[17] Potatoes have never enjoyed the protection of production subsidies under the CAP; however, whilst this means that producers have been obliged to be close to their customers in a way that beef and sheep-meat producers, for example, have not, this does not mean that they are not subject to very considerable cost pressures, and to other change drivers too. Overall, the case for a levy in today's circumstances is just capable of being met but is not as strong as it was. It will need to be kept under review; as the industry continues to become more concentrated it should be able to provide for itself what is needed for a well-functioning market without the need for a statutory levy.

5.13. **Horticulture** continues to be, and is likely to continue to be, a highly fragmented industry. It encompasses over 300 different sub-sectors with diverse needs and contains very many small producers. The average size of horticultural holdings in the UK is 16 hectares, compared with 52 hectares and 36 hectares for cereals and oilseeds holdings respectively,[18] and 45% of these holdings are below 8 ESU (European Size Units): the

12 Again, the relevant levy body, the MDC, recognises this and has observed that, at some later date, different arrangements, without a statutory levy, may be relevant for the supply chain as a whole.

13 Report of the Cereal Industry Review: 2004 (section 1.2).

14 Report of the Cereal Industry Review: 2004.

15 Report of the Cereal Industry Review 2004 (Section 1.2)

16 Economic Evaluation of the British Potato Council: 2004.

17 Agriculture in the UK 2004.

18 Agriculture in the UK 2004.

minimum threshold for full-time holdings. And on the scale of change test the sector, like potatoes, has not enjoyed the protection of production subsidies and has had to be close to its customers in order to survive; however, that does not mean that it does not face considerable challenges. Overall, the case for continuing with a statutory levy, certainly into the medium term, is strong.

5.14. Overall, therefore, I conclude that there continues to be a case in principle, based on the application of the 'fragmentation test' and the 'scale of change test' of market failure, for a statutory levy in each of the product areas to which it currently applies. But the case is stronger in some product areas than in others and is likely to continue to weaken over the next few years in some of the areas. There is a need to continue to keep these issues under review and to be prepared to wind up arrangements that may, at some future date, outlive their usefulness. The need to have a structure that is adaptable and can change with changing circumstances is thus very important, and I return to this below[19] in this Section. Moreover, while the case in principle for continuing with a levy is well made, it is necessary to ensure that, in practice, the levies deliver what the industries need in the most effective way. This, in my view, requires some important changes to be made, to which I now turn.

What should be changed?

5.15. Feedback from stakeholders obtained during the consultation exercise, supported by my own analysis, has confirmed that there are four areas of focus where the present arrangements are not adequate. These were discussed above in Section IV; they are: governance and accountability; activities and priorities; arrangements with regard to the levy; and efficiency and effectiveness in service delivery. Below I comment on what changes are needed in each of these areas.

5.16. **Governance and accountability**, as is apparent from the analysis presented in Section IV, has two dimensions. First, there are accountability requirements arising by virtue of the fact that levies are raised under statute. This makes them 'public money' in a definitional sense i.e. they are regarded as within, as opposed to outside, the envelope of what is classified as the 'public sector' for national accounting purposes. This means that there have to be appropriate 'probity' arrangements with regard to accounting for use of the money and, ultimately, the ability of a Minister or Ministers to be accountable to Parliament. This may be termed 'accountability up', and is at present achieved by each of the five levy bodies being NDPBs with accounting officers reporting, through Defra as their sponsoring department, to Ministers.[20]

5.17. On the other hand, and very importantly, levies represent a very special kind of 'public money'. They are not raised through general taxation; rather, they are monies collected from and, by statute, devoted to meeting the needs of, particular identified groups of 'taxpayers'. The agricultural and horticultural levy bodies are thus highly unusual in the UK public policy environment: they are financed by revenues that are 'hypothecated' in a special way. These special circumstances generate in the view of levy payers, as was

19 It is also relevant in the context of whether a case can be made for a new levy in a sector where there is not one now. My Review has not identified any significant sectors where such a case, based on my two tests of market failure, can be made today, but this might change in the future. For example, there could be a case for extending the meat levy to venison, or there could be a case for a levy on some new non-food crop application. These points are also returned to below in this Section when the need for flexibility in the arrangements is discussed. See paragraph 5.29.

20 In the case of milk, potatoes and horticulture, to three GB Ministers, and in the case of cereals and oilseeds to four UK Ministers. Somewhat different arrangements apply to meat: the MLC reports through DEFRA as the other four bodies do but, in keeping with the agreement reached in this area following devolution of agricultural policy, QMS has its own additional line of accountability through Scottish Ministers to the Scottish Parliament.

seen in Section IV, some important accountability requirements - requirements that may be termed those of 'accountability out' (to levy payers) - that are not being met adequately at present. I agree with this view. Given the nature of statutory levies, I consider that the arrangements for raising and spending levy money need to be, and to be seen to be, more clearly in the 'ownership' of the industries concerned than is the case at present. The levy bodies are not part of Defra's 'delivery landscape'; rather, they are there to spend levy payers' monies on meeting levy payers' needs. And there needs to be greater transparency and more consistent and effective reporting to levy payers on what is being done with their money ('accountability out') whilst at the same time continuing to ensure proper accountability for 'public' money ('accountability up').

5.18. **Activities and priorities** emerged clearly from consultation as a key issue, as was discussed in Section IV. In Section IV I concluded that some activities appear to be well-directed and a good 'fit' with the needs of the industries while others are less so. And the priorities of the boards differ, as does their degree of focus, in some instances for reasons that may be clear and objective but in others for reasons that are less obvious. It is certainly the case that levy bodies can be at their most effective when planning and delivering their services in close consultation with their levy payers: the use made by the HDC of sector panels in identifying the R&D needs of a large and diverse sector is just one example of where this generally works well. And the HGCA has just recently been through a major exercise looking at needs and priorities in conjunction not just with its levy payers but with the supply chain more widely, while BPEX, too, has put much effort into its 'Road to Recovery' strategy. But I consider that the work of the bodies in establishing priorities and planning activities would be assisted, and their ability to assess their own effectiveness and report thereon enhanced, if there were to be a more coherent common framework of activities linked clearly into the needs of the industries and the levy bodies' role, within the overall framework of assistance, in meeting these needs. This would also link clearly to the two 'market failure' tests set out above in this Section.

5.19. I am not, in putting forward this proposal, in any way suggesting that all levy bodies should be delivering the same services in the same way. It is essential to allow for the specific characteristics and needs of the different industries. But a common framework, and some common terminology,[21] would assist in prioritisation, aid clarity, help in the assessment of performance, and enable each body to learn from the successes (and failures) of others. A framework that might help in this regard is set out in Box V.1.

21 I made reference above in Section IV to the fact that different bodies use the same words to mean different things and different words to mean the same things. This renders analysis more complex and comparisons more difficult to make.

Box V.1 A common framework of activities

In Section III of this report I presented an analysis of the needs of levy payers in the light of the drivers for change to which they are subjected and the role played by the levy bodies in this, whilst in Section IV I used this analysis to appraise the activities of the levy bodies: their priorities and their degrees of focus. This work suggested the need for a common framework that could be used by the levy bodies to assess needs, assign priorities, plan activities, and measure and report on performance. Below, in this Box, I present the key features of such a framework.[1]

Always appropriate

- Activities that will always be important to levy payers are those that are needed for the efficient working of markets but are highly unlikely to happen without intervention in fragmented markets. And these are activities in which levy bodies are particularly well-placed to play a part. They are likely to include, in particular, activities that will help levy payers to:
  - **improve business performance:** these would include, for example, scientific R&D projects aimed at transferring to levy payers the information/action required to improve yields, reduce costs, and/or reduce risks;[2] the promotion of best practice and benchmarking schemes; and schemes aimed at improving the performance of particular inputs, e.g. schemes to encourage improved management information or training schemes; and
  - **exploit business development opportunities** relating to moving up the value chain and increasing the realised value to producers of improved and/or new products: these would include, for example, support for innovation and new product development; and support for schemes that can increase realised prices for existing products;
  - **cope with crisis:** these would include activities related to the outbreak of plant or animal diseases; or issues of food safety.

Sometimes appropriate

- Also important to levy payers is access to good quality information needed to support sound decision-making. This is also essential to the smooth working of markets, particularly in times of rapid change. And levy bodies are often appropriate organisations to supply such information: they are independent of commercial interests and can therefore be a trusted source. Modern communications methods, however, and in particular the development of the internet, have improved access to information for many and this should be taken into account by levy bodies in deciding exactly what they should do themselves and what they should leave to others. Subject to this, appropriate activities may include the following:
  - the provision of **producer market information**, such as information concerning the UK and EU policy environment and its impact on levy payers, and the collection, analysis and dissemination to levy payers of information on demand and supply, including economic and market research; and
  - **consumer market information**, such as the provision of information on changing tastes and preferences, and on matters concerned with nutrition and the benefits of a balanced diet.
- Also important to levy payers are activities concerned with increasing, or minimising falls in, the sales of products. But an appropriate role for levy bodies in relation to such activities needs very careful consideration. Promotional campaigns are very expensive and tend to be at their most successful when aimed at promoting branded products to increase market share rather than promoting a commodity to increase general consumption. Promotional activity will often be best left to those, such as the big retailers, who can pursue brand or image-related objectives and have the resources to do so. Generic advertising financed out of levy funds is unlikely to deliver benefits to levy payers. In cases where promotion focuses on particular market features and /or product attributes, however, it may be appropriate for levy bodies to become involved, usually in a supporting role;[3] such activities could include:

– **export** promotion, focusing on the attributes of UK products in overseas markets;
– promotion of **new products**, such as non-food crop products or innovative high-value products; and
– promotion of particular **product attributes**, such as quality features.

Not appropriate

- As indicated above, whilst promotion of their products may be perceived as important to levy payers, the role of the levy bodies in such activities should be limited to where they can add value. This is unlikely to include general and undifferentiated promotional campaigns.
- Last, levy bodies need to retain their independence and their ability to offer objective advice to levy payers. This means they should not become involved in 'political lobbying' of the kind that can impair their independence.

1 In looking at the framework it should be noted that, as was also mentioned in Section IV, levy bodies are often at their most effective when working in partnership with others: they can facilitate the delivery of solutions without having to do all the work themselves. The framework should not be taken to imply that all appropriate activities should always be undertaken by all levy bodies, or that levy bodies should undertake appropriate activities on their own.

2 Knowledge transfer is also key to levy payers gaining the benefits of R&D.

3 For example, in partnership with Food from Britain in the case of exports, or the Non-Food Crop Centre in the case of new non-food applications.

5.20. Further, as we saw in Sections III and IV, there are some important issues affecting the industries which the levy bodies are there to serve that run across the boundaries of the various sectors, affecting more than one and, in some cases, all the sectors. Whilst much of what the levy bodies currently do quite properly focuses on the specific needs of their sectors, it has been emphasised to me by many stakeholders[22] that cross-sector issues are increasing in number and significance. They include such issues as the impact of globalisation, WTO and trade relations; CAP reform; the effect of exchange rates; environmental policy; rural development issues; diet and nutritional issues and food safety; and modern approaches to the management of business risk. Several of the levy bodies are addressing aspects of these issues in different ways but at present there is no framework actively to promote common working. The AHLBF arrangements and the associated Applied Research Forum described above in Section II have provided a useful starting point but benefits can potentially be obtained from still greater co-operation. Not only can this reduce duplication and thus costs, it can also lead to better quality fact-finding, analysis and prescription.

5.21. Finally in relation to activities and priorities, in the light of the proposals set out above for a common framework for activities and for measuring and reporting on performance and in relation to a greater degree of cooperation and coordination between the bodies on issues of common interest, I can see considerable merit in a 'Fresh Start' initiative for the levy bodies as and when these changes can be implemented. 'Fresh Start' would entail a 'bottom up' strategy and planning exercise by the levy bodies, under these new arrangements, to identify needs; consider how these can best be met; determine a set of value-for-money activities; and revisit rates of levy in the light of this analysis.

5.22. **Arrangements with regard to the levy** have been the subject of much comment from stakeholders and of further investigation by me in the third phase of my Review. As has

22 In addition to the points listed in this paragraph, stakeholders from the R&D community, and also levy payers, mentioned a number of areas of scientific research that run across sector boundaries, such as the need for pesticide reduction and issues relating to water use and other environmental challenges.

already been commented on above, in all five cases a levy is applied to primary production, although the basis of levy varies; in the cases of potatoes, cereals (not oilseeds) and meat a levy is also raised from first stage processing. Two questions arise here: should a levy be raised only on primary production or also on processing; and are the current bases for the levy and the collection arrangements appropriate?

5.23. On the first question, there are arguments for limiting the levy to primary production, as currently happens in milk and horticulture. First, looked at from the point of view of economics, the levy is, it may be argued, anyway borne in its entirety by primary producers. In these particular markets, where primary producers and first stage processors are all price takers, the levy is merely 'shifted' back to primary production. Moreover, the lines of accountability for bodies whose levy payers are both primary producers and processors may well be less than clear; the interests of these groups are not the same and there is, in principle, plenty of scope for conflict.[23] Furthermore, as was mentioned above in this Section, the 'fragmentation test' of market failure is much weaker now in processing of meat, cereals and potatoes than it was at the time the current levy arrangements were introduced.

5.24. On the other hand, as has been emphasised elsewhere in this report, it is essential that all the key components of the supply chains for these products be engaged in the process by which levy bodies decide exactly what issues their levy payers face and what activities will help them respond to the challenges of change. One of the features that has bedevilled the primary production sectors, and in particular those protected by CAP subsidy, has been the extent to which they have in the past been 'decoupled' from the issues faced by their customers. Some stakeholders have argued[24] that, if processors are not formally included in the arrangements as levy payers, they will be reluctant to participate, at senior level or at all, in these arrangements. Of course, other key players from further up the supply chain are not levy payers now but can and do participate in the current arrangements in various ways because they see it as being in their commercial interests to do so.[25] But, it is argued, now is not the time to risk lack of engagement by processors with levy body activities.

5.25. Overall, the arguments for and against producer-only levies are finely balanced, with persuasive points on both sides. Whilst accepting the economic arguments in favour, I am, however, mindful of the risks of too much change at this time. I therefore conclude that, for now, the arrangements in this regard should stay as they are, but should be kept under review and revisited in, say, two years' time[26] when new arrangements have been implemented and the strength of the opposing arguments tested in practice. This issue may, however, be one on which Ministers will wish to consult before arriving at a final conclusion.

5.26. Turning now to the second question, the different bases used to collect the levy in the different cases, the different arrangements used to collect it, and the associated costs of collection were rehearsed in summary in Section II and in more detail in Section IV and Annex E. My proposals regarding these arrangements are as follows:

- As indicated in Section IV, I can see no objective reasons for the differing degrees of Ministerial and Parliamentary involvement in the setting of levy rates. These should

23 These points were made frequently during consultation by levy payers who are themselves primary producers.

24 Including most, though not all, of the levy bodies affected, together with a number of processors.

25 For example, a senior manager from a leading retailer sits on the BPEX board and a representative from another leading retailer sits on the Council of HDC.

26 This would be a task, under the new arrangements, for NewCo. See below.

in any event be the same and, desirably, be more in the hands of the industries concerned. I return to this point below.

- On the matter of the basis of levy, and going back to the justification for a statutory levy set out above in this Section,[27] the fairest basis, being closest to how the benefits derived from the levy are likely to fall, would in my view be the value of the levy payer's gross value added, or margin. Obtaining and verifying this is not easy, however, and an approximation that would give a similar tax 'incidence' in most cases is the value of turnover. As noted in Section IV, three of the levies, those relating to horticulture, milk, and oilseeds amount to something close to this in practice. But the cereals levy does not distinguish between different types and values of grain and is in some respects akin to a 'cascade tax' in that it is collected at more than one point of sale. The potato levy is not turnover based, the production levy being based on area planted and the processor levy on tonnage, and the meat levy is per head of stock slaughtered (or exported). It would in my view be desirable to move to value-based arrangements for all products,[28] a move that would not have significant cost implications if extended to cereals, meat and potatoes as they would involve merely some changes to the accounting systems in the merchants, abattoirs and potato processors. It would, however, be essential to ensure that relevant data on levy payers can be passed to the levy bodies.[29]
- The related matter of the 'small producer/processor' exemption also requires comment; some products have this whilst others do not. In principle, there is no reason why small businesses should not benefit, on a relative basis, from levy body services in the same way as larger ones, hence the case in theory for such exemptions is not strong, but practical considerations are also of importance here; it is not worth incurring substantial costs to collect small amounts of money. In any event, if such exemptions are to be retained there are strong arguments for applying them consistently across the product areas where possible; if turnover-based arrangements on the lines of those mentioned above were implemented it would also be relatively easy to operate exemptions on a consistent basis.
- On geographical coverage there would appear to be no need in general to move away from the current arrangements[30] but there is an issue in relation to meat. This, as I identified in Section IV, has arisen because of the decision to distribute meat levy monies collected by the MLC to the devolved bodies. It would in principle be preferable to do this not on the basis of where the animals are slaughtered, as now, but on the basis of where they originate and have been tended; it is not clear whether this could be done, without excessive cost, using information required for regulatory purposes, and this should be further investigated.
- On the matter of the yield from the levy, it was noted in Section IV that levy collected as a percentage of the value of output varies considerably by sector. 'Fresh Start' should provide an opportunity to examine the justification for these variations and to make adjustments if appropriate.

27 That is, the need for certain investments to be undertaken on a collective basis that would otherwise not be undertaken at all.

28 It has been suggested that this would provide a disincentive for levy payers to move up the value chain as the amount they pay in levy would thereby increase. I do not accept this argument: there is a powerful incentive to move up the value chain anyway, and levy costs, as we have seen, are a small proportion of total costs.

29 At present Data Protection Act requirements might make this problematical because the original enabling legislation arrangements covering the levy did not envisage this need. Fixing this would require a (simple) legislative change.

30 GB for most products; UK for cereals.

- On scope, it was noted above in Section IV that whilst most agricultural and horticultural products are covered by levy, not all are. I am not aware of any major consequential distortions, or of other products where a case for a statutory levy is well-made now, but circumstances can change and it would be desirable to keep this under review.
- As to the mechanics of collection, there is merit in applying pragmatism so as to combine, as far as possible, equity with efficiency.[31] In Section IV I observed that arrangements whereby levy is collected at first point of sale are relatively cheap; if the changes described above are implemented arrangements of this kind would be appropriate in most product areas. This would mean no change for milk, modest changes for cereals and meat, and rather more substantial change for potatoes. Horticulture, which has a turnover-based levy now and collects it at relatively low cost, would continue with its current arrangements.[32]
- Finally, in Section IV above, some rather more detailed points about scope were made. Of these, one[33] merits a special mention: that of the arrangements in meat, where there are two levies: a general levy and a species promotion levy. This latter is paid only by producers. Once the case for a statutory levy is made, I do not believe it is appropriate then to distinguish, in the 'tax- raising' legislation, between different types of use to which monies may be put.[34] The two meat levies should in my view be combined into a single levy.

5.27. **Efficiency and effectiveness in service delivery** was, as I noted above in Section IV, also a recurring theme during the consultation exercise. Arrangements with regard to the levy have already been commented upon above in this Section but in Section IV I identified two further areas in particular where there should be scope now for improved efficiency and effectiveness: in 'back-office' costs; and in reducing the cost and/or improving the quality of some of the services being delivered by the levy bodies.

Appraising future options

5.28. I have concluded above that there continues to be a case in principle for continuing with a statutory levy in each of the product areas covered by this Review but that some important changes need to be made to ensure that the proceeds of the levies deliver the services that the industries concerned need. I have indicated above where, in my view, some changes to ways of working in the areas of governance and accountability, activities and priorities, arrangements for the levy, and efficiency and effectiveness would bring benefits for levy payers. I now turn to a consideration of future structural options.

5.29. The first step in appraising options is to establish a set of criteria against which to appraise them. My analysis above suggests, in summary, that the following key business drivers constitute a set of suitable criteria.

1) The arrangements for raising and spending levy money need to be clearly in the 'ownership' of the industries concerned, and should require a high level of transparency and consistent and effective reporting on performance to levy payers

31 Unfortunately, one superficially attractive option mentioned during the consultation phase, that of deducting levy due from the Single Farm Payment made to farmers, has on investigation proved not to be possible. See Annex E.

32 Changes should, however, be made to the basis for levies on apples, pears and mushrooms.

33 The others, including issues of relevance to co-operatives, and on-farm consumption of grain should be addressed in developing detailed proposals for the new arrangements. See below.

34 This amounts to a further, and unnecessary, degree of 'hypothecation'.

(‘accountability out’), as well as ensuring proper accountability for ‘public’ money (‘accountability up’).

2) Detailed decisions about how to spend levy payers’ money should be taken close to the relevant group of ‘beneficiaries’, i.e. the levy payers in the particular sectors or sub-sectors concerned.

3) Activities need to be planned, assessed and reported upon within a common framework, and common working and approaches need to be encouraged where these are appropriate.

4) Services to levy payers need to be delivered as efficiently and effectively as possible.

5) The arrangements need to be flexible:
   - A levy that is no longer justified should be capable of being removed, or a new levy that is needed introduced, by reference to the levy payers concerned without having recourse to primary legislation.
   - The detail of the arrangements should be capable of adaptation to changing circumstances

5.30. Looking now at the options themselves, at the outset of the Review there existed in principle a full range of options from outright abolition of one or all of the statutory levies to ‘no change to the existing arrangements’. Looking first at these two extremes, I have concluded above that abolition of any of the levies at this time is not justified; the case in principle for their continuance, at least for the time being, is well-made. On the other hand, I have concluded that some important changes need to be made to ensure that, in practice, the levies deliver what the industries need in the most effective way. We therefore need to look at possible intermediate options.

5.31. One obvious area to examine is the retention of similar overall arrangements but to effect mergers between existing bodies. A number of theoretical possibilities exist; suggestions that emerged during consultation were as follows:

- Merge all the bodies to form a single ‘Levy Body’ covering all the industries concerned.
- Merge all the meat and milk bodies to form a single ‘livestock products’ body, and the cereals, potatoes and horticultural bodies to form a single ‘arable products’ body.
- Keep the existing arrangements for meat and milk but effect mergers in the arable sectors, either of all three existing bodies or by merging potatoes with cereals or horticulture.

5.32. I have subjected each of these options to examination in the light of the criteria set out above at paragraph 5.29. My conclusions are as follows:

- The single ‘Levy Body’ option clearly fails against the second criterion. It would not facilitate the taking of decisions close to what is a very diverse population of ‘beneficiaries’. It would do relatively well in principle against the fourth criterion, but I am not persuaded that it would in practice realise all the potential benefits. Large bodies are often not efficient bodies. And, whilst it might signal single industry ownership, it would not deliver the changes to ‘accountability out’ necessary to meet the first criterion, or the flexibility necessary to meet the fifth criterion, without significant further adaptation.
- The two-body ‘livestock products’ and ‘arable products’ option also clearly fails against the second criterion. Whilst some of the industry issues are in common as between meat and milk on the one hand and arable crops on the other, many are not. It does a little better against the third criterion but would not facilitate the taking of

common approaches on 'big ticket' issues that run across all sectors. It might deliver some efficiency savings in comparison with the existing model, but the same points arise concerning accountability and flexibility as do in the single body option.

- The option of merging bodies in the arable sector would create fewer problems in relation to the second criterion than either of the two options discussed above. But it would not do well against the third criterion and the scope for efficiency savings would be, by definition, smaller than either of the other two options, whilst the same points concerning accountability and flexibility also arise.

5.33. In summary, the various merger options do not meet the appraisal criteria well. They each fail on one or more of criteria two to four and none of them perform well against criteria one and five. I conclude that, to meet the business drivers I have identified, all of which are important, a new set of arrangements is needed. Below I describe the key features of such a new model.

A New Model for today's needs

5.34. If we are to respond, as far as is possible, to the key business drivers described above it is necessary to recognise that different drivers suggest different structural features and the model has to accommodate this. It indicates a need for three components within a single structure, each making its contribution to the overall requirements. The three components[35] are:

- SectorCos, which are the basic 'building blocks' of the model, and would be responsible for the delivery of services close to the beneficiaries, thus addressing both criterion one ('accountability out') and criterion two;
- NewCo, which would be in the role of a 'holding company', thereby addressing criterion one ('accountability up') and acting as guardian of the common framework and other aspects of criterion three; and
- ServiceCo, which would be the vehicle for enhanced efficiency and reduced costs, thereby addressing criterion four.

5.35. Together, the components of the model provide a framework for meeting criteria one to four that is also capable of providing for the flexibility required by criterion five. The respective roles and responsibilities of each component are described in more detail below, and are illustrated diagrammatically in Diagram V.1 at the end of this section.

5.36. In addition, although the key features of the model are brought out in the text, it is not possible there to expose all the detail that may be of interest to some stakeholders. In discussing my emerging ideas, a number of questions have been raised by stakeholders so, in support of the text, I have summarised a selection of these, together with my responses, in Schedule V.1 at the end of this Section.

5.37. **SectorCos** would be responsible for taking the detailed decisions, within the common framework referred to below (see paragraph 5.44), as to precisely what their levy payers' money should be spent on. They would not themselves collect the levies on the individual products but they will be closely involved in determining rates of levy and would receive the net proceeds from each levy as now. I envisage that there could be up

35 The terminology used has been chosen merely because it is not currently in use elsewhere and hence should convey no particular messages as to function other than those described in the text.

to eight[36] such bodies at the present time. Four would cover, as now, the product areas of milk; cereals and oilseeds;[37] potatoes; and horticulture. Four would cover the product areas covered, as now, by the four devolved meat bodies: one for pig-meat and one for English beef and sheep-meat respectively; and one each for Wales and Scotland (but see also Box V.2 on this point). These bodies would, in addition to taking detailed decisions on activities and priorities, be responsible for the efficient and effective delivery of services and for reporting on this to their levy payers. This would be within a common framework of performance measurement and reporting that is returned to below (see paragraph 5.44).

5.38. SectorCos would count as 'public' bodies insofar as they will be funded by levies raised under statute but they would not be NDPBs. They will be particularly concerned with 'accountability out' and will help to emphasise the 'industry ownership' of the model. They would be corporate bodies; an appropriate corporate form would be companies limited by guarantee (CLGs), a form which is flexible and has for a number of years been used in areas where public and private approaches need to be combined.

5.39. SectorCos would be wholly-owned subsidiaries of NewCo (see paragraph 5.40), but would have their own governance structures as well as participating in the governance structure of NewCo. The membership of their boards would reflect their roles and the necessity, in assessing levy payers' needs, of engaging with the whole supply chain as well as meeting accountability requirements to levy payers. Their chairmen would be appointed under open and competitive procedures, as the chairmen of the five bodies are now, but there would be no bar on candidates being levy payers; indeed, it is to be expected that the best person for the job may well be someone with direct personal experience of the issues facing levy payers in that particular industry. The majority of board members should, in the interests of transparency and accountability, be levy payers, but other board members should be from other key parts of the supply chain and/or have special expertise to offer. Board members should be appointed on the basis of their personal qualifications and experience. The size of the board should be such as to obtain a reasonably broad range of relevant inputs whilst being small enough to be effective; this suggests a membership of around twelve, no fewer than six of whom would themselves be levy payers.[38]

5.40. **NewCo** would be the body with the statutory powers to raise levies. It would also have the statutory power to set the rates of levy; this it would do in close consultation with the SectorCos and, indeed, after consultation with other stakeholders. In respect of these important statutory powers, therefore, under these arrangements one body would replace five. In keeping with its statutory powers, and to provide for 'accountability up', it would be the (single) NDPB for the overall structure, reporting through Defra, as its sponsoring department, to Ministers. It should be emphasised, however, that it would be an NDPB with unusual, if not unique, features. It would not be part of the 'delivery

36 There are particular issues to address, by virtue of the arrangements made after the devolution of agricultural policy, in respect of a structure for meat levy bodies in Wales and Scotland. Whilst the arrangements described in this paragraph envisage a 'sector-type' role for these two bodies, the detail of what is proposed here, and below where the role of NewCo is discussed, cannot be directly applied to QMS and HCC. These issues are discussed separately in Box V.2.

37 Currently about £1.1 million is raised in levy from oilseed producers. The sector is thus probably too small to justify establishment of a separate SectorCo. Moreover, whilst there are clear differences between some of the requirements of oilseed producers and cereal producers there is enough common ground to continue with one body. It will be important to ensure, however, that the interests of oilseed producers are appropriately represented in the new structure.

38 In the case of those product areas where a levy is raised on processors as well as on producers, a minimum of one third of board members should be producer levy payers. And, to provide for adequate representation across the supply chain, at least four members of the board should not be levy payers.

Box V.2 - A New Model for today's needs: QMS and HCC

Following the decision to devolve agricultural policy to Scotland, Wales and Northern Ireland, some special arrangements have been made in Great Britain as regards the meat levy. (Northern Ireland had always had its own arrangements with regard to meat). The MLC still collects the levies, under the provisions of the Agriculture Act 1967, but then distributes the amounts, less the costs of collection, to the four devolved meat bodies: BPEX, EBLEX, QMS and HCC. Whilst BPEX and EBLEX are, constitutionally, executive committees of the MLC and are accountable through the MLC to Ministers and Parliament, QMS and HCC are separate legal entities: they are both companies limited by guarantee whose members, in the case of HCC, are the MLC and the WDA and, in the case of QMS, are the MLC, NFU Scotland, and SAMW. As explained in Annex C, different arrangements concerning accountability to Ministers and Parliament apply in these two cases: HCC has on its board the chief executive of the MLC and accountability is exercised via this arrangement through the MLC (which is a member of HCC) to Ministers and Parliament in the same way as before. QMS, however, although it has the MLC as one of its members, has its own line of accountability to Scottish Ministers and the Scottish Parliament. Below the implications of the New Model for HCC and QMS are examined.

In accordance with the Terms of Reference, this Review had taken as given the devolution decision. The New Model does, however, necessarily imply some change to the arrangements for QMS and HCC as, under these proposals, the MLC would disappear. This would necessitate some change to the constitutional arrangements for both bodies as the MLC is a member of both. An important consideration is whether QMS and/or HCC could or should participate in full in the New Model, or whether other arrangements will have to be made. The decision is one for the Scottish and Welsh authorities to take individually, but the options are as follows:

To participate in full, the bodies would have to become SectorCos and, as such, be subsidiaries of NewCo, with their chairmen having seats, as of right, on the NewCo board. NewCo would be their 'parent' NDPB and accountability would be exercised, through Ministers to Parliament in the same way as under the pre-devolution arrangements and as under the new arrangements in respect of all the other products subject to levy. (And as applies now in the case of HCC but not that of QMS). All the other arrangements applying to SectorCos would apply equally to QMS and HCC, who would thereby be able to participate fully in the benefits of change.

If, however, Scottish Ministers wish to retain the direct line of accountability from QMS to them, and if Welsh ministers were to wish, in the light of the need to change existing arrangements anyway, to introduce direct accountability to them for HCC, these bodies would need to become NDPBs in their own right and, therefore, would not participate in full in the New Model. They could, however, obtain many of the benefits by agreeing to participate, on a voluntary basis, in all of the arrangements short of those relating to 'accountability up'. Under such voluntary arrangements they would purchase services from ServiceCo, on the same or similar terms and conditions as the other SectorCos, and participate in the common planning and performance monitoring systems and reporting arrangements. They would thus be able to obtain many of the benefits of the New Model, although they would not, of course, have seats as of right on the NewCo board.

landscape' of Defra as many Defra NDPBs are. Rather, it would be a key component of a set of arrangements that would, in many respects, be 'industry-owned', as befits arrangements for statutory levies, but a component that meets the necessary requirements of 'accountability up'.

5.41. NewCo, like the SectorCos, would be a corporate body, and would be the 'parent', or holding company, for the SectorCos. It would have the power to wind up SectorCos where there is no longer a need for a statutory levy, or to establish arrangements for a new levy, but would need to do this taking full account of the views of levy payers. This latter is a very important aspect that was touched on frequently by levy payers and others during consultation and I have some specific proposals to offer here; these are described in Box V.3. In general, Newco would not require Ministerial approval to exercise any of the above powers. This would confer an increased degree of industry 'ownership' to the arrangements without compromising 'accountability up', as Ministers would, quite properly, be ultimately accountable to parliament in respect of 'public' monies and would retain, in *extremis*, an ultimate power of direction should this ever be needed.

Box V.3 Taking account of the views of levy payers in the New Model

During consultation with stakeholders, and in particular with levy payers, a common theme was that levy payers feel insufficiently involved in decisions over whether a particular levy should be wound up. Mention was made frequently of 'sunset clauses' along the lines of those in operation in Australia, where levy payers vote in a five-yearly ballot to determine whether a particular levy should continue. In the UK, under current arrangements there is no such provision although levy payers may be consulted as part of quinquennial review arrangements. The decision is, however, one that Ministers take and, as noted above, this serves to strengthen levy payers' feeling that the levy bodies are 'part of government' not 'part of industry'.

I have therefore given consideration as to how best to improve this state of affairs with regard to future decisions about levies. 'Sunset clauses', whilst they have some attractions, also have some disadvantages: in other areas the evidence suggests that they can result in a distortion of effort as those whose jobs may be affected seek to obtain a particular ballot result rather than concentrating on what they are supposed to be doing. Regular ballots are also time-consuming and costly. There is, however, another approach that should deliver similar benefits to a 'sunset clause'. This would give dissatisfied levy payers the right to demand that NewCo hold a ballot[1] to inform the decision as to whether to continue with a levy or wind it up. This right would be subject to certain conditions: these could include a requirement that a minimum of, say, 5% of levy payers must demand such a ballot, and that the right could not be exercised more frequently than, say, every three years. NewCo would be obliged, under the relevant regulations, to take the result of such a ballot into account in making its decisions.[2]

The above suggestion is made in the context of decisions to wind up an existing levy. Similar arrangements could apply to the introduction of a new one. Whilst, as is noted elsewhere, there does not appear at present to be a pressing need for any new levies, circumstances may change and flexibility is therefore important. NewCo should anyway be keeping these issues under review, but a similar power for potential levy payers to demand a ballot on the introduction of a new levy would be appropriate.

It is worth noting that the arrangements proposed under the New Model together provide for a greatly increased degree of 'industry ownership' and much greater transparency and 'accountability out' to levy payers so it is to be hoped that the ballot arrangements outlined above would not need to be called on frequently, or at all. But the power is an important one in the overall system of governance: it is necessary to make provision for when things go wrong even if it is both hoped and expected that they will not.

1 This would be on the basis of one levy payer, one vote.

2 It would probably not be feasible to oblige NewCo by law to follow the result of a ballot as this would limit Parliament's ultimate authority with regard to what is a statutory levy but the arrangements could provide a very powerful weapon in practice for levy payers if they should ever need it.

5.42. NewCo would not be a 'delivery' body. Service delivery to levy payers will be done by the SectorCos.[39] Arrangements for the actual collection of the levies will be for NewCo to determine but I would envisage it market-testing these,[40] not having an in-house 'tax collection' service; this latter would be very unlikely to be the most cost-effective route. It will be there to undertake a strategic role and to exercise overall oversight over the structure as a whole; as such it will deploy very few resources itself.[41]

5.43. As far as its strategic role is concerned,[42] NewCo will be able to ensure that where there are research needs in common, for example, common approaches and joint working can be adopted.[43]

5.44. As to the overall oversight role, NewCo will be the 'guardian' of a common framework of activities that the SectorCos would work within. This would be along the lines of the framework set out in Box V.1 above; it would not, therefore be prescriptive as to detail and would leave, as is appropriate, plenty of scope for SectorCos to use their discretion to determine what is in the best interests of their own levy payers. NewCo would also be the 'guardian' of a common planning, budgeting and performance monitoring and reporting system (P&PMS) that would be used throughout these new arrangements; it will monitor the performance of the structure as a whole and will report annually thereon. The SectorCos will, of course, be preparing their own plans and budgets as the levy bodies do now,[44] and will report on their performance to their levy payers, but use of common systems will render it a great deal easier to identify areas where common cause can reduce costs and improve effectiveness. It will also make performance monitoring and reporting,[45] at the level of SectorCos and at the level of the structure as a whole, a great deal easier.

5.45. In keeping with its role and its status as an NDPB, NewCo would have an independent chairman[46] appointed in accordance with established procedures. The chairman of each of the SectorCos would be board members of NewCo in their own right. And there would be some other independent directors, whose role would be similar to that of the non-executive directors of a plc. For balance, this suggests a board of perhaps eleven plus the chairman; eight[47] members would be chairmen of the SectorCos and four, including the chairman, would be independent.

39 Supported by ServiceCo. See paragraph 5.46 below.

40 Possible contenders for the service might be a private sector provider; ServiceCo; or a public sector provider such as HMRC.

41 See below in this Section where the costs of the model are discussed.

42 In some ways these arrangements represent a formalisation of the current informal arrangements with regard to the Agricultural and Horticultural Levy Board Forum and the Applied Research Forum. See Section II for further detail.

43 See paragraph 5.20 for in indication of the types of issue that might be involved here.

44 These will be approved by the NewCo board, on which the chairmen of the SectorCos will sit as of right. See paragraph 5.45 .

45 The approach to reporting in this new structure needs careful review in the light of the requirements of stakeholders. I have in Section IV commented on ways in which the current arrangements do not meet stakeholder needs (see 'Governance and Accountability'); what is needed is an approach more akin to that of the Operating and Financial Review (OFR) that is being introduced to the corporate sector. These important considerations are explored in more detail in Box V.4.

46 'Independent' here means not just independent of levy payers but independent of the supply chains of the relevant industries. It would not be appropriate for a levy payer, past or present to hold this role, or for a processor or retailer of the relevant products.

47 Fewer depending on the precise arrangements made for meat in Scotland and Wales. See Box V.2.

Box V.4 Reporting on performance in the New Model

During the consultation exercise criticisms were made, as was noted above in Section IV, in relation to the quality of communications from the levy bodies to levy payers. Having examined these issues further in the third phase of the Review, I concluded (see Section IV above) that, although substantial efforts have been made in this regard in recent years, there is still a way to go for some of the bodies with regard to effective communication, especially with regard to formal reporting on performance. The New Model, with its emphasis on improved transparency and accountability, to levy payers in particular in the case of SectorCos and to all stakeholders in the case of NewCo, provides an opportunity to adopt a fresh approach to reporting.

For some years now there have in the private sector been initiatives aimed at improving the quality of corporate reporting. One initiative that could be of particular relevance to the arrangements to be used in the New Model is the Operating and Financial Review (OFR). It is a feature of the OFR that it requires directors not only to report on the past but also to look at the present and the future. Its has to provide an analysis of past development and performance; the position at the end of the reporting year; the main trends and factors underlying development and performance; and the main trends and factors likely to affect future development and performance. The aim is to enable the members (shareholders) of the company to assess its strategies and the potential for those strategies to succeed. From April this year there is a requirement for quoted companies to produce OFRs.

While there are clearly significant differences between levy bodies and private sector quoted companies the philosophy of the OFR, with its emphasis on performance and prospects, is as applicable to not-for-profit entities such as levy bodies (or, for that matter, other public bodies) as it is to large commercial organisations. Such bodies do not have shareholders but they do have identifiable stakeholders. I consider, therefore, that in the New Model the approach to formal reporting, by the SectorCos and by NewCo,[1] should apply OFR principles.

The above comments relate to what is reported. A further comment is also due about how these matters are reported on. Levy payers have many demands placed upon them and very often are not financial specialists. Under the new arrangements there will be an opportunity to think again about how best to communicate with them in the light of new technology. This again could build on private sector experience; short simple summaries can be backed up by more detailed analyses for those who wish to have them. And work needs to be done on effective presentational devices: the simple approaches used in local government to support rate demands, for example, may have something to offer here. Some of the bodies have already done good work in this area; there is a need to build on this and implement it consistently across the New Model.

1 NewCo will, of course, also have to comply with the requirements of NDPB accounting. But this need not prevent it from also reporting in OFR terms to stakeholders.

5.46. **ServiceCo** is that component of the proposed new arrangements that can deliver improved efficiency and effectiveness. It will be the provider of common services to SectorCos. These services would include 'back office' services such as finance and accounting, the provision of planning, budgeting and performance monitoring support, IT support, HR management, and 'company secretarial', i.e. servicing the SectorCo boards and their committees (and also the NewCo board and its committees). SectorCos would be required to purchase such services from ServiceCo in order to generate the maximum cost savings.[48] In addition, there would be a requirement to purchase, where SectorCos wish to have them at all, the other inputs identified in Section IV as ones where there is scope for economies of scale and scope: for example, producer and

48 This might not apply to QMS or HCC. See Box V.2.

consumer information particularly in the areas of policy analysis and the collection, analysis and dissemination of economic and consumer information, which each of the current levy bodies, with the exception of the HDC, currently do separately. In addition, there is a strong case for ServiceCo providing certain technical information and advice where this is not sector-specific, such as advice on EU regulations, or is at a higher level than that of the individual SectorCos, such as advice concerning meat and livestock issues that is relevant to each of the devolved meat bodies. Over time it may be that other services can be provided on a common basis, although it will always be the case that some specific sector expertise will need to be retained in, or bought in directly by, the SectorCos themselves.

5.47. I envisage that ServiceCo will provide its services to SectorCos in accordance with two-, or possibly three-, year service agreements. One year is too short a time for ServiceCo to be able to plan and deliver services efficiently and effectively.

5.48. ServiceCo's principal mission would be to provide services to its 'tied' customers; the SectorCos and NewCo. But there would be no problem, and potentially some advantage to levy payers, in ServiceCo providing services to third parties if that does not interfere with its primary objective. For example, Defra currently benefits from the provision of price reporting for certain sectors. And it may be that other stakeholders, for example processors or retailers who are not themselves levy payers, or other bodies performing similar functions to the statutory levy bodies, would value and be prepared to pay for a service, such as an information service, that can be provided without detriment to levy payers. If so, ServiceCo should be able to sell the service at properly costed 'market' rates.

5.49. ServiceCo would look like, and be, a commercial organisation. It would be a corporate body (a CLG) that is also a wholly-owned subsidiary of NewCo. It would have a small board with appropriate executive and non-executive directors; these should, however, not include representatives from the SectorCos as they will be ServiceCo's customers and need to be treated at arms' length. As a subsidiary of NewCo, its activities will be overseen by NewCo, who will report on its performance as part of its annual report on the operation of the levy arrangements as a whole.

The costs and benefits of change

5.50. In the light of the details of the new model described above, I have examined the costs and benefits of change. I have looked at the one-off costs of transition to the new arrangements and at the on-going costs and benefits in comparison with the current situation.[49] This analysis has been done using information on costs provided by the levy bodies in their published accounts, supplemented by data requested from the levy bodies as part of this Review and used in the analysis of activities discussed in Section IV. I have also necessarily had to make a number of assumptions; the key assumptions underpinning the analysis are summarised in the Notes to Table V.1. Overall, the approach is not dissimilar to that of Hampton in his report 'Reducing Administrative Burdens',[50] but adapted for the special features of the levy bodies.

49 In all this I have left out of account costs and benefits that might arise were QMS and HCC to be included in the new arrangements. This is because, as explained in Box V.2, these bodies are covered by devolved arrangements and, if these are to be maintained, would have to participate in the new arrangements, if at all, on a voluntary basis. The Scottish and Welsh authorities will need to compute their own costs of change on the basis of their preferred set of arrangements.

50 HMT: March 2005.

Table V.1 Costs and benefits of change for levy payers

	One-off (set up/transition) costs	Recurring costs
	£000's	£000's
NewCo		
Additional personnel, design and operation of new Planning and Performance Monitoring System, review of Fresh Start plans and budgets	105	402
Levy collection market tendering exercise.	35	
SectorCos		
Staff communications/consultation, amendments to HR policies, transfer of pensions to new bodies, relocation/redundancy costs, legal costs.	509	
ServiceCo Staff communications/consultation, amendments to HR policies, transfer of pensions to new body, office infrastructure changes, IT system enhancements costs.	302	
Quantified Benefits	Year 1	Year 2 and subsequently
Levy collection efficiency Shared Services efficiency Information Services consolidation	727	1315
Net (cost)/benefit	(626)	913
Unquantified benefits		
Improved governance and transparency Strategies and plans more closely related to needs: benefits from Fresh Start Improved performance evaluation and scope for 'learning from one another' Improved coordination of scientific and other R&D Opportunities for further cost savings in due course (e.g. through co-location of SectorCos) Defra benefits (reduction in NDPB-related overhead; cash savings in respect of existing levy body remuneration)		
See also notes to Table V.1 below		

Notes to Table V.1

1. The Table makes use of information on costs provided by the levy bodies in their published annual accounts and in response to direct requests for data. The model used in the evaluation of costs and benefits takes account only of those costs and benefits that fall to levy bodies, and thus levy payers. Costs and benefits to Defra are not included.
2. All the bodies will be incorporated. It is assumed that Defra will bear the legal costs of winding up five NDPBs and establishing one new one.
3. It is assumed that no costs will be incurred for changes in tax status. Details of any such costs can only be available after more detailed planning and on the basis of discussion with HMRC; the aim will be to minimise or avoid altogether any negative impacts.
4. NewCo needs no additional premises costs. Staff will be located within existing premises. NewCo board meetings will be held in a central hired venue or in SectorCos by rotation.
5. The NewCo chairman and independent directors will be new public appointments, additional to SectorCo appointments. The model assumes that Defra will meet the recruitment costs involved. The model also assumes existing remuneration levels for the board members of on-going SectorCos. New roles are assumed to be funded by levy payers, although a case can be made for a contribution by Defra. See text.
6. Other than chairman and directors, the number of staff in NewCo will be small. The senior staff member will be the Accounting Officer for the NDPB; he/she will be supported by two other staff. Other requirements, e.g. operation of the Planning & Performance Monitoring System, will be bought in and an allowance for fees in respect of these are included. Salaries and honoraria for staff will be aligned with similar positions in existing levy bodies.
7. NewCo will be responsible for all levy collection across all industries but will contract this out to a market- tested organisation. Cost savings of the order of 10% across the board should be achievable.

7 NewCo will establish a new Planning & Performance Monitoring System and other management procedures and systems. Costs for reviewing SectorCo plans and budgets under Fresh Start and for establishing and operating the P&PMS have been allowed for.

8. ServiceCo will be located within existing premises and requires no new premises lease costs. The likely venue, where space is available, is assumed to be Milton Keynes, where the MLC already operate a shared service centre in respect of some of the meat bodies' activities. No assumptions are made concerning co-location of SectorCos; existing costs are allowed for within the future structure operational model. Any decisions on further savings from co-location would be made after implementation of the New Model.

9. Shared services provided by ServiceCo will lead to reduction in cost through greater efficiency and adoption of common practices. Cost reductions have been taken as 5% in the first year and 10% in the second and subsequent years. Greater cost reductions could very probably be made in future years but have not been taken into account at this stage.

10. It is assumed that information services for all SectorCos wishing to have them will be consolidated into a single team servicing all needs. This will allow for reduced costs by better negotiation of data provision from suppliers and reduced costs, as well as more effective working, through efficiency gains. Cost reductions have been taken as 5% in first year and 10% in second and subsequent years.

11. Consolidation of 'back office' and information services will result in some relocation of staff and would also result in some redundancy. Costs for both are allowed for. Assumptions have been made to allow for consultation with and communication to all staff affected by the changes.

12. Establishment of ServiceCo in existing premises will result in some office disruption and infrastructure changes will be necessary.

13. The situation with regard to pension arrangements will need careful consideration in the implementation of the changes. It has been assumed that solutions are available that will allow existing arrangements to continue in a cost-neutral way. Allowance has been made for legal costs needed in the context of TUPE (Transfer of Undertakings: Protection of Employment) regulations and to ensure compliance. No additional costs have been included in respect of additional contributions to pension funds or for use of any surplus held in reserves.

14. Implementation will require careful project management to allow a smooth and effective transition to the New Model. This is returned to below in Section VI. The cost of project management has been assumed to be met by Defra and has not been included in the cost model.

15. No consideration has been given to the impact of the proposed changes on the commercial operations undertaken by some of the existing levy bodies. It has been assumed that these would be cost- neutral as far as levy payers are concerned.

5.51. Table V.1 shows that, looked at as an investment project, on the basis of the figures presented this appears to be a project with a very high internal rate of return and a very short payback period. The transition costs amount to £951,000, all falling in the run up to implementation or in the first year. Recurring costs in the second and subsequent years amount to £402,000. Quantified benefits in the first year amount to £727,000 and in the second and subsequent years to £1,315,000. Thus the project breaks even during year two and delivers net savings of £913,000 per annum thereafter.

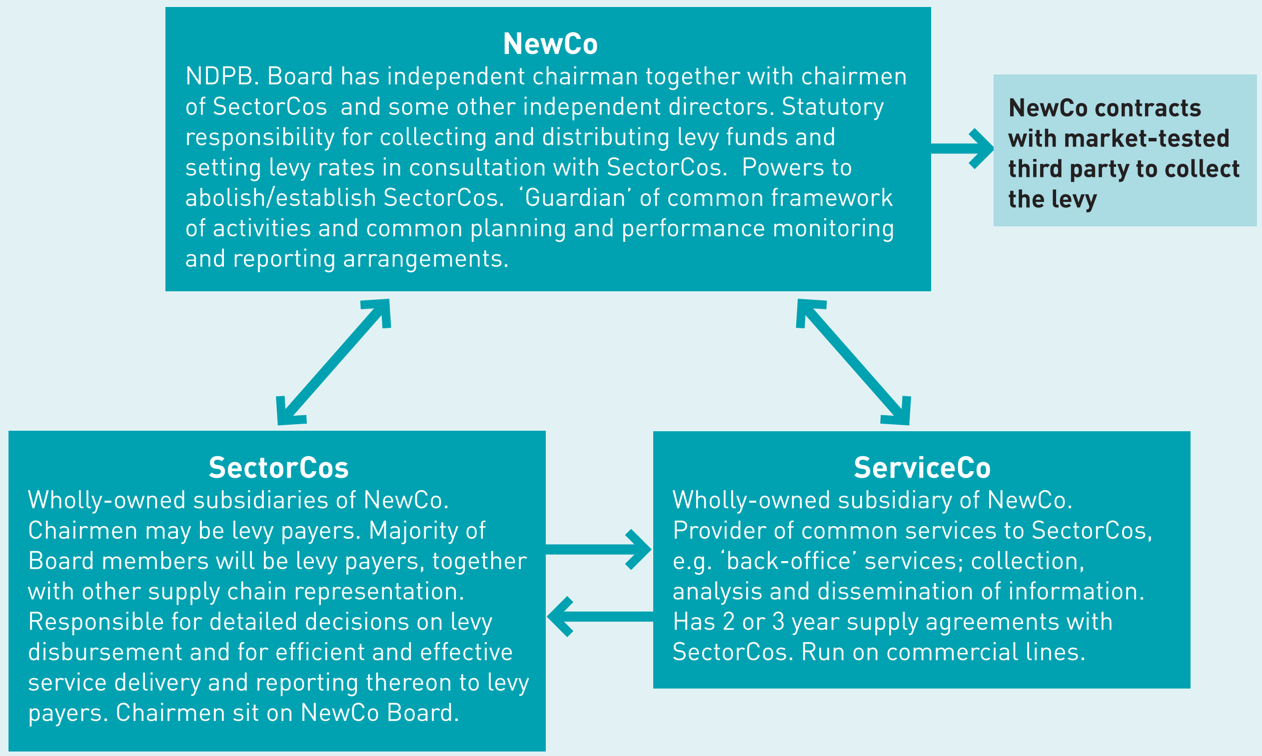
5.52. There are, however, a number of other important issues to bear in mind in considering the costs and benefits of change.

- Although the rate of return is high and the payback period is short, there will still be a need to find the cash to cover the costs of transition in the run up to implementation and in the first year. These costs amount, as Table V.1 shows, to £951,000 gross and £626,000 net.
- It is, in this context, pertinent to enquire who might pay for what. As the Notes to Table V.1 show, Defra are assumed to bear the legal and administrative costs of winding up five NDPBs and setting up one new one (NewCo) with its associated subsidiaries; these costs are not included in Table V.1. It is also assumed that Defra will meet the costs of project-managing the implementation plan. (This is mentioned below in Section VI.) It should be noted, however, that Defra obtains benefits from this New Model that are not included in the figures in Table V.1. Defra will in the second and subsequent years be saving costs in that they will have to administer one

NDPB instead of five; and Defra will no longer be meeting the fees etc. currently paid to MLC Commissioners. According to the MLC Report and Accounts, these amounted to in the region of £250,000 in 2004/05. It would be reasonable, therefore, for Defra to make some cash contribution to the transition costs that will enable it to realise these savings.

- Otherwise, it is reasonable to consider the apportionment of the costs of the New Model by considering how the benefits are likely to fall. There are three key areas where benefits have been computed: these are, as Table V.1 indicates, reduction in levy collection costs through use of one organisation; reduction in 'back office' operating costs by use of a shared service centre in ServiceCo; and reduction in costs in relation to information services. While all SectorCos should benefit, in relation to the status quo, from the first two, only those SectorCos with information services will benefit from the latter. Very approximately, the benefits, on the basis of the assumptions made in Table V.1 might fall 5% as to HDC, 15% as to BPEX and 20% each to the other four bodies (BPC, EBLEX, HGCA and MDC). Apportioning the costs of transition on this basis, and assuming no cash contribution at all from Defra, would give figures of £47,500 gross and £31,300 net for the HDC; £142,700 gross and £93,900 net for BPEX; and £190,200 gross and £125,200 net for each of the other four bodies. Net benefits in the second and subsequent years would be of the order of £45,600 for HDC; £137,000 for BPEX; and £182,600 each for the other four bodies.
- Obviously, the assumptions made affect the detailed outcomes. This applies on the benefits side, in particular, as there is always a risk in these situations that the efficiencies cannot be delivered in full; however, the assumptions made here are prudent in comparison, for example, with rates of saving achieved in the private sector by operating shared service centres for back-office costs. And, of course, the assumed phasing of the benefits quite naturally affects the payback period. The figures in Table V.1 assume the cost savings from consolidating information service, for example, are phased in over two years. Whilst this is a reasonable assumption, it is an important one: extending the phasing of these cost savings would extend the payback period and reduce somewhat the internal rate of return.
- Finally, a number of potential benefits of change are listed in Table V.1 but have not, in the interests of prudence, been quantified. But it should be noted that the potential here could be significant in the medium term: such items as the 'Fresh Start' initiative; improved performance evaluation; improved coordination of research on issues of common interest; and opportunities for further cost savings in due course could all add substantially to the benefits of change accruing to levy payers.

Diagram V.1 A New Model



Schedule V.1 A New Model for today's needs - some questions and answers

Q: Isn't this a somewhat complicated model in comparison with the current arrangements? Won't the 'double tier' of governance involving both NewCo and SectorCos reduce transparency?

A: The arrangements are designed to improve substantially accountability to levy payers. SectorCos will have the primary responsibility for 'accountability out' and will have to report to levy payers on the efficiency and effectiveness with which they are doing their jobs. NewCo will be 'accountable up' for proper use of 'public' monies and will also ensure, as the 'guardian' of the common framework of activities and the common Planning and Performance Monitoring System (P&PMS), that the arrangements as a whole work efficiently and effectively. The New Model will actually increase transparency as it will be very clear who is responsible for what and how the different bodies are performing.

Q: But won't these arrangements actually increase costs? Won't NewCo become a 'high cost bureaucracy' that levy payers will have to pay for?

A: NewCo will be a very small organisation. It will not be a delivery body and will employ very few people. Apart from fees to the chairman and other external directors it will employ a senior person who will also be Accounting Officer and two staff in support. It will buy in the other services that it needs, such as the collection of levy or the operation of the P&PMS, from market-tested external suppliers. Table V.1 indicates that the total costs of NewCo on an on-going basis (i.e. in Year 2 and subsequently) will be of the order of only £402k, leaving a substantial net benefit of change to levy payers of £913k per annum.

Schedule V.1 A New Model for today's needs - some questions and answers

Q:	Where will the effective power lie? If NewCo 'owns' the SectorCos won't it have the power?
A:	When everything is working well, the effective power will lie where it should, i.e. with the SectorCos, who will be taking the detailed day-to-day decisions on services and doing the associated service delivery. But if there are problems with a particular SectorCo and its performance, or if other changes need to be made to the model as a whole, Newco will be able to act. Thus the New Model does provide for appropriate checks and balances if things do go wrong, although increased transparency and better performance monitoring will reduce the risk of this happening.
Q:	You say the New Model will improve the extent of 'industry ownership'. But won't Ministers still have overall control?
A:	The New Model envisages much less ministerial involvement than now. Ministers will be involved in the appointment of the NewCo chairman and, initially at any rate, the SectorCo chairman (who will also be on the NewCo board) and the NewCo 'external' directors. All the key decisions, such as rates of levy and whether to wind up a levy or introduce a new one, will be subject to appropriate consultation, in the hands of the NewCo board (and subject to input by levy payers on key decisions: see Box V.3). Ministers would only become involved *in extremis*, in other words if there were a fundamental breakdown in governance arrangements or performance.
Q:	Will SectorCos be able to undertake only those activities financed by the statutory levy or will they be able to deliver other services too?
A:	SectorCos' principal mission has to be the delivery of services to levy payers. But if SectorCos wished, for example, to raise a special voluntary levy to finance participation in a particular activity that they felt was in levy payers' interests but for which levy funds could not be used, such as certain kinds of promotional activity that might fall foul of State Aids, there is no reason why they should not do so. Similarly, SectorCos will no doubt want to continue to take maximum advantage of matched funding from third party sources to finance some of their activities. This is obviously in levy payers' interests.
Q:	Do we really need a ServiceCo? Couldn't SectorCos get their 'back-office' services from the Defra shared service centre that is being set up?
A:	Using Defra shared services would fly in the face of the need to have a greater degree of industry ownership of the model. And a number of the services that ServiceCo will provide will be very different from what Defra might have on offer, for example information services provision. Levy payers need to have these provided by someone who is independent not only of commercial interests but also of Government.
Q:	Won't ServiceCo have a somewhat mixed portfolio of services to provide? Can it really do this efficiently?
A:	Initially, ServiceCo will be focusing on 'back office' services and information services of various kinds. It will also be delivering to the four devolved meat bodies some of the meat-related technical services currently supplied by the MLC. This should be a readily manageable portfolio. Later, it may prove sensible for the range of common services provided by ServiceCo to be increased but this would only be done with the full agreement of SectorCos and in the light of anticipated cost savings.
Q:	Could other bodies, in addition to the statutory levy bodies, make use of ServiceCo?
A:	There is no reason why other bodies having similar objectives and similar needs to the SectorCos should not purchase services from ServiceCo and participate in the economies of scale of shared provision. This would be on a fully-costed basis. It is not envisaged that ServiceCo would build a big portfolio of external customers, however; some external customers would be proof that ServiceCo was competitive but its principal objective must be to have satisfied levy body customers.

Schedule V.1 **A New Model for today's needs - some questions and answers**

Q:	Who will actually collect the levy? Can we be sure it will be cheaper than the current arrangements?
A:	NewCo will contract this out after market-testing the options. As was explained in Section II and Annex E, costs of collection at present vary considerably and the proposals made in relation to the levy in Section V offer scope for cost savings. The assumptions made about cost savings are, in the light of this, relatively prudent.
Q:	How about the staff in the existing levy bodies? How will these proposals affect them?
A:	Many staff in the existing bodies will not be affected. Staff deployed in back office functions may be, as may staff in the information functions. And there is a particular issue for the staff of the MLC which, under these proposals would be wound up. But these proposals certainly do not imply an end to the need for their services; on the contrary, there will be a continued demand in ServiceCo for people who, as the MLC does now, participate in shared service provision. In general, ServiceCo, as the provider of common services to levy bodies, should be able in many respects to offer better career development opportunities to certain types of staff than individual levy bodies can do now.
Q:	How about the costs of change? How can we be sure the costs of change are worth incurring and won't be an unnecessary charge on levy payers?
A:	The figures in Table V.1 indicate that, looked as an investment project, the New Model has a very short payback period: it pays for itself during the second year of operation. The assumptions made about cost savings are, of course important; these are relatively modest in comparison with what can be achieved in the private sector and elsewhere. And Table V.1 does not make any allowance for other cost savings not quantified at this point; as explained in the text, these could in the medium term be substantial.
Q:	If NewCo is to be the sole NDPB how do the devolved meat bodies for Scotland and Wales fit in?
A:	If they choose they can participate fully in the arrangements; however if, as seems more likely, at least in the case of Scotland, the Scottish and Welsh authorities wish to have a direct line of accountability to their Ministers, they could nonetheless participate voluntarily in the new arrangements. This is explained in more detail in Box V.2.
Q:	How will all this play with Brussels?
A:	On the basis of informal discussion with experts at the EU, no objections appear to be forthcoming from the competition authorities. State Aid cover will be needed in due course in relation to the structural features of the New Model but there would appear at this time to be no objections in principle to what is proposed.
Q:	And with the UK competition authorities?
A:	The proposals have not been discussed with UK competition authorities but there do not appear to be anti-competitive features of what is proposed that would cause difficulty.

Section VI
Implementation of change

Introduction

6.1. My Terms of Reference for this Review required me to include, where changes to the present arrangements were advocated, proposals on how such changes could be carried forward. In Section V I described the key features of the changes I advocate in respect of governance and accountability; activities and priorities; arrangements with regard to the levy; and efficiency and effectiveness in service delivery. I looked at options for the future and concluded that new organisational arrangements were needed to meet the business drivers that I identified as key to a successful set of arrangements. I described the key features of this New Model. Below in this Section I turn to a consideration of what needs to be done to effect the changes I have identified. First, I present a list (Schedule VI.1) of some of the key tasks, with an indication of timing and responsibilities. I then comment on some of the more critical tasks on which successful implementation will depend. I have not, at this stage, attempted to identify all the tasks that will be necessary, still less to schedule them into a work plan; this will be the first step in the overall project management arrangements once Ministers have decided on a way forward.

Key tasks

6.2. Key tasks in implementation are set out in Schedule VI.1 at the end of this Section. The schedule is far from exhaustive, and will need to be developed as part of the overall project management arrangements, but it does identify the principal tasks, responsibilities and timings.

Key issues

6.3. There are four sets of issues that are crucial to the overall implementation arrangements. These are commented upon below:

- The first set of issues relates to legislative and other public administration arrangements.
  - First, there is the matter of primary legislation. Most of the detail required to implement what is proposed will be in secondary legislation; however, certain ‘enabling’ primary legislation is necessary. Here, an opportunity is presented by the Natural Environment and Rural Communities (NERC) Bill currently being considered by Parliament. I am advised by Defra Legal Advisers that, in order to achieve the changes I propose, there would need to be (modest) amendments to the Bill as it currently stands, particularly to enable the (new) NDPB to have subsidiaries, as I envisage the SectorCos and ServiceCo would be. This would not

  appear to be particularly controversial; however, speed is of the essence as the Bill provides the only vehicle for primary legislation in this area that is likely to be available for some considerable time and it is currently before the House of Lords.
  - There will also be a need for secondary legislation to establish the New Model and to abolish the existing statutory levy bodies. The Statutory Instruments that will give effect to much of the important detail will be complex and will involve consultation with all stakeholders.
  - There is also a range of public administration tasks related to the creation of NewCo and the abolition of the levy bodies.[1]
  - Last, it will be necessary to obtain State Aids clearance from the European Commission for the new arrangements. From informal discussions that I have had with experts, including with the European Commission, there would appear to be no State Aid objections, in principle, to the formation and structure of NewCo and its subsidiary bodies. Nevertheless, it will be necessary to obtain State Aid cover and discussions would clearly need to take place in parallel with the other key tasks.

- The second set of issues relates to project management arrangements. These will be crucial to successful implementation. Defra and the Devolved Administrations will need to give very early consideration to arrangements for project sponsorship and oversight and to appoint a project manager to take things forward.

- Turning now to 'Early Action' items, there are three sets of actions that merit special mention.
  - A crucial set of tasks relates to communications. Of course, it will be necessary to communicate the decisions taken by Ministers to all stakeholders but a particularly important aspect will be communication with levy body management and staff. The prospect of change is always unsettling; uncertainty over what form that change might take is doubly so. The levy bodies employ a number of able people with expertise of real value to levy payers and it is crucial that they continue to be motivated to do good work. Keeping staff in close touch with emerging detailed proposals is essential. Here a special word is due about the staff of the MLC. Under my proposals the MLC would be wound up; the four devolved bodies would be the relevant meat SectorCos.[2] But my proposals certainly do not imply an end to the need for the services of staff currently employed by the MLC. On the contrary, there will be a continued demand in ServiceCo for people who can participate in shared service provision not only for the meat bodies, as now, but also, potentially, more widely to other SectorCos.
  - The second set of actions relates to the need for early action to address how, in the New Model, to manage important issues such as tax and pensions. Early discussions with the relevant authorities can obviate the need for costly later adjustments.

1 The Cabinet Office guide: 'Non-Departmental Public Bodies: A guide for Departments' provides useful guidance on the range of tasks involved in both creation and abolition of public bodies.

2 In the case of QMS and HCC, they may be fully or partially involved; this decision lies with the Scottish and Welsh authorities as explained above in Section V. See Box V.2.

  - The third set of actions relates to the need for early recruitment to fill key positions in the New Model. The chairman of NewCo must be an early appointment, followed, as soon as possible thereafter, by the appointment of the SectorCo chairmen and the other directors who will make up the NewCo board. In setting up these arrangements for the first time, it is proper that Defra should be in the lead, and OCPA Code of Practice principles should apply. It would be very important, however, to have the maximum 'external' involvement in the selection process, in order to signal to levy payers the increased 'industry ownership' of the arrangements.[3]

- The final set of issues relates to the timetable. In drawing up Schedule V.1 I have assumed implementation from the start of the 2007/08 financial year and the final column of the schedule reflects this. This is a challenging timetable but should be achievable. And in view of the net benefits of change to levy payers there is considerable advantage in implementing change as rapidly as possible.

3 As an NDPB, appointments to the NewCo board would be subject to the Commissioner for Public Appointments Code of Practice.

Schedule V.1 **A New Model for today's needs - some questions and answers**

Task	Responsibility	Timescale
Legislative and other public administration arrangements		
Primary legislation: draft clause(s) for inclusion in NERC Bill	Defra[4]	Immediate
Secondary legislation: draft Statutory Instruments and consult	Defra	Start Early 2006
Wind up five NDPBs and set up one new one	Defra	Start when decisions on detail made
Obtain State Aids clearance for the New Model	Defra	
Scottish and Welsh authorities to decide on place of QMS and HCC in New Model	Devolved Administrations	By end March 2006
Project Management		
Make project sponsorship and oversight arrangements	Defra and levy bodies	Immediate
Appoint project manager	Defra	Immediate
Draw up detailed project plan and timetable	Project manager	As soon as decisions on detail made
'Early Action' items		
Consult on detail of proposals	Defra and stakeholders	Immediate: complete in 3 months
Communicate results to all stakeholders	Defra and levy bodies	By 1 March 2006
Brief levy board management & staff on possible new arrangements	Defra and levy bodies	Immediate
Put in place detailed staff communications plans	Project manager/Levy bodies	As soon as decisions on detail made
Set up staff consultation groups as required by TUPE	Levy bodies	As soon as decisions on detail made
Initiate early discussions with HMRC on possible tax issues	Project manager/Levy bodies	As soon as decisions on detail made
Investigate possible pensions issues	Project manager/Levy bodies	As soon as decisions on detail made
Review implications for commercial operations and other contractual commitments	Levy bodies	As soon as decisions on detail made
Agree basis for sharing costs and benefits in the New Model	Levy bodies and Defra	As soon as decisions on detail made
Draw up job descriptions for chairmen, board members and key executives for new bodies	Project manager	
Implement process for recruiting chairman of NewCo	Defra[5]	Complete by autumn 2006
Other key tasks		
Set up user groups on back office functions to agree requirements and functions	Project manager/Levy bodies	Complete by autumn 2006
Set up user groups to agree arrangements for information services provision	Project manager/Levy bodies	Complete by autumn 2006
Reach agreement on location, staffing and facilities for ServiceCo and NewCo	Levy bodies	Complete by autumn 2006

4 Reference to Defra, will often also involve Devolved Administrations.

5 Discussions will need to take place with OCPA over the NewCo appointments.

Schedule V.1 A New Model for today's needs - some questions and answers

Task	Responsibility	Timescale
Prepare plans and implement IT system enhancement/changes for ServiceCo needs	Project manager/Levy bodies	Complete by March 2007
Prepare plans for space requirements and infrastructure needs for ServiceCo	Project manager/Levy bodies	Complete by autumn 2006
Implement process for recruiting NewCo 'external' directors and SectorCo chairmen	Defra with NewCo chairman	Complete when NewCo chairman in place
Implement process for recruiting SectorCo board members	NewCo board	Complete by January 2007
Appoint NewCo Accounting Officer and support staff to 'shadow' new arrangements	NewCo chairman and Defra	Complete by January 2007
Implement process for recruiting/transferring personnel needed for ServiceCo	NewCo board and team	Complete by January 2007
Put timetables together for Fresh Start planning and implement	NewCo team with SectorCos	Complete by March 2007
Plan market testing of levy collection service and design of new P&PMS and implement	NewCo team	Complete by March 2007
Finalise service agreements for ServiceCo provision of services to SectorCos	SectorCos and ServiceCo	Complete by March 2007
Plan and implement organisational and financial changes to launch New Model	All	By 31 March 2007

Section VII
Summary of conclusions and recommendations

7.1. In Section II I provide an introduction to the levy bodies. My principal conclusions from this analysis are as follows:

- Whilst there may be some broad similarities between the five bodies, there are also very considerable differences. Their broad statutory remits are similar – they all focus on the need to promote efficiency and productivity in the industries concerned – but the detailed remits vary. In terms of their governance arrangements, all five are NDPBs but there are variations with regard to board size and composition and to remuneration arrangements. Whilst the bodies undertake a similar range of activities the extent and degree of focus on particular activities varies considerably. Arrangements with regard to the levy are not uniform. And the size and scale of the bodies' operations varies greatly. Whilst some of these differences may have some degree of objective basis, it is far from clear that they all do.
- Until recently, little was done to coordinate the work of the five bodies and to identify areas where making common cause would bring benefits. Improved coordination of activities has, perhaps, been somewhat overdue. It is encouraging that steps have recently been taken, through the mechanisms of the AHLBF and the ARF, to improve the degree of coordination between the efforts of the five bodies but these initiatives are still in their infancy.
- Consideration of the work of other bodies indicates, first, that in some industries arrangements can be made that do not require the backing of a statutory levy; however, it may be argued the circumstances in some of these industries are different in a number of material respects from those faced by the five bodies. Nonetheless, there are several other organisations quite properly operating independently but who might also be able to benefit from some degree of cooperation with one another in order to save costs.

7.2. In **Section III** I examined **the needs of the industries** that the levy bodies were set up to serve. My principal conclusions are as follows:

- At first sight the economic significance of the agricultural sector to the UK economy is modest: it accounts for only 0.8% of gross value added in the UK economy as a whole and has been declining in relative importance for many years. But its output is a key input to the agri-food sector. Approximately two thirds of the output of the agricultural sector goes into processing, and the food processing sector is now the largest manufacturing sector in the UK, accounting for 7.9% of gross value added and 3.8 million jobs. A further relevant issue relates to self-sufficiency. Whilst the degree of self-sufficiency is no longer a specific objective of policy it is relevant to an assessment of risk in the event of an interruption of trade; self-sufficiency as a proportion of all foods is around two thirds and as a proportion of 'indigenous type foods' is nearly three quarters. The economic health of the primary production sector is thus indirectly of much greater economic significance than its direct size would suggest, a significance that is enhanced when the role of the sectors in the wider sustainability agenda is recognised.

- The size and structure of the industry sectors has been changing significantly. In primary production there are now fewer producers than there were but in many of the sectors there are still very many small producers. Further up the supply chain it is evident that, in keeping with all other sectors, the degree of concentration in the processing of agricultural products and in food manufacture is increasing.
- The industries operate in a highly complex policy environment. Policy, and changes to policy, impact at the global level, where liberalisation of global markets is of great significance; at the EU level, where key considerations are the CAP and the reforms to it that have recently taken place, the State Aids regime and the framework of regulations; and at the UK level, where key issues include the sustainability agenda, animal health and welfare, health and nutrition, the need for efficiency in public services, the need to reduce regulatory burdens, and the implications of the devolution of agricultural policy to Scotland, Wales and Northern Ireland.
- In addition, these industry sectors, in common with many other businesses, face a very substantial array of other change drivers. All this amounts to a degree of challenge and need for change which is by any standards huge. And many of the businesses concerned are small, often micro, businesses. Primary producers, and the smaller processors, often have to be their own production director, marketing director, and finance director all in one.
- The industries have a number of key needs that must be met if they are to rise to the challenges of change.
  - Such producers are, in general ‘price takers’: they are often producing ‘commodity’ products where, in the hitherto subsidised sectors, the price has been determined ‘within the system’; now, in unprotected markets, price will in all cases be determined by the forces of competition, often in global markets. Each producer therefore needs to drive for improved efficiency so as to reduce unit costs and thereby maximise returns: the ‘business performance’ need.
  - Because at present many of these businesses are producing ‘commodity’ products, they need to exploit opportunities to move up the value chain and produce new and/or improved products so as to increase the realised value of their output: the ‘business development’ need.
  - In markets where the demand drivers are changing (e.g. changing consumer tastes and preferences) at the same time as the conditions of supply are also changing, as is the case particularly in those product areas affected by CAP reform, there is a need to ensure that good quality information is available to producers so that they can make sound strategic decisions: the ‘producer market information’ need.
  - There is also a parallel need to improve the workings of the market so as to enable consumers to make better informed decisions in the expectation that this will increase sales and/or realised prices: the ‘consumer market information’ need.
  - There is also a need actively to promote particular products with a view to increasing sales (or minimising falls in sales): the ‘product promotion’ need.
  - Industries undergoing significant and rapid change are prone to sudden and unexpected ‘shocks’ that have to be managed. These industry sectors have a particular problem in this regard by virtue of their exposure to issues such as climatic variation and animal and plant diseases. They need support in dealing with the management of risk of this kind: the ‘crisis management’ need.
- Against this background of needs, the framework within which the industry sectors operate, and the range of organisations, including the levy bodies, providing services

that may be relevant to their needs, is large and complex. Much good work is going on, but the framework is not in all respects as effective as it might be.

- There are very many organisations involved. To comment on the scope for simplifying this through mergers and amalgamations goes beyond the scope of this Review but there would appear to be considerable scope in principle for this, to everyone's benefit.
- There is a highly complex framework of regulation to contend with. It is beyond the scope of this Review to comment on whether this framework is fully appropriate today but in any event help with understanding the framework and implementing new approaches is essential for levy payers.
- Scientific R&D is essential to underpin improved business performance in these industries. It would appear, however, that the whole R&D 'supply chain' in this area is not as robust as it should be. Again, this issue goes well beyond the scope of this Review but it points up a continuing need to ensure best use of resources in R&D.
- Training and skills enhancement are essential to support any industry undergoing change. It is not clear that the right kind of support is available in the right quantities. Primary producers do not need training that leads to formal qualifications so much as practical skills enhancement in, for example, business management and business development. This is an area for improved focus and effort.
- Help with exports is another issue. Food from Britain has the key role here but, with limited resources, cannot address all the possibilities for development. Some of the levy bodies are engaged in these activities; again, as with training, better focus and more joint working would help.
- Quality assurance schemes were commented upon frequently during consultation. The range of different schemes is complex and it is not clear to consumers what their distinguishing characteristics are. Again, analysis of the various schemes in operation goes beyond the scope of this Review but this is an area where some of the levy bodies have played a part, though not usually in the lead, and a clearer strategy in this area could only be helpful.
- Innovation is crucial: these industry sectors need to find new products and new uses and new applications for old ones. Both in relation to the importance of innovation for these industries, and in relation to the emphasis placed on it generally in the context of UK government policy, this area attracts a lower priority than it should.
- Problems, whether of primary producers or first-stage processors, can only be solved in the context of an understanding of the entire supply chain, from primary production to final consumption. There have been a number of encouraging initiatives, such as the RMIF and the CIF, which bring together all the elements of the supply chain to promote business performance, but ensuring the whole supply chain is engaged in supporting the process of change in all of these industry sectors is very important.

• Against the background of the total framework of assistance, the levy bodies are quite small. Between them, their total budgets amount to only a little over £60 million. It follows that their contribution will be most effective when carefully focused on activities where they have a comparative advantage, and/or where they work in partnership with others. The levy bodies, with their role as independent, non-commercial, but 'industry-focused' bodies, can be particularly good at partnership working and facilitating new approaches, as the examples of the RMIF and the CIF have shown.

7.3. In **Section IV** I reviewed **the role and performance of the levy bodies**, taking particularly into account the comments made in consultation by levy payers and other stakeholders. My principal conclusions are as follows:

- With regard to **governance and accountability**, I conclude that, although there do not seem to be major weaknesses in the bodies' compliance with the requirements imposed on them as NDPBs, the governance and accountability arrangements in relation to levy payers could do with improvement. In particular:
  - The levy bodies appear more 'part of government' than 'part of industry'. Quite properly, levy bodies have to be regarded as 'public' in the sense that they are financed by a levy raised by statute, but they are 'special' kinds of public body in that they exist to serve a specific group of people who are themselves directly financing the bodies' activities through the levy: they are not part of government's 'delivery landscape'. Levy payers feel they should be more engaged in decisions concerning the levy.
  - While the bodies in general do aim to get representation on their boards from across the supply chain there is, with some notable exceptions, little direct representation from the 'upstream' supply chain beyond first stage processing. The governing bodies do not always work as effectively as they might. And different arrangements apply with regard to terms and conditions of board membership for reasons that are not always obvious.
  - In most cases the bodies comply fully with all the requirements of NDPB status but this is not universal; there are, for example, a few instances of non-compliance with government guidance in relation to audit committees.
  - Communication with levy payers, including formal reporting back to them on performance, has not been as good as it should be. Despite recent efforts in this regard, there appears to be still a way to go for some of the bodies with regard to effective communications, especially with regard to reporting on performance.
- With regard to **activities**, I conclude that much hard work is being done by the various bodies but that there are significant differences in priorities that would not appear to be fully explained by differences in the needs of the industries, and variations in the nature and degree of focus that may not be consistent with the best return for levy payers from the use of their funds. In particular:
  - It is not easy to obtain clear and consistent information on activities across the five bodies so that comparisons can be made. A special exercise has had to be undertaken for this Review.
  - Whilst recognising that it is not easy to measure performance in relation to activities such as those undertaken by the levy bodies, common approaches to the evaluation of performance would help levy payers and others to see where and how value for money is best being delivered when looking across all the levy bodies, and would thus serve to enhance confidence in their activities.
  - The levy bodies are engaged in a very wide range of different activities, and have undoubtedly been extremely active in developing and delivering services to levy payers, but their priorities vary substantially. Some differences in priorities can and should be expected: the needs of the industries, whilst they have much in common, also display differences. But it is not clear that the differences in priorities as between the different levy bodies are fully explained by differences in industry needs. Why should promotional issues, for example, feature so prominently in some product areas but much less so in others? And some of the bodies have decided to focus to a much greater extent than have others. Focus is a very important issue for the levy bodies: the total volume of resource available from the levy is modest, and will remain so; it must follow that this resource should be focused on where it can provide the best return for levy payers and not

on activities that may be important but are high-cost and may be better undertaken by others. It is not clear that this is happening in all cases now.

- On **arrangements with regard to the levy**, I conclude that there are significant variations that do not appear to have a clear objective basis. Costs of collection vary substantially. Equity and efficiency considerations suggest that these arrangements would benefit from adjustment. In particular:
  - the extent of Ministerial and Parliamentary involvement in decisions about the levy varies;
  - on scope, levies are raised only on primary production in milk and horticulture but on primary production and on processing in the meat, cereals (but not oilseeds) and potato sectors;
  - on incidence, levy collected as a percentage of the value of output varies significantly by sector;
  - whilst most agricultural and horticultural products are subject to statutory levy, not all are;
  - member co-operatives may have to pay both producer's levy and purchaser's levy;
  - the use of exemptions varies; and there are other more detailed variations in scope;
  - the basis upon which levy is collected also varies by sector; some are turnover based, others are volume based and one is based on area planted; these methods all have different implications for the scale and predictability of levy income; and
  - levy is either invoiced directly to the grower, and/or it is collected at first point of sale; in general, collection costs are lowest when the first point of sale approach is used but the levy body then may lose the ability to make direct contact with levy payers because it will not necessarily know who they are.
- On **operational issues**, I conclude that there is some scope for effecting savings in 'back-office' costs and reducing the cost and/or improving the quality of some of the services delivered by the levy bodies. In particular:
  - On the matter of 'back office' services, at present the levy bodies incur, between them, around £3.4 million of administrative expenses of this kind, including the cost of office accommodation. Common sense suggests that, in principle, savings could be made here.
  - On the matter of duplication in service provision, it is not obvious that big savings can be made by changes in ways of working in respect of many activities as these are highly specific to the sector in question. But in the case of information services, although some are sector-specific, some, particularly in the areas of policy analysis and economic and consumer information, could certainly be provided in common to more than one body. And skills of analysis, interpretation and presentation are not sector-specific. Here there may be economies of scale but also of scope: in other words, the quality of the product may be enhanced as well as its costs reduced.

7.4. In **Section V** I consider **future options**. I draw conclusions and make recommendations in relation first to the **statutory levy** and second to future **structural options**.

7.5. On the matter of the **statutory levy**, I conclude that there continues to be a case in principle, based on the application of the 'fragmentation test' and the 'scale of change test' of market failure, for a statutory levy in each of the product areas to which it currently applies. But the case is stronger in some product areas than in others and is likely to continue to weaken over the next few years in some of the areas. There is a need to continue to keep these issues under review and to be prepared to wind up arrangements that may, at some future date, outlive their usefulness. Moreover, while the case in principle for continuing with a levy is well made, it is necessary to ensure that, in practice, the levies deliver what the industries need in the most effective way. This, in my view, requires some important changes.

I therefore recommend that the statutory levy be maintained in each of the product areas to which it currently applies, but that changes should be made in respect of governance and accountability; activities; arrangements with regard to the levy; and efficient and effective service delivery. These changes are as follows:

- **Governance and accountability**. Given the nature of statutory levies, I consider that the arrangements for raising and spending levy money need to be, and to be seen to be, more clearly in the 'ownership' of the industries concerned than is the case at present. The levy bodies are not part of Defra's 'delivery landscape'; rather, they are there to spend levy payers' monies on meeting levy payers needs. And there needs to be greater transparency and more consistent and effective reporting to levy payers on what is being done with their money ('accountability out') whilst at the same time continuing to ensure proper accountability for 'public' money ('accountability up').
- **Activities**. The following changes are needed:
  - I consider that the work of the bodies in establishing priorities and planning activities would be assisted, and their ability to assess their own effectiveness and report thereon enhanced, if there were to be a more coherent common framework of activities linked clearly into the needs of the industries and the levy bodies' role, within the overall framework of assistance, in meeting these needs.
  - Linked to this, there need to be arrangements actively to promote common working. Common approaches can reduce duplication and thus costs and can also lead to better quality fact-finding.
  - As and when these changes are implemented, I consider there should be a 'Fresh Start' initiative for the levy bodies. 'Fresh Start' would entail a 'bottom up' strategy and planning exercise, under the new arrangements, to identify needs; consider how these can best be met; determine a set of value-for-money activities; and revisit rates of levy in the light of this analysis.
- **Arrangements with regard to the levy**. I have considered two questions here: should a levy be raised only on primary production or also on processing; and are the current bases for the levy and the collection arrangements appropriate.
  My conclusions are as follows:
  - On the first question, there are arguments for limiting the levy to primary production, as currently happens in milk and horticulture. The levy, it may be argued, is anyway 'shifted' back to primary production and the 'fragmentation test' of market failure is much weaker now in the processing of meat, cereals and potatoes than it was at the time the current levy arrangements were introduced. But it is essential that all the key components of the supply chains for these products be engaged, and some stakeholders have argued that, if processors are not formally included in the arrangements as levy payers, they will be reluctant to participate, at senior level or at all, in these arrangements. The arguments for and against producer-only levies are finely balanced, with persuasive points on both sides; however, I have concluded that, for now, the arrangements should stay as they are, but should be kept under review and revisited in, say, two years' time when new arrangements have been implemented and the strength of the opposing arguments tested in practice. This issue may, however, be one on which Ministers will wish to consult before arriving at a final conclusion.
  - On the second question, I conclude as follows:

  - The fairest basis for a levy, being closest to how the benefits derived from it are likely to fall, would be the value of the levy payer's gross value added, or margin. Obtaining and verifying this is not easy, however, and an approximation that would give a similar tax 'incidence' in most cases is the value of turnover. I consider it would be desirable to move to value-based arrangements for all products, a move that would not have significant cost implications if extended to cereals, meat and potatoes as they would involve merely some changes to the accounting systems in the merchants, abattoirs and potato processors. It would, however, be essential to ensure that relevant data on levy payers can be passed to the levy bodies.
  - With regard to the 'small producer/processor' exemption, it is not worth incurring substantial costs to collect small amounts of money. But if such exemptions are to be retained they should be applied consistently across the product areas where possible; if turnover-based arrangements on the lines of those mentioned above were implemented it would be relatively easy to operate exemptions on a consistent basis.
  - On geographical coverage there would appear to be no need in general to move away from the current arrangements but there is an issue in relation to meat which has arisen because of the decision to distribute meat levy monies collected by the MLC to the devolved bodies. It would in principle be preferable to do this not on the basis of where the animals are slaughtered, as now, but on the basis of where they originate and have been tended; it is not clear whether this could be done, without excessive cost, using information required for regulatory purposes, and this should be further investigated.
  - On yield, whilst levy collected as a percentage of the value of output need not be the same in all sectors, there do need to be objective explanations for significant variations. 'Fresh Start' should be used to do this.
  - On scope, whilst most agricultural and horticultural products are covered by levy, not all are. I am not aware of any major consequential distortions, or of other products where a case for a statutory levy is well-made now, but circumstances can change and it would be desirable to keep this under review.
  - On the mechanics of collection, there is merit in applying pragmatism so as to combine, as far as possible, equity with efficiency. Arrangements whereby levy is collected at first point of sale are relatively cheap; if the changes described above are implemented arrangements of this kind would be appropriate in most product areas. This would mean no change for milk, modest changes for cereals and meat, and rather more substantial change for potatoes. Horticulture, which has a turnover-based levy now and collects it at relatively low cost, would continue with its current arrangements.
  - Finally, there are in the meat sector two levies: a general levy and a species promotion levy. This latter is paid only by producers. Once the case for a statutory levy is made, I do not believe it is appropriate then to distinguish, in the 'tax- raising' legislation, between different types of use to which monies may be put. The two meat levies should in my view be combined into a single levy.
- **Efficient and effective service delivery**. Changes required relate to the provision of back-office services and the provision of information services on a shared service basis.

7.6. With regard to future **structural options**, I conclude that these need to be appraised against a set of criteria that reflect the relevant key business drivers. These are as follows:

1. The arrangements for raising and spending levy money need to be clearly in the 'ownership' of the industries concerned, and should require a high level of transparency and consistent and effective reporting on performance to levy payers ('accountability out'), as well as ensuring proper accountability for 'public' money ('accountability up').
2. Detailed decisions about how to spend levy payers' money should be taken close to the relevant group of 'beneficiaries', i.e. the levy payers in the particular sectors or sub-sectors concerned.
3. Activities need to be planned, assessed and reported upon within a common framework, and common working and approaches need to be encouraged where these are appropriate.
4. Services to levy payers need to be delivered as efficiently and effectively as possible.
5. The arrangements need to be flexible:
   - A levy that is no longer justified should be capable of being removed, or a new levy that is needed introduced, by reference to the levy payers concerned without having recourse to primary legislation.
   - The detail of the arrangements should be capable of adaptation to changing circumstances.

7.7. I have looked at a full range of options from outright abolition of one or all of the statutory levies to 'no change to the existing arrangements'. Looking at these two extremes, I have concluded above that the case in principle for continuing with the levies is, at least for the time being, well-made. But I have concluded that some important changes need to be made to ensure that, in practice, the levies deliver what the industries need in the most effective way. I have therefore examined some intermediate options, looking first at options involving mergers between existing bodies. Such options do not meet the appraisal criteria well. They each fail on one or more of criteria two to four and none of them perform well against criteria one and five. I conclude that, to meet the business drivers I have identified, all of which are important, a new set of arrangements is needed.

I therefore recommend a move to a New Model that would recognise the importance of each of the key business drivers identified above.

7.8. The New Model has three components within a single structure, each component making its contribution to the overall requirements. The three components are:

- SectorCos, which are the basic 'building blocks' of the model, and would be responsible for the delivery of services close to the beneficiaries, thus addressing both criterion one ('accountability out') and criterion two;
- NewCo, which would be in the role of a 'holding company', thereby addressing criterion one ('accountability up') and acting as guardian of the common framework and other aspects of criterion three; and
- ServiceCo, which would be the vehicle for enhanced efficiency and reduced costs, thereby addressing criterion four.

7.9. Together, the components of the model provide a framework for meeting criteria one to four that is also capable of providing for the flexibility required by criterion five. The respective roles and responsibilities of each component, and the costs and benefits of change, are described in detail in Section V.

7.10. In **Section VI** I summarise the key steps that would need to be taken to implement the proposals I put forward in Section V. I identify four sets of issues that are crucial to the overall implementation arrangements:

- **Legislative and other public administration arrangements**. Most of the detail required to implement what is proposed will be in secondary legislation; however, certain 'enabling' primary legislation will be necessary. The Statutory Instruments that will give effect to much of the important detail will be complex and will involve consultation with all stakeholders. There is also a range of public administration tasks related to the creation of NewCo and the abolition of the levy bodies. It will also be necessary to obtain State Aids clearance from the European Commission for the new arrangements.
- **Project management arrangements**. These will be crucial to successful implementation. Defra and the Devolved Administrations will need to give very early consideration to arrangements for project sponsorship and oversight and to appoint a project manager to take things forward.
- **'Early Action'** items. There are three sets of these that merit special mention: communications, with all stakeholders but especially with levy body management and staff; the need for early management of important issues such as tax and pensions; and early recruitment to fill key positions in the New Model.
- **The timetable**. I have assumed implementation from the start of the 2007/08 financial year. This is a challenging timetable but should be achievable. And in view of the net benefits of change to levy payers there is considerable advantage in implementing change as rapidly as possible.

Glossary

AHLBF	Agricultural and Horticultural Levy Board Forum
AIMS	Association of Independent Meat Suppliers
APRC	Apple and Pear Research Council
ARF	Applied Research Forum
AWSF	Agricultural Waste Stakeholder Forum
BBRO	British Beet Research Organisation
BBSRC	Biotechnology and Biological Services Research Council
BEIC	British Egg Industry Council
BMPA	British Meat Processors Association
BNF	British Nutrition Foundation
BPC	British Potato Council
BPEX	British Pig Executive
BSE	Bovine Spongiform Encephalopathy
BWMB	British Wool Marketing Board
CAP	Common Agricultural Policy
CIF	Cereals Industry Forum
CLG	Company Limited by Guarantee
Defra	Department for Environment Food and Rural Affairs
DARD	Department of Agriculture and Rural Development Northern Ireland
DBES	Date-based Export Scheme
EBLEX	English Beef and Lamb Executive
EFSIS	European Food Safety Inspection Services
ERDP	England Rural Development Programme
EU	European Union
FISS	Food Industry Sustainability Strategy
FMD	Foot and Mouth Disease
FSA	Food Standards Agency
HCC	Hybu Cig Cymru – Meat Promotion Wales
HDC	Horticultural Development Council

HGCA	Home Grown Cereals Authority
HRI	Horticultural Research Institute
IPPC	Integrated Pollution Prevention and Control
LFA	Less Favoured Areas
MDC	Milk Development Council
MLC	Meat and Livestock Commission
NACM	National Association of Cider Makers
NBA	National Beef Association
NDPB	Non-Departmental Public Body
NFU	National Farmers' Union
NIAB	National Institute of Agricultural Botany
OCPA	Office for the Commissioner of Public Appointments
OFR	Operating and Financial Review
OTMS	Over 30 Months Scheme
PDO	Protected Designation of Origin
PGI	Protected Geographical Indication
PGRO	Processors and Growers Research Organisation
PMB	Potato Marketing Board
PMWS	Porcine Multisystemic Wasting Syndrome
PMS	Potato Marketing Scheme
PPC	Pollution Prevention and Control
PPIDC	Potato Industry Development Council Order
QMS	Quality Meat Scotland
R&D	Research and Development
RMIF	Red Meat Industry Forum
RPG	Sustainable Farming and Food Research Priorities Group
SAMW	Scottish Association of Meat Wholesalers
SEERAD	Scottish Executive Environment and Rural Affairs Department
SOLA	Specific Off Label Approval
SFP	Single Farm Payment
SPS	Single Payment Scheme
SSFF	Strategy for Sustainable Farming and Food
TAG	The Arable Group
WAGARAD	Welsh Assembly Government Agriculture and Rural Affairs Department
WDA	Welsh Development Agency
WFD	Water Framework Directive
WTO	World Trade Organisation
XAP Scheme	Export Approved Scheme

Annex A
Terms of Reference

"To undertake a cross-cutting and fundamental review of the rationale for, and role, organisation, funding and functions of the GB and UK statutory agriculture and horticulture levy bodies (the British Potato Council, the Horticultural Development Council, the Home Grown Cereals Authority, the Meat and Livestock Commission and the Milk Development Council), taking as given the devolution of agricultural policy and the federal bodies created post devolution under the umbrella of the Meat and Livestock Commission. The review should take account of:

- the evolution of the agriculture, horticulture and food industries in the UK, and their needs for future sustainable, competitive and diverse development;
- the roles and responsibilities specifically placed upon bodies by the responsible UK or devolved Ministers;
- the concerns of:

  - those organisations, businesses and individuals upon whom the statutory levy bodies impact (including levy payers and their representative bodies);

  - other relevant organisations and sector bodies (including the non-statutory levy bodies), and research and development and educational institutions;

  - and the wider stakeholder community (including rural, regional, environmental and consumer interests); and
- the respective strategic priorities of the UK Government and of the Devolved Administrations for their respective agriculture, horticulture and food sectors, and their relationship to them, including the organisation of the relevant government functions,

and, taking into consideration the prevailing EU policy and regulatory framework, make recommendations to Ministers of the UK Government and the Devolved Administrations for their respective interests, including, where changes to present arrangements are advocated, proposals on how those could be carried forward."

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Annex B
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Andy Lebrecht	Defra
Jon Lowi	Defra
Maurice McCartney	British Meat Processors Association

Sean McCurley	Tesco Stores Ltd
Prof. W A C McKelvey	Scottish Agricultural College
Bill McKenna	Defra
David McNair	Food from Britain
Richard Macdonald CBE	National Farmers Union
Prof. John Macleod	British Beet Research Organisation
Dr Penny Maplestone	British Society of Plant Breeders
David Mark	Agresearch
Dr Ray Marriot	British Herb Trade Association
Nick Marston	KG Fruits
John Martin	British Edible Pulse Association
Peter Martin	Lantra
Helen Mason	Defra
Michael Masters	Dairy Crest Direct
Dr Nafees Meah	Defra
David Middleton	Scottish Executive Environment & Rural Affairs Department
David Millar	Dept for Agriculture & Rural Development Northern Ireland
David Mitchell	National Farmers Union Scotland
Prof. J A Morris	Veterinary Laboratories Agency
Peter Morris	National Sheep Association
Tony Moulding	Welsh Assembly Government Agriculture & Rural Affairs Dpt
Ian Munnery	United Oilseeds Marketing Limited
Liz Murphy	International Meat Traders Association
Dr Donal Murphy-Bokern	Defra
Ivor Murrell	Malsters Association of Great Britain
Colin Myram	CM Consulting (UK) Ltd
Judith Nelson	Agricultural Industries Confderation
Rachel Newton	British Veterinary Association
Graham Nicholls	British Seed Potato Association
David O Connor	Allium and Brassica Centre
Rory O'Sullivan	Welsh Assembly Government Agriculture & Rural Affairs Dept
Professor John Oldham	Scottish Agricultural College
Nick Ottewell	AV Produce Limited
Arwyn Owen	Farmers Union of Wales
Sarah Palmer	National Federation of Young Farmers Clubs
Dr. Miles Parker	Defra
Peter Parr	The Leek Growers' Association
Chris Payne	National Horticultural Forum
Kathryn Payne	Royal Agricultural Society of England
Kevin Pearce	National Farmers Union
Andrew Perrins	Defra
Judy Perry	British Independent Fruit Growers Association
Ann Petersson	National Pig Association
Sonia Phippard	Defra
Stuart Platt	Defra

Prof. Chris Pollock	Institute of Grassland and Environmental Research
Robin Pooley	English Apples and Pears
Jeremy Pope	Milklink
Wayne Powell	NIAB
Andrew Praill	British Cattle Veterinary Association
Bob Price	Food and Drink Federation
Damien Quinn	Dept for Agriculture & Rural Development Northern Ireland
Meurig Raymond, MBE	National Farmers Union
Gerard Reilly	Defra
Philip Richardson	The Arable Group/ National Pig Association
Gerry Rider	Sustainable Livestock Production LINK Programme
Dr Katherine Riggs	Defra
Prof. Christopher Ritson	Cereals Industry Forum
John Robbs	Defra
Andy Robertson	National Farmers Union Scotland
Isla Roebuck	Scottish Association of Meat Wholesalers
Paul Rooke	Agricultural Industries Confederation
David Rutledge	LMC
Michael Shannon	Scottish Seed & Nursery Trade Association
David Shaw	Quality Milk Producers Ltd
Simon Shaw	Farmacy plc
Mike Short	Defra
Prof. Geoff Simm	Scottish Agricultural College
Andrew Slade	Defra
Colin Smith	Assured Farm Standards
Gerry Smith	Scottish Executive Environment & Rural Affairs Department
Jim Smyllie	Defra
Dr John Speers	Food Strategy Implementation Partnership
Sue Spence	Defra
Stephanie Spiers	Milk For Schools
Martin Staniforth	Royal Botanic Gardens
Emily Stirk	Defra
Prof. Peter R Street	Sustainable Arable LINK Co-ordinator
Martin Sykes	British Seed Potato Association
Lisa Szycllowska	Defra
Christine Tacon	Farmcare
Mike Tempest	LMC
Don Thomas	Welsh Lamb & Beef Promotions
Malcolm Thomas	National Farmers Union Cymru
Rad Thomas	Processors and Growers Research Organisation
Gerry Thompson	Meat and Wool New Zealand
Alison Tickner	Department of Health
David Toms	British Independent Fruit Growers Association
John Thorley	National Sheep Association
Jon Thornes	Cool Milk at School

Jeremy Tomkinson	National Non Food Crops Centre
Jonathan Tremayne	British Onion Producers Association
Charles Trotman	Country Land and Business Association
John Turner	FARM
Campbell Tweed OBE	Ulster Farmers Union
Gillian Van der Meer	Women's Farming Union
Gareth Vaughan	Farmers Union of Wales
John Vidal	Defra
Mary Visozo	Waitrose Limited
Helen Wakeham	Environment Agency
Kerr Walker	Scottish Agricultural College
Scott Walker	National Farmers Union Scotland
Steve Walton	Defra
Graham Ward OBE	Stockbridge Technology Centre
Simon Watchorn	National Pig Association
Michelle Waterman	Tesco Stores Ltd
Prof. C M Wathes	Farm Animal Welfare Council
Colonel H C Watson	The English Guernsey Cattle Society
John Watson	Scottish Seed & Nursery Trade Association
John Watson	Defra
Alex Waugh	National Association of British & Irish Millers
Steve Wearne	Food Standards Agency
Richard Weaver	Dairy Crest Direct
Sam Whittemore	Scottish Agricultural College
Alyn Williams	Welsh Assembly Government Agriculture & Rural Affairs Dept
David Williams	National Non Food Crops Centre
Mark Williams	British Egg Industry Council
James Withers	National Farmers Union Scotland
Peter Woad	Mushroom Growers Association
Alison Wray	Defra
John Wright	New Zealand Nuffield Scholar
Peter Wright	National Association of British & Irish Millers
Bill Yarr	Agresearch
Andrea Young	Defra
Erica Zimmer	J Sainsbury plc

Panels and Focus Groups

Focus Group on HGCA Stand at the Cereals Event
Focus Group on NFU Stand at the Cereals Event
Focus Group of Scottish Farmers at the Royal Highland Show 2005
Milk Development Council West Midlands Regional Committee
NFU Arable Focus Group at the Royal Show 2005
NFU Horticultural Panel
NFU Livestock Focus Group at the Royal Show 2005
NFU North East Regional Committee

Annex C
Governance and audit

Introduction

1. This Annex examines some key aspects of the governance arrangements of the levy bodies. First, it examines, for each body in turn, arrangements with regard to role, size and composition of the governing bodies and their ways of working, including key committees. Second, it looks at one important aspect of governance, that of audit committees, in more detail using, as a framework, the 'Audit Committee Handbook' produced by HM Treasury.[1]

The British Potato Council (BPC)

The governing body

2. The governing body of the BPC, the Council, is appointed by ministers (for England, Scotland and Wales). It has 16 members as follows:

- Twelve persons 'capable of representing the interests of growers'. Of these, nine will be growers whilst three will represent the industry beyond the farm gate. One of the growers must be a specialist seed potato producer and will also be Chairman of the Seed Sectoral Group.[2]
- One person 'capable of representing the interests of persons employed in the industry'.
- Two persons who are independent from the industry (the ministers must be satisfied that the persons have no financial or industrial interest that is likely to affect them in the discharge of their functions as members of the Council). The Chairman has to be one of the two independent members.
- One person having 'special knowledge of matters relating to the marketing or distribution' of products of the industry.

3. Defra advertises for Council members. Trade associations do not automatically have a right to nominate Council members. The industry representative organisations, and the Devolved Administrations, are consulted by Defra prior to appointments being made.

1 October 2003.

2 The Seed Sectoral Group is a statutory BPC Committee required by Order. It is responsible for reporting to the Council how its functions should be carried out in relation to the seed sector of the industry.

Committees

4. Committee members are drawn from Council members but each committee, with the exception of Audit,[3] also has industry representatives who are not Council members. On each committee, with the exception of Audit, there are five Council members and five external representatives, including people with supply chain expertise. The Chairman of the Council is a member of the Audit Committee (but not its Chairman) and an ex-officio member of other committees. The Audit Committee has four members.

5. BPC Committees exist for the following functions:

- Marketing and communications
- Research and development
- Market information
- Seed sector group
- Audit

Remuneration

6. The remuneration and taxable benefits of the Chairman in 2004/05 amounted to £65,357 (£63,970 in 2003/04). Council members were eligible for a £102 honorarium per meeting in 2004/05 (which was increased to £104.50 per meeting from 1 April 2005). The total cost of members' honoraria in 2004/05 is not separately identified in the accounts of the BPC; total expenditure relating to meetings totalled £59,202.

Meetings

7. The Council held 24 formal meetings of full Council and committees in the 2003/04 financial year.

8. Notices of Council meetings are all posted on the BPC website. Between October 2004 and June 2005 four meetings of the full Council were held: on 5 October 2004; 7 December 2004; 4 March 2005; and 7 June 2005.

9. As an illustration of matters discussed, the minutes of the meeting held in October 2004 record in detail the various issues. Items for discussion and approval include the financial report 2003/04 (previously approved by the Audit Committee), and the Business Plan 2004/05. There were discussions on the report of the Audit Committee; on Budget 2004/05; the quinquennial review of the BPC; R&D and knowledge transfer; marketing and communication issues; state aids; seed issues including ring rot; progress on establishing a grower panel; registration and levy collection issues; area monitoring; and crop loss due to flooding. The latter subject was debated because there were instances of producers who had recently lost a significant amount of crop due to flooding and some Council members wished to see levy relief re-introduced. The Council decided against levy relief although there were some dissenters.

3 See 'Audit Committees' below.

The Horticultural Development Council (HDC)

The governing body

10. The governing body of the HDC, the Council, determines the strategies and policies of the HDC; takes decisions over funding; and considers and approves, where appropriate, the recommendations of the committees and executive.

11. The Council of the HDC consists of an independent Chairman and 14 members, who are appointed by ministers (for England, Scotland and Wales). Members of the Council hold office for a term not exceeding four years. The independent member is the Chairman of the Council. The Council is made up as follows:

- Twelve persons 'capable of representing the interests of growers'.
- One person 'capable of representing the interests of persons employed in the industry'.
- One person (the Chairman) who is independent from the industry (the ministers must be satisfied that the person has no financial or industrial interest that is likely to affect him/her in the discharge of his/her functions as a member of the Council).
- One person having 'special knowledge of matters relating to the marketing or distribution' of products of the industry.

12. The following bodies, and the Devolved Administrations, are consulted by Defra in making appointments to the Council:

Grower posts
National Farmers Union
Soil Association
Horticultural Trades Association
Federation of Small Businesses
Country Landowners Association
Womens Food and Farming Union
Mushroom Growers Association

Marketing and distribution post
Fresh Produce Consortium
British Retail Consortium

Employee's representative post
TGWU

Committees

13. Nine committees report to the Council, of which seven are sector panels, one is an Appeals Committee and one is the Audit Committee. The Chairman and Chief Executive are ex-officio members of each committee. The Audit Committee is currently the collective body of the Council but it meets separately; it met twice in the 2004/05 year. The Appeals Committee considers hardship cases referred to it by the Chairman and Chief Executive; it considered two cases during the year.

14. Each sector panel consists of representatives elected by levy payers and, where appropriate, independent experts are also co-opted to give technical advice. A Defra science representative and trade association representatives are also invited to panel meetings. Each panel considers research proposals and assesses them against the needs of the sector and the priorities and criteria established by the Council. The seven sector panels are:

- bulbs and outdoor flowers;
- field vegetables;
- hardy nursery stock;
- mushrooms;
- protected crops;
- soft fruit; and
- tree fruit.

Remuneration

15. The Chairman is paid a remuneration approved by ministers, based on a minimum time to be spent on Council business. This amounted to £34,496 in 2004/05 (and £33,852 in 2003/04). Including pension contributions etc. the total cost to the HDC amounted to £44,169 in 2004/05 (£43,343).

16. Council members do not receive remuneration but are entitled to claim £100 a day for each day devoted to Council activities. The total for members' honoraria in 2004/05 was £5,572 (£5,200 in 2003/04).

Meetings

17. In the 2004/05 year, the full Council met four times: between October 2004 and July 2005 it met on 14 October 2004; 1 February 2005; 14 April 2005; and 14 July 2005. Papers for information for these meetings varied but all meetings received a finance report which, as a minimum, included information on levy income; levy collection; and research funds forecast, and a paper on projects for approval.

18. The meeting on 14 October, by way of example, had an agenda of 14 items including two items for approval: the minutes of the previous meeting and projects for Council consideration. Most of the other items on the agenda were for discussion, including a paper on the SOLA programme, and a paper on the Research Reserve Strategy. There was a paper for information on levy evasion.

The Home Grown Cereals Authority (HGCA)

The governing body

19. The governing body of the HGCA, the Authority, is appointed by ministers (England, Scotland, Wales and Northern Ireland) and consists of at least two (but no more than three) independent members. One of the independent members is the Chairman. Equal numbers of members represent either the interests of cereal growers or cereal dealers/processors. Of those members representing grower interests, there should be at least one member representing each of Northern Ireland, Scotland and Wales, and as many grower members as the minister considers adequate to represent the interests of farmers who feed cereals to livestock. In total the Authority must have at least twelve members and no more than 21 members. (In 2003/04 the accounts indicate that there were 16 Authority members). In addition to the Devolved Authorities, the following organisations are consulted over appointments to the Authority:

- Agricultural Industries Confederation (AIC)
- The National Farmers' Union (NFU)
- Grain and Feed Trade Association (GAFTA)
- Maltsters' Association of Great Britain (MAGB)
- The Incorporated National Association of British and Irish Millers (NABIM)
- British Poultry Council (BPC)

Committees

20. There are three HGCA Board Committees: audit; finance; and remuneration. Members of these committees are drawn from the Board members and are appointed by the Board. Each committee must have a minimum of three members.

21. In addition, there are four advisory committees and the current membership of these (as shown on the HGCA website) is as follows: British Cereal Exports (13 members); market development (8 members); market information (13 members); and R&D (17 members). The membership of the advisory committees is approved by the Board, following nominations from the industry representative bodies.

Remuneration

22. The remuneration of the Chairman in 2004/05 was £25,000; the Deputy Chairman received £10,000 and the remaining Board members received amounts not exceeding £4,446 each.

23. The total charge for Board members' remuneration revealed in the HGCA accounts for 2004/05 was £137,000; this includes the emoluments of the chairman and fees to directors of Crop Evaluation Limited (£18,000) and the advisory committee chairmen (£23,000). Board and committee members' travel and subsistence expenses amounted to £48,000.

Meetings

24. Between September 2004 and July 2005 the Board met on five occasions: on 15 September 2004; 17 November 2004; 19 January 2005; 20 April 2005; and 20 July 2005. The Board minutes confirm that the Board always covers Finance and Strategy; Operations; Authorisations and Approvals; and Other Relevant Issues. Taking the April 2005 meeting as an example, the Board discussed under the Finance section of the agenda a financial report from the Finance Director; the Review of the levy bodies; the NERC bill; and the HGCA's response to the Cereal Industry Review. Under Operations the Board discussed the annual business plan; the report of the Audit Committee and its remit; a report from the Chief Executive; a report from the Chairman; and committee structure. Under Authorisations and Approvals, the Board approved expenditure recommended by the Board and by Advisory Committees.

The Milk Development Council (MDC)

The governing body

25. The governing body of the MDC, the Council, is appointed by ministers (England, Scotland and Wales) and, according to the Milk Development Council Order 1995, should consist of two independent members, one of whom must be the Chairman; two members representing the interests of those employed in the industry; one member having special knowledge of matters relating to marketing; and at least two and no more than six members capable of representing the interests of producers.

26. Council members serve a term of office not exceeding four years and, on expiry, are eligible for re-appointment.

27. There is currently a full Council of eleven members, including seven producers.[4]

Committees

28. The MDC has nine committees:

- Farm Management
- Economics and Datum
- Finance
- Audit
- Communications
- Human Resources
- Market Development
- MDC Evaluations
- Promise Fertility

Remuneration

29. The Chairman of the MDC received emoluments of £33,999 in 2004/05 (£33,333 in 2003/04). No pension contributions are paid.

30. Council members can claim an honorarium of £150 per day in 2004/05 (£150 in 2003/04).

31. Council members' honoraria totalled £67,125 in 2004/05 (£66,600 in 2003/04), plus a further £56,784 in travel and subsistence expenses (£66,279 in 2003/04).

Meetings

32. Between July 2004 and July 2005 the Council met on seven occasions: on 29 July 2004; 30 September 2004; 18 November 2004; 15 February 2005; 4 April 2005; 25 May 2005; and 13 July 2005.

4 This would seem to be in contravention of the Milk Development Council Order 1995.

33. The majority of meetings of Council received specific reports from the various committees covering finance, market development, economics and farm management (technical information) where current issues, projects and expenditure were discussed. The meetings also considered any corporate issues and communications matters as necessary.

34. An example of matters discussed at Council meetings is provided in the minutes of the meeting of 29 July 2004, where there were eleven agenda items. Items for discussion included a review of strategic objectives (where the objectives that had been summarised at the previous Council meeting were confirmed or amended as appropriate); the creation of Dairy UK and the MDC's position regarding this new organisation; a possible review of levy bodies following the Haskins Review; and a communications strategy for the MDC. Reports were taken from the Audit Committee on the external audit and on the Freedom of Information Act, while reports from the Finance and General Purposes Committee provided a financial update and forecast in relation to the 2004/05 budget. The Farm Management Committee report provided an update on the team's benchmarking work and current projects, and the Economics Committee reported progress with forthcoming publications on dairy margins and Dairy Facts and Figures. It also provided an update on its market system model and interactive league table work. The Milk Development Committee reported on its 'teenage girls' project, on state aids issues, on exports, on educational materials and on its market segmentation project.

The Meat and Livestock Commission (MLC)

35. The MLC now operates through four devolved bodies: the British Pig Executive (BPEX); the English Beef and Lamb Executive (EBLEX); Quality Meat Scotland (QMS); and Hybu Cig Cymru (HCC). Arrangements for the MLC itself are considered below, followed by arrangements for each of the devolved bodies.

The MLC

The governing body

36. The governing body of the MLC, the Commission, including the Chairman and Deputy Chairman, are appointed by ministers (England, Scotland and Wales). Under the 1967 Agriculture Act, the Commission can have a maximum of 15 Commissioners: currently it has 11. In addition to the Chairman and Deputy Chairman, the other Commissioners at present include representatives of the four devolved meat bodies (EBLEX, BPEX, QMS and HCC); a Commissioner representing consumers (see below); representatives of the abattoir/processing sector; multiple retailers and food services sectors, and an independent farming/processing/organic sector representative.

Committees

37. The 1967 Act (as amended) requires the establishment of a Consumer Committee to give advice to the Commission. In addition to the Chairman of the Consumers Committee, who is also an MLC Commissioner, the Consumers Committee currently has seven members. There is also an Audit Committee, made up of four MLC Commissioners.

Remuneration

38. Under the 1967 Act, Defra pay remuneration and expenses to MLC Commissioners; these are not met out of levy income. An extract from the MLC 2005 Annual Report is reproduced below and shows the salary and expenses paid by Defra for the 2004/05 financial year, together with, in some cases, remuneration paid by the MLC.

Post	Salary/fees £	Expenses £	MLC salary £	Total £	2003/04 £
Chairman	70,960	41,645	–	112,605	73,812
Deputy Chairman	20,450	4,153	6,000	30,603	24,592
Chair: Consumers Committee	17,385	5,133	–	22,518	22,540
Independent farming and processing and organic farming representative	10,225	2,696	–	12,921	12,557
Chair: HCC	10,225	–	–	10,225	10,112
Chair: EBLEX	10,225	6,229	25,000	41,454	36,157
Chair: BPEX	10,225	16,065	10,000	36,290	32,225
Abattoir/processor representative	10,225	–	–	10,225	10,471
Retail and food service representative	10,225	–	–	10,225	10,112
Abattoir/processor representative	10,225	4,868	–	15,093	15,291
Chair: QMS	10,225	–	–	10,225	10,112
Chair: QMS (to 31 March 2003)	–	–	–	–	238
	190,595	**80,789**	**41,000**	**312,384**	**258,219**

During the year the Deputy Chairman was paid an honorarium of £6,000 by MLC for his chairmanship of the MLC Board of Pension Trustees (2004: £0); and the Chairs of EBLEX and BPEX were paid honoraria by MLC of, respectively, £25,000 (2004: £25,000) and £10,000 (2004: £10,000). £21,000 of expenses were payable by Defra to the MLC Chairman relating to the year ended 31 March 2004.

Meetings

39. Between July 2004 and June 2005 the Commission met on eight occasions, on 29 July 2004; 30 September 2004; 4 November 2004; 25 November 2004; 27 January 2005; 24 February 2005; 26 May 2005; and 30 June 2005. Summaries of the Commission meetings are posted on the MLC website. All meetings take an update from the 'devolved bodies' of the MLC. Other areas (such as technical, corporate, financial and strategic work) are covered as necessary when specific issues arise. A number of technical issues were discussed at every meeting, while financial, corporate and economic issues were addressed at most meetings. Other areas covered in meetings over the twelve month period included health and nutrition (such as food in schools); the sheep market; and promotion of red meat products in third countries.

40. An example of the Commissioners' meetings is provided in the summary of the meeting held on 29 July 2005. At this meeting there were a number of discussions, including the development of beef labelling under the Beef Labelling Regulations; and a letter from the MLC Chairman and others to the Prime Minister concerning the awaited ministerial decision on the Over Thirty Month rule. Other issues discussed included BCMS; ZAP and video image analysis of beef carcases. Three corporate issues (a proposal on the future of Winterhill House, the corporate plan and the efficiency and effectiveness review of the MLC) were also discussed. In addition to these discussions, Commissioners received updates on CAP Reform, the sheep market, the Diet, Health and Nutrition Action Plan, and an update from the Audit Committee. The devolved bodies provided an update on recent activities to support their strategies.

The Devolved Bodies: British Pig Executive (BPEX)

41. BPEX is an executive committee of the MLC. It has an executive board consisting of twelve members nominated by industry representative organisations. In addition to the Chairman (who is also a MLC Commissioner) there are four representatives from the British Meat Processors Association (BMPA), five representatives from the National Pig Association (NPA), one representative of NFUS, and one representative from the British Retail Consortium (BRC). Remuneration arrangements in respect of the Chairman were discussed above under the MLC.

42. Between July 2004 and July 2005 Board meetings were held on eight occasions, on 13 July 2004; 14 September 2004; 9 November 2004; 7 December 2004; 11 January 2005; 8 March 2005; 10 May 2005; and 12 July 2005. Summaries of board meetings are placed on the BPEX website. All meetings include a market briefing; an update on marketing activity; and an update on R&D or technical projects. Financial matters were covered at the meetings in July 2004, January 2005, March 2005, May 2005 and July 2005. In addition to current issues, corporate issues (such as improving BPEX working procedures) and strategic issues (such as the BPEX 'Road to Recovery' review) were discussed as necessary.

43. Examples of matters discussed at the board meetings are provided by the summary of the meeting on 10 May 2005. At this meeting, the BPEX finance summary for 2005 was accepted, and there were discussions on the future relationship of BPEX and QMS, the future BPEX strategy for Research, Development and Knowledge Transfer, the future of the British Meat Quality Standard Mark in the light of the launch of the new Red Tractor standards and logo, and the roles and responsibilities of BPEX board members. Board members were presented with a paper that reviewed the pig market, and received an update on marketing activity. Under the technical activity report, the board approved the funding of a project to investigate the variation in killing out percentages but requested that the six month timescale be reduced if possible.

The Devolved Bodies: English Beef and Lamb Executive (EBLEX)

44. EBLEX, like BPEX, is an executive committee of the MLC, with its own executive Board. The Chairman of the Board is a MLC Commissioner. There were ten other members in 2004/05. The Board consisted of three representatives of the BMPA, three representatives of the NFU, one representative of the National Sheep Association (NSA), one representative of the National Beef Association (NBA), one member of the Livestock Auctioneers Association, and one representative of the Association of Independent Meat Suppliers. Remuneration arrangements in respect of the Chairman were discussed above under the MLC.

45. Between July 2004 and July 2005 the Board met on six occasions, on 27 July 2004; 21 September 2004; 30 November 2004; 1 February 2005; 19 April 2005; and 21 June 2005. The minutes reveal that all the meetings considered marketing strategy, while the majority of meetings covered finance issues such as financial performance and reports from the EBLEX Finance Committee and the MLC Finance Department. Other areas that were discussed as necessary over the twelve month period included corporate issues (such as the future organisation and structure of regional team activities); trade issues such as a 5-year export strategy; and technical issues such as the introduction of a quality standard for minced beef and products and a review of sheep breeding technology.

46. An example of matters discussed at board meetings is provided by the minutes of the meeting on 27 July 2004 when there were eleven agenda items. Items for discussion included EBLEX's input to the MLC Corporate Plan for 2004-2007, and a review of the EBLEX regional team activities and proposals for its future organisation and structure. There were a number of reports, including a budget and financial report for EBLEX's first quarter activity, an update on the implementation of the EBLEX balanced score-card, and an update on the gap analysis between safe and legal standards and the ABM standards for abattoirs and cutting plants.

The Devolved Bodies: Quality Meat Scotland (QMS)

Governing body

47. MLC has delegated its functions to QMS in respect of Scotland. QMS is a private not-for-profit company, limited by guarantee, that is fully accountable to Scottish ministers and the Scottish Parliament for the use of that part of the levy derived from Scotland. QMS has three members: the MLC; NFU Scotland; and the Scottish Association of Meat Wholesalers (SAMW). A separate full annual report and accounts are published for QMS in October of each year and these are submitted to the Scottish parliament. The latest available report is in respect of 2003/04.

48. The current board of directors of QMS consists of 13 members, including the Chairman (who is appointed according to OCPA Code of Practice) and the Chief Executive. The Chairman is also a MLC commissioner. The members of QMS appoint their own Board members.

Committees

49. QMS has the following committees: audit and remuneration; beef & lamb forum; pig forum; standards co-ordinating body; R&D; health, education & diet; standard setting body (pigs); standard setting body (feeds); standards setting body (cattle & sheep); standard setting body (auction marts); and standards setting body (haulage).

Remuneration

50. The accounts do not provide details on the remuneration of the Board directors. The 2003/04 accounts show a total of £579,344 was paid for salaries and directors fees (but this figure includes the 15 staff employed by QMS) and out of this total, the emoluments of the directors were £146,442 which was 'emoluments for qualifying services' (no definition of this is provided).

Meetings

51. Between July 2004 and July 2005 the Board met on eleven occasions, on 1 July 2004; 2 September 2004; 5 October 2004; 4 November 2004; 9 December 2004; 3 February 2005; 3 March 2005; 7 April 2005; 5 May 2005; 2 June 2005; and 7 July 2005. The Board minutes indicate that reports are always received from the Chairman and the Chief Executive; there is also a financial report, activity reports and a market update. Other areas covered during the past twelve months, which are discussed as necessary, include technical issues (such as benchmarking, EU hygiene regulations and feed & haulage standards) and corporate issues (such as the corporate plan, risk management policy and a communications plan).

52. An example of matters discussed at the Council meetings is provided in the minutes of the meeting of 1 July 2004 where there were eleven agenda items. Items for discussion included an update on action points from the previous meeting; discussion of Scotch Beef PGI and OTM labelling; and the Framework Agreement (QMS management statement and financial memorandum). There was also discussion under action points from the previous meeting and under any other business, which included discussion about the effectiveness and administration of a National Envelope. The meeting took reports from the Chairman and Chief Executive, a financial report, a report on activities and a market update. There was also a presentation on the general QMS export strategy and opportunities for OTM. Agreement was reached on how to proceed with two of the issues (PGI & OTM Labels and the effectiveness and administration of a National Envelope).

The Devolved Bodies: Hybu Cig Cymru (HCC) - Meat Promotion Wales.

Governing body

53. HCC is the strategic body for the promotion and development of red meat in Wales and is a company limited by guarantee. Its members are the MLC and the Welsh Development Agency, who appoint directors to the board. HCC has eight directors, including the Chairman (who is also a MLC Commissioner) and four alternates.

Committees

54. The only committee of the HCC is the audit committee.

Remuneration

55. Directors' emoluments for 2004/05 totalled £54,859 (£53,030 in 2003/04), composed of fees of £45,593 (£49,833 in 2003/04) and expenses of £9,266 (£3,197 in 2003/04). No further breakdown is given in HCC's accounts.

Meetings

56. Between July 2004 and July 2005 the Board met on ten occasions, on 3 September 2004; 1 October 2004; 5 November 2004; 3 December 2004; 4 February 2005; 4 March 2005; 1 April 2005; 6 May 2005; 3 June 2005; and 1 July 2005. In addition a minuted conference call was held on Friday 10 June.

57. The Board minutes indicate that always covered at Board meetings are 'HCC Activities and Market Report' and 'HCC Financial Report', while other matters are covered as necessary. For example, at the meeting on 1 April 2005, the Board discussed forthcoming events that HCC would be involved with, the HCC scholarship for 2005/06, the latest market report, and the formation of a sub-group that would focus specifically on Farm Health Plans. Under the 'HCC Financial Report' item, the Board agreed that the HCC would opt for an audit of the annual accounts in line with best practice and good governance. Other areas covered on 1 April included current issues arising, an update of R&D activities and the adoption of the minutes of the Audit Committee meeting on 4 March 2005.

Audit Committees

58. The role of audit committees in the levy bodies is of great importance. In this part of the Annex the role of the audit committees in the different bodies is assessed using the 'Audit Committee Handbook' produced by HM Treasury. The Handbook sets out good practice guidance and ten policy principles for Audit Committees of NDPBs, and this framework is used below. For each principle there is a short summary of the different approaches in each body. This is followed by a brief summary of points from the minutes of Audit Committee meetings of the various bodies that have been examined as part of this Review.

1. On the principle of having an Audit Committee

"Audit Committees should be established in all NDPBs."

- All the statutory levy bodies, with the exception of the MDC, have Audit Committees that report directly to the Board. The following have additional committees:
  - The HGCA has a Finance Committee. This reviews budgets before submission to the Board and also reviews the rate of levies and appropriate level of reserves.
  - The MDC has a Finance & General Purposes Committee which undertakes some activities, such as advising Council on financial and accounting policy, which would otherwise fall to an Audit Committee. The Audit Committee is a sub-committee of the Finance and General Purposes Committee and its role is to advise that Committee and the Chief Executive on the adequacy of audit arrangements.

2. On the role of the Audit Committee

"The Audit Committee is appointed to support the Accounting Officer (and the Board in NDPBs) in monitoring the corporate governance and control systems in the organisation. The objectivity of the advice given is enhanced if the Audit Committee is chaired by a non-executive or independent external member."

- The BPC Audit Committee is chaired by a growers representative.
- The HDC Audit Committee is chaired by the (independent) Chairman of the Council.
- The HGCA Audit Committee is chaired by an independent member.
- The MDC Audit Committee is chaired by a producer and the Finance Committee is chaired by a farm manager.
- The MLC Audit Committee is chaired by an independent member.
- The QMS Audit Committee is chaired by a representative of the meat auctions sector
- The HCC Audit Committee is chaired by a board member who is also President of NFU Cymru.

3. On the Audit Committee relationship with the Board:

"In NDPBs, the Audit Committee should be a committee or sub-committee of the Board. The Audit Committee should corporately own an appropriate skills mix to allow them to carry out their overall function. In some small bodies the Board may sit separately as the Audit Committee."

- The BPC Audit Committee consists of three Council members nominated and elected by the Council as well as the Council Chairman (ex-officio). Its proceedings are reported to the Council.
- The Council of the HDC sits separately as the Audit Committee.[5]
- The HGCA Audit Committee consists of three members appointed from amongst members of the Board. The Chairman is appointed by the Board and has to be a member of the Board but not its Chairman.
- The MDC Audit Committee is chaired by a Council member and the minimum membership of the Audit Committee is three. The members of the Audit Committee are those "members as the Finance and General Purposes Committee deems advisable".
- The MLC Audit Committee has four members, all of whom must be non-executive Commissioners.
- The QMS Audit Committee consists of three non-executive directors of the QMS Board, who are appointed by the Board. It is a requirement of the Terms of Reference that at least one member should have appropriate knowledge of financial reporting, accounting or auditing.
- The HCC Audit Committee consists of four non-executive directors, who are appointed by the HCC Board. One of the four acts as Chairman and is appointed from within the Committee.

4. On using non-executives of the Board:

"In bodies which have non-executive members on the Board the membership of the Audit Committee should be drawn as far as possible from these non-executive members."

- The BPC has two independent members including the Chairman. The Chairman of the BPC sits on the Audit Committee as an ex-officio member; the other independent member is not a member of the Audit Committee.
- As mentioned above, the Council of the HDC sits as the Audit Committee.
- One of the independent members of the Board chairs the Audit Committee of the HGCA. The other independent member, who is Chairman of the Board, normally attends the Audit Committee.
- One of the independent members of the MDC is a member of the Audit Committee of the MDC. The other independent member, who is Chairman of the Council, normally attends the Audit Committee.
- All the members of the MLC Audit Committee are non-executive Commissioners.
- All the members of the QMS Audit Committee are non-executive members of the Board.
- All the members of the HCC Audit Committee are non-executive members of the Board. The Chief Executive and the Finance Manager normally attend meetings.

5 Note that the guidance in the Handbook suggests that when the Board sits as the Audit Committee measures should be taken to enhance its objectivity such as having a non-executive chair for the Committee.

5. On independent external members:

"In bodies which have insufficient non-executive Board members, appropriate individuals should be sought for appointment as independent external members of the Audit Committee."

- The BPC's and HGCA's Audit Committees are authorised by the Council to "secure the attendance of outsiders with relevant experience and expertise if it considers it necessary". From the minutes made available to this review it does not appear that either body considers this right needs to be exercised.
- There is no provision for independent external members of the HDC or MDC Audit Committees.

6. On the use of executives on the Audit Committee:

"In those organisations which have a sufficiently large number of senior executive staff, the members of the Audit Committee with executive responsibility in the body (other than the Accounting Officer) should be rotated on an appropriate cycle (3 years will generally be appropriate) to provide for objectivity in the long term and to avoid the development of an apparent 'right' of a particular executive interest to be represented on the Audit Committee."

- The levy bodies are, in general, too small to allow for rotation of executive officers.
- The Terms of Reference of the MLC list those that may be invited to attend so there does not appear a problem of any 'right' of attendance emerging. The Secretary of the Audit Committee is the Company Secretary "*or such other person as nominated by the Committee*".

7. On the size of the Audit Committee:

"The number of members on the Audit Committee should ideally be in the range of three to five members. The Chief Executive and the Finance Director should normally attend meetings, as should the head of internal audit and the external audit representative. Membership count should not include those who regularly attend but are not members of the Audit Committee."

- The size of the Audit Committees is in accordance with the guidance for the BPC, HGCA, MDC, MLC, QMS and HCC. HDC, as was indicated above, sits as its own Audit Committee.

8. On the terms of reference of the Audit Committee:

"Audit Committees should have documented terms of reference from the Accounting Officer/Board. The exact role will depend on the particular organisation e.g. depending on whether or not a separate risk management committee has been established."

- The BPC, HDC, HGCA , MDC, MLC, HCC and QMS all have documented Terms of Reference. The most comprehensive, and most clearly in compliance with the guidance, are the Terms of Reference for the MLC Audit Committee.
- The Terms of Reference for the HDC's Audit Committee are narrowly focused on audit and do not specifically cover strategic processes for risk, control and governance (this might reflect the fact that the Council sits as its own Audit Committee).

9. On audit access to the Audit Committee:

"The head of internal audit and the senior member of the external audit team should have right of access to the Audit Committee."

- The Terms of Reference for the BPC Audit Committee provide for *"the external auditors, the internal auditors, the Chief Executive, the Head of Finance and any employee to the Council to bring any relevant matter to the attention of the Committee."*
- The Terms of Reference for the HDC do not state what the membership of the Committee is or who has a right to attend.
- The Chief Executive of the HGCA and the Director of Finance normally attend meetings. In addition, there is a provision in the Audit Committee's Terms of Reference concerning whistle-blowing, whereby the Committee shall review the HGCA's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.
- The Terms of Reference for the MDC state that the Audit Committee has the power to call all staff and members of the Council to give an account, explanation or information as required. The external auditors can be invited to attend meetings of the Audit Committee.
- The Terms of Reference for the MLC state that: *"Internal Audit and representatives of External Audit have a right of access to the Committee and free and confidential access to the Chairman of the Audit Committee."*
- The Terms of Reference for QMS provide for the Audit Committee to instruct the independent accountants to communicate directly to the Committee any serious difficulties or disputes with management.
- The Terms of Reference for HCC provide for the Committee to discuss problems and reservations arising from audits and any matters the external auditors may wish to discuss (in the absence of management where necessary). The Terms of Reference also provide for external auditors to request a meeting if they consider that one is necessary.

10. On meetings of the Audit Committee:

"The Audit Committee should meet regularly and normally at least four times a year. Some smaller organisations with a smaller Audit Committee workload may find that three meetings are sufficient."

- The BPC's Audit Committee meets at least four times a year.
- The HDC Terms of Reference state that meetings will be held twice a year.
- The HGCA Terms of Reference specify that the meetings will be "held as necessary and normally two times a year to coincide with the audit cycle".
- The MDC Terms of Reference state that the Audit Committee will meet at least annually to consider the management report of the external auditors and additionally as deemed necessary by the Council or the Finance and General Purposes Committee.

- The MLC Terms of Reference state that meetings shall be held not less than four times a year.[6]
- The QMS Terms of Reference state that the Committee will meet twice annually, or more frequently as circumstances dictate.
- The HCC Terms of Reference state that the Committee will meet at least three times a year and at such other times as it sees fit.

Summary of points from Audit Committee meetings

The BPC

59. Minutes of meetings on 27 April 2004, 4 October 2004, and 6 December 2004 have been reviewed.

60. The external auditor (Mazars) noted that he had received the right information on time and that everything had worked extremely well. He noted the achievement of a 'nil' management letter.

The HDC

61. Minutes of meetings on 14 July 2005 and 1 February 2005 have been reviewed.

62. The minutes of 14 July 2005 noted that the audit had been carried out without problems. The external auditors did draw some points to the Committee's attention; in particular, it was recommended that the accounting systems and procedures should be fully documented and the controls in place for each process should be set out.

The HGCA

63. Minutes of meetings on 23 August 2005, 24 February 2005 of the Audit committee have been reviewed; in addition the notes of the Finance Committee of 23 August 2005 have also been reviewed.

64. The 23 August minutes noted that the accounts had been prepared and audited within seven weeks of the year end (which was praised as an achievement) and that the NAO would again issue an unqualifed report.

The MDC

65. Minutes of meetings on 9 September 2004, 11 November 2004, 10 January 2005, 4 May 2005 and 12 July 2005 have been reviewed.

66. Attached to the minutes of 12 July 2005 was a NAO Internal Control Weakness Letter 2004/05, which covers five issues: verification of levy collection, wholesale contracts, accounting system, modified historic cost accounting and internal audit.

67. On a separate matter from the same minutes the Audit Committee expressed "some concern that the original timescale had slipped" on updating the Operations and Procedures Manual and also "emphasised that these documents must be approved by the Audit Committee…."

6 It should also be noted that, on an annual basis, part of the Audit Committee meeting is open to industry representatives to allow a review of Commission finances.

68. From the minutes of the 4 May 2005, it appears that the Audit Committee "was disappointed that not all the relevant narrative reports had been submitted by operational managers" for the draft Annual Report 2004/05. Later on in the minutes, concerning the Operations Manual, it was noted that "there was some concern that these initiatives had not been seen and obtained the approval of the audit committee before being launched."

69. The minutes of 15 July 2004 record discussion on the Internal Control Weakness Letter 2003/04 and the MDC's response. The external and internal auditors had expressed concerns about the composition of the audit committee.

The MLC

70. Minutes of meetings on 4 November 2004, 23 February 2005, 25 May 2005 and 28 July 2005 have been reviewed. They are all extremely comprehensive.

71. The minutes of 23 February noted that there were issues surrounding the accountability and presentation of HCC's accounts. It was noted that, as HCC is a limited company, the NAO is not able to audit their accounts. It was proposed therefore that HCC retain their current audit arrangements and NAO would then comment on their audited accounts.[7]

QMS

72. Minutes of meetings of 3 June 2004, 17 January 2005, 7 April 2005 and 7 July 2005 have been reviewed.

73. The minutes of 17 January recorded that the Chief Executive intended to commission an internal audit of QMS systems as the annual audit only focused on financial issues. The minutes of 7 April recorded that internal audit had now been included in the Business Plan.

HCC

74. Minutes of meetings on 4 February 2005, 4 March 2005, 25 May 2005 and 1 July 2005 have been reviewed.

75. The notes of 4 February recorded that Baker Tilly, HCC's auditors, had conducted an interim audit visit to review procedures and systems. The auditors had not raised any issues of significance. The minutes of 25 May recorded that the Finance and Administration Manager had presented the draft accounts. Baker Tilly's representative was complimentary on the standard of the accounting systems within HCC.

7 The proposed process was necessary to ensure that there was not a loss of Parliamentary accountability.

Annex D
Activities of the levy bodies

Introduction

1. This Annex examines the activities of the five levy bodies over the last five years. It looks at each body in turn, drawing in the main on material published by the bodies in their Annual Reports and elsewhere.

The British Potato Council (BPC)

2. The main operations of the BPC are Research and Development (R&D); technology transfer; market information; promotion; the activities of the seed strategy group; export promotion; and storage work at the Sutton Bridge Experimental Unit (SBEU).

3. The BPC's mission, as described in its Report and Accounts for 2000/01, was to:

"stimulate, promote and develop the British potato industry."

4. The BPC:

"set out to assist the industry to:
- *Raise consumption by 10% over 5 years;*
- *Improve quality standards and ensure food safety;*
- *Reduce the unit costs of production."*

5. The main items of expenditure on activities in **2000/01** (other than administration and levy collection) were marketing, R&D, market information & technology transfer, and export- and seed- related activities.

6. It was noted in the Annual Report that, at the end of its fourth year, (the BPC was established in 1997), it had been involved in funding 82 research projects (including 11 via LINK) covering breeding and variety evaluation; crop agronomy; crop protection; mechanisation and storage; and crop utilisation. New projects were commissioned during the year on agronomy (four projects), crop protection and seed health (three projects), and crop utilisation (one project).

7. Communications, market information and technology transfer (MITT) were classified as a single activity. Under this heading a range of specific activities was covered, including the work of ten field managers and two supply chain managers. The latter were appointed to work more directly with pre-pack and processing supply chains as well as assisting with the development of benchmarking tools. Communications were through the BPC's website; Eyewitness (a potato industry digest updating levy payers on R&D results and other aspects of the BPC's work); statistical services; fax/email bulletins;

telephone crop and price reports; BBC Ceefax; Agronomists workshop and bulletins; MITT meetings (regional meetings); events (including a major field day at Harper Adams College); technical literature; technical enquiries; and press liaison.

8. To promote potato consumption, campaigns were run as follows: a Main Crop campaign launched in the autumn; a National Chip Week held in February; and an "Earlies" campaign to support new potatoes. Other promotional work included the promotion of British exports of potatoes through the provision of market research inward and outward missions, provision of export statistics, direct communications with worldwide contacts, enquiry and information services, exhibitions and conferences and export award (BPC sponsored the Potato Exporter of the Year award).

9. The promotion of quality seed was undertaken through the funding of variety trials, growers' guides, a cost benefit analysis resulting in the provision of a computerised spreadsheet to allow growers to benchmark their costs of production, seed-related technology transfer, and a seed forum to discuss technical seed issues. A Nuffield scholarship was awarded, a benchmarking survey on seed customers' satisfaction was conducted, and a 'physiological ageing' workshop was conducted.

10. Turning now to the **2001/02** year, the main items of expenditure were the same. At that time it was noted that the BPC had by then been involved, since its inception, in funding 89 research projects (including 13 via LINK) covering breeding and variety evaluation; crop agronomy; crop protection; mechanisation and storage; and crop utilisation. New projects had been commissioned during the year on agronomy (three projects), crop protection and seed health (three projects), and crop utilisation (two projects).

11. The MITT activities were similar to the previous year with the use of the BPC website, Eyewitness, statistical services, fax/email bulletins, telephone crop and price reports, BBC Ceefax, agronomists' bulletins, MITT meetings (regional meetings), events (including a specialist Potato Storage Event at Sutton Bridge), technical literature, technical enquiries and press liaison.

12. As in the previous year, there were promotional campaigns in respect of Main Crop and Earlies, and a National Chip Week was organised. A similar range of activities aimed at promoting exports was also undertaken.

13. The promotion of quality seed continued through the funding of variety trials, growers guides, seed-related technology transfer, a seed forum to discuss seed technical issues, and a Nuffield scholarship. The earlier benchmarking survey on seed customers' satisfaction was used to guide seed strategy and a Seed Industry Conference was organised.

14. A fundamental review of activities was carried out by the BPC in 2002/03 and resulted in some changes in emphasis. The Annual Report for 2002/03 stated the following:

"BPC activities aim to:
- *increase usage of potatoes;*
- *ensure that the GB industry is competitive going forward so that it can take advantage of opportunities."*

15. Principal activities in **2002/03** were:

- identifying and commissioning R&D projects appropriate to the near market needs of the industry, taking into account R&D work carried out by other organisations;

- communicating R&D findings to the industry and encouraging their uptake;
- collecting market information/statistics and disseminating these in a manageable and effective way;
- undertaking targeted consumer marketing activities and joint promotional work from grower to retailer;
- encouraging cross-industry communication to improve competitiveness and supply to consumers;
- examining and promoting integrated crop management practices to ensure sustainable potato production while safeguarding the environment; and
- promoting and developing export trade.

16. A number of specific activities undertaken in 2002/03 were identified. The BPC invested heavily in consumer research; market research was commissioned to improve understanding of buying criteria; further development of the website was undertaken; statistical services were provided; variety trials continued; and exploratory work on non-food crop uses was undertaken. A new marketing strategy was introduced in October 2002, which led to three new marketing campaigns: National Chip Week; Health (May to August); and Convenience (September to November). The BPC also implemented campaigns on blight, water and seed management. During the year a special workshop was staged for local authority caterers. BPC also continued to develop an educational website and to continue its work on export promotion, including missions. A new annual event was inaugurated: the BPC Seed Industry Conference. The seed forum continued to meet. Eight new R&D projects were started during the year and a number of knowledge transfer activities were undertaken including agronomists' bulletins, KT meetings and events, the provision of technical literature, and benchmarking.

17. In line with the previous year, in 2003/04 the BPC described all its expenditure as either increasing usage or increasing competitiveness. The BPC 'frontline' expenditure was on R&D (29%), marketing (27%), knowledge transfer (21%), market information (13%) and export & seed (9%). The activities completed in 2003/04 included the following:

- Undertaking work to clarify the current total size and structure of the GB market, completing research on the BPC's Meal Occasion Model, publishing of import and export statistics and communication of information on the supply situation.
- All newly commissioned R&D was required to have a KT plan.
- Developing the BPC website and staging key events such as British Potato 2003.
- Maintaining technical and advisory services.
- Presenting results from seed management R&D at industry meetings, including a seed KT campaign, open days, etc.
- Reviewing previous R&D and agreeing to a new project on improving crop uniformity.
- Delivering a blight campaign, including production of advice sheets, and a blight map.
- Continuing the R&D programme on management of blight, PCN, wireworm, aphids, fungal and bacterial pathogens.
- Reviewing and commissioning work on black dot, Rhizoctonia, skin spot, Spraing, aphid resistance & virus and PCN.
- Commissioning research on potato disease diagnostics and completing a PCN management model.
- Providing the industry with information on aphid populations via the internet.
- Initiating a ring rot awareness campaign and activities to raise awareness of growers on the benefits of good quality seed.

- Establishing detailed processing quality criteria through supply chain meetings and using information to commission appropriate research.
- Disseminating trials data on processing quality.
- Undertaking ongoing activity on residue issues affecting potato production and commissioning work on protection arising from EU and national legislation and consumer and environmental concerns.
- Developing a seed version of the benchmarking tool.
- Completing a gap analysis and commissioning R&D on bruising sensitivity at harvest.
- Identifying agricultural training institutions and providing them with BPC material.
- Undertaking a project in conjunction with the Health and Safety Executive and the Frozen and Chilled Potato Processors Association to produce a Health & Safety CD on potato haulage.
- Demonstrating further developments on benchmarking to growers, etc.
- Undertaking a number of activities concerned with affordable water, including case studies and the use of existing R&D to quantify benefits in terms of crop yield and costs and benefits.
- Reporting on progress with seed exports and funding of missions to help re-open a major export market following plant health concerns, organising of national list/variety trials in Lebanon and Turkey, holding a Seed Industry event, and undertaking specific industry events to bring the seed supply chain together.
- Undertaking various activities to improve understanding through the 'fish and chip' supply chain.
- Undertaking various other promotional activities.

18. In **2004/05**, the BPC reported that its main R&D priorities were size and uniformity of potatoes, pests and diseases, processing quality, residues, seed, storage and damage and bruising. The knowledge transfer priorities were blight, seed management storage, bruising, water and soils. A number of supply chain projects were highlighted, such as benchmarking; health and safety, including training and accreditation; establishment of a 'Safe Haven Accreditation Scheme'; export promotion; an Eastern European study tour, and various industry events such as the Seed Event. The market information and statistics division of BPC produced data on current prices and in-season statistics, and were also responsible for the maintenance of a historical database. A number of marketing activities were referred to, including undertaking and communicating the results of consumer research and execution of PR campaigns (e.g. Health) to educate children.[1]

19. In addition to the activities described above, the **Sutton Bridge Experimental Unit** (SBEU) is a wholly owned subsidiary of the BPC. It undertakes research and development as well as the provision of educational information and advice on storage. Its activities include BPC-funded storage trials and externally-funded research contracts (it has an international customer base). It provides advisory activities such as technical meetings and events, a 'storage advice line', regular bulletins, a discussion forum and training courses and publications and press articles.

The Horticulture Development Council (HDC)

20. The HDC's aim has recently been updated; it is now:
"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. In

1 Information taken from a pack provided to this Review on 19 May 2005.

addition the Council will sponsor market research or promotion of specific products where there is shown to be a collective need for such activity. The Council should provide clear value for money and be respected as making a major contribution to the profitability of the British horticultural industry."

21. The principal focus of the HDC is the commissioning of scientific near-market R&D, through horticultural research contractors such as Warwick HRI, for all sectors within its remit. It also aims to ensure that knowledge transfer is achieved, i.e. that the information generated by R&D activity is transferred in usable form to growers, who can then act upon it.[2]

22. R&D funding can be broken down by sector, such as mushrooms, field vegetables etc., or by category. The categories of R&D funding are: crop protection; labour utilisation/ergonomics; product scheduling/supply chain work; substrates/fertilisers/seeds/other inputs; varieties/product quality/market opportunities; water and energy management; and waste management/environment. HDC, like the BPC, also participate in LINK schemes.

23. The 'Report on Operations' section of the HDC's Annual Report for **2000/01** states that there were 116 ongoing projects and 22 new projects, leading to a total of 138 R&D projects being funded during the year.

24. The HDC also launched a studentship scheme in 2000/01, with the granting of a doctoral (PhD) studentship.

25. To maintain growers' access to plant protection products, the HDC continued to support residue trials and work to generate other supporting data for Specified Off-Label Approvals (SOLA) for plant protection products, as well as funding the applications. 82 SOLAs were successfully obtained during 2000/01. The HDC, together with CSL, delivered a 'Crop Protection Matrix' providing growers and other potential users with an up-to-date, straightforward summary of crop protection agents available, simple access to more detailed information, and a tool to highlight where problems might occur.

26. Communication activities included redeveloping the HDC website; introducing a free 'weekly highlights' email service to members; the start of delivery of SOLAs electronically; a new series of 'pest & disease' cards; updating the weed control handbook; and producing two lighting guides for growers and an update on peat alternatives. The HDC also organised or participated in conferences, seminars, workshops, grower walks, open days, and trade exhibitions.

27. The 'Report on Operations' section of the HDC's Annual Report for **2001/02** states that there were in that year 92 ongoing R&D projects and 44 new projects, leading to a total of 136 HDC-funded R&D projects during the year. The HDC continued to support its Studentship Scheme and awarded grants to three successful students, bringing the total to four.

28. A total of 85 SOLAs were obtained during 2001/02. Work was undertaken on a Pesticide Gap Analysis, which was of use in discussions with agrochemical companies and in pesticide screening trials and for the identification of work for the SOLA programme. The HDC also hosted a meeting of other Northern European EU Member States to discuss a proposal for a database of residues trial data.

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2 To facilitate its R&D activities, the HDC works through a series of seven sector panels, covering bulbs and outdoor flowers; field vegetables; hardy nursery stock; mushrooms; protected crops; soft fruit; and tree fruit. For further details see Annex C.

29. Further development of electronic communications took place, with new software models to help on pest and disease control and cultural systems. Publications during the year included 23 fact sheets, a grower guide on micro-turbine CHP units, more 'pest & disease' identification cards and a guide to complement the CO2 optimiser software programme. The HDC organised or participated in 27 conferences, seminars, workshops, grower walks, open days and trade exhibitions.

30. The 'Report on Operations' section of the HDC's Annual Report for **2002/03** states that there were in that year 80 ongoing R&D projects and 16 new projects, leading to a total of 96 HDC-funded R&D projects during the year. The HDC continued to support its Studentship Scheme and awarded grants to two successful students, bringing the total to six.

31. A total of 34 SOLAs were obtained during 2002/03. Little information is given in the Report on communications activities in 2002/03, apart from the fact that further enhancements were made to the crop protection matrix and that the gap analysis was updated. The HDC website was also developed further.

32. The 'Report on Operations' section of the HDC's Annual Report for **2003/04** gives details of its main activities. It also notes that from 1 April 2003 the functions of the Apple and Pear Research Council were to be merged with those of the HDC and so a new Tree Panel was to be created to cover apples, pears, plums, cherries, and nut crops. It would support 11 new projects. There were 77 on-going R&D projects, and 83 new projects, amounting to 160 HDC-funded projects in total. There was an increased spend on water and energy management, and an increase in focus on supply chain and quality issues and the development of new varieties. The HDC continued to support its Studentship Scheme and awarded grants to two successful applicants, bringing the total to seven HDC-supported students during the year.

33. More than 200 SOLAs were successfully obtained during the period. A pesticide gap analysis for the Edible Crops Sector was used in discussions with agrochemical companies and as a basis for discussion with other EU Members. A similar exercise for ornamentals was also commissioned. A prototype database for residues data was developed in collaboration with CSL, and HDC data (plus data from Germany and Denmark) was used. A strategic review of decision support systems was also undertaken.

34. HDC published further fact-sheets, guides, videos and wall-charts. There was an increase in electronic communications and a reduction in the number of conferences in the year. There were events such as the regional field vegetable road-shows and a soil sterilisation seminar, which were used as knowledge transfer tools. `

35. The 'Report on Operations' section of the HDC's Annual Report for **2004/05** gives details of the main activities of the HDC in that year. In 2004/05, there were 104 on-going R&D projects and 60 new R&D projects, bringing the total number of HDC-funded projects to 164. There was an increase in spend on labour use and ergonomics. A total of £3.5 million was spent on R&D. The HDC continued to support its Studentship Scheme and awarded a grant to one successful student; the total supported during the year was five.

36. Other HDC work undertaken in 2004/05 included updating the pesticide gap analysis for over 50 edible crops, which was used to direct priority areas for sector research programmes. 160 SOLAs were also approved in 2004/05.The HDC continued to collaborate with Germany, Denmark and the US on residues data so as to avoid duplication. A key activity of HDC during the year was working with PSD and industry to agree a satisfactory mechanism to cope with the planned expiry for the Long Term Arrangements for Extension of Use (of pesticides) by March 2006.

37. The HDC also broadened its remit and output with respect to communications during 2004/05. This included the production of DVDs to help minimise microbial contamination of fresh produce and 'crop walkers' guides. The HDC also staged a series of technical seminars.

The Home Grown Cereals Authority (HGCA)

38. The **HGCA's** mission, as described in its Annual Report for **2000/01** is as follows: *"To improve the production and wholesomeness and marketing of UK cereals and oilseeds so as to increase their competitiveness in UK and overseas markets in a sustainable manner. In implementing this mission, HGCA will provide high quality services which are cost effective and designed to meet the needs of levy payers, whilst taking account of both consumer and environmental requirements."*

- Activities in **2000/01** were classified in the Report under six headings:
- Planning: management of the UK Recommended List for Cereals and Oilseeds, a crop marketing conference, marketing seminars, HGCA websites, IT training courses.
- Production: a new research programme on root/soil interaction, publishing research needs of organic cereal production and a study into bird populations to inform on new research, closer links with agronomists, increased R&D focus on maximising environmental benefits.
- Storage and selling: successful missions to Europe, Africa, & China, an Exporters Directory, research initiated to minimise mycotoxins on grain, an improved Cereal Quality Survey, improved reporting of regional information, an increase in subscriptions to market information papers.
- Buying and processing: publishing an Introductory Guide to Malting Barley, undertaking workshops on malting barley, establishing and facilitating an Industry Liaison Group.
- Safe, wholesome food: malted cereal products identified as a source of health-promoting vitamins, 'Farmhouse Breakfast', involvement in EU projects on links between agronomy and storage mycotoxins, stimulation of export demand through joint activities with FFB.
- Evaluation of performance: main service achievements.

40. Key achievements claimed for **2001/02** were as follows:

- Planning: introducing a new results system for the Recommended list; completing a Recommended List candidate variety selection process; developing a new trials process for variety selection; delivering a successful series of marketing courses and seminars; launching the Pricing for Profit marketing CD; increasing the circulation of key marketing publications; constructing and validating a 'whole farm' economic model.
- Producing: publishing a new R&D strategy for oilseeds; improving project management processes for research programmes; establishing and publishing 'Guidelines for Precision Farming'; applying a new model for the evaluation of all project proposals; creating an 'Agronomist Alliance'; introducing a new format for reviewing research topics; delivering relevant information on grain storage; contributing significantly to environmental projects on biodiversity.
- Marketing: conducting and publishing a comprehensive survey of grain quality; signing a protocol with Morocco focusing on wheat markets; undertaking missions to Europe and North Africa to identify market needs; producing the 'Cereal Sellers Checklist'; publishing 'Wheat and barley exports – the growers guide'; delivering a Market Outlook conference.

- Processing: managing applications for Enterprise Awards; commissioning a study on prospects for grain exports in Southern Europe; conducting a series of meetings with major UK processors; delivering a successful conference on producing, marketing and processing of oilseeds; organising a conference for the malting barley and milling wheat sectors; initiating a review and analysis of opportunities for bio-fuels.
- Consuming: initiating a wide-scale survey of grain for PGR residues; recording an increase in cereal usage by Enterprise Award winners; extending significantly existing work on frequency of mycotoxins on grain; implementing the Farmhouse Breakfast campaign; developing a new education website on cereals; evaluating proposals for Export Awards from five European markets.
- Managing: reporting on HR, staff, etc.
- Communicating: increasing significantly detailed information on levy payer contacts, delivering weekly market information to over 7,500 subscribers; mounting a stand at Cereals 2002; processing over 5000 orders for publications, training 580 growers from East Anglia using HGCA information.

41. Key achievements claimed in the Annual Report for **2002/03** were as follows:

- Planning: publishing Recommended Lists including export categories; distributing 33,000 CDs of the Recommended List; expanding the scope of marketing seminars and courses, testing a model of a 'whole farm'.
- Producing: evaluating the benefits from R&D programmes; improving the understanding of crop nutrient sources; increasing collaboration with environmental organisations; producing a 'Grain Sampling Guide' and CD; obtaining greater co-funding of the R&D programme.
- Marketing: obtaining a grant to benchmark the grain chain; delivering 15 conferences and road-shows; analysing 16 importing markets; improving delivery of information through the Malting Barley e-club; improving the grain quality survey; and achieving a 45% increase in the number of countries 'hosted' by HGCA.
- Processing: reviewing the support given to grain processing; increasing the scope and relevance of Export Awards; discussing with nine major processors their strategic export needs; reviewing export markets; investigating new opportunities for grain in animal feed (i.e. oats for the poultry industry); publishing two reports on opportunities for alternative crops.
- Consuming: providing training courses attended by 2,200 delegates on grain sampling; assessing 550 samples for mycotoxins; undertaking an industry-wide grain survey on wheat and barley; promoting the Farmhouse Breakfast campaign; distributing 8,800 education resource packs; commissioning a study with the British Nutrition Foundation.
- Communicating: increasing awareness of HGCA publications following a benchmarking survey; developing and delivering 25 events; beginning re-design of the HGCA website; making available an interactive growers toolkit.
- Managing: increasing the extent and scope of training offered to the industry.

42. Key achievements claimed in the Annual Report for **2003/04** were as follows: Planning: producing a new interactive Recommended List and RL *plus* product (which includes 10 years of variety trials); delivering 12 courses on risk management to growers; completing an international benchmarking survey; producing a UK Cereals 2004 interactive map; producing a report on the scope and activity of economic data collection and analysis.

- Producing: delivering an initiative to improve soil management; identifying and communicating key practices at 31 events; publishing an R&D strategy; conducting and demonstrating the results of research on sustainable farm practices; revising the 'Grain Storage Guide'; delivering technical information to improve production methods to growers.

- Marketing: launching an e-club for milling wheat; evaluating new approaches for pricing needs; delivering a novel interactive presentation of the HGCA cereal quality survey; quantifying export demand; producing multi-language reports in eight languages, delivering technical workshops in seven countries.
- Processing: analysing the effectiveness of Enterprise Awards (600,000 additional tonnes of demand associated with these); assessing the bio-fuel, packaging and snack food markets as priorities; conducting visits to 29 key processors; expanding the Enterprise Awards scheme to cover all sectors and non-food uses; delivering an Enterprise Awards seminar.
- Consuming: establishing a cross-industry group that completed an assessment of diet and nutrition and publishing the British Nutrition Foundation study; increasing the use of 'Good Health Game' for children; holding a workshop on grain contamination; funding a studentship on nutritional aspects of grain; increasing the number of Farmhouse Breakfast events held.
- Communicating: producing a communication strategy; undertaking a benchmarking survey of awareness of HGCA publications; contributing to a Defra review of national plans for training.
- Managing: generating funds from non-levy sources.

43. The HGCA also gave, as a contribution to this Review, a presentation on **17 June 2005** that provided details of more recent activities. Recent business development activity includes a global benchmarking and UK competitiveness project to compare the UK cereals sector against EU and international competition, and the work of British Cereals Export.[3] The HGCA has also facilitated the establishment of the cross-supply chain Cereals Industry Forum; this body has been addressing matters such as value chain analysis, master-classes, and crop benchmarking. Other work includes better grain sampling and analysis work which is a two- year project funded by HMT. To increase efficiency, HGCA is also working in conjunction with six colleges in East Anglia to deliver IT skills to growers and has been running risk management courses for growers and for buyers and traders.

44. To help with the development of new markets, the HGCA has been undertaking work on bio-fuels. This includes environmental footprint work, a carbon accreditation scheme, and market information. The HGCA has also been working to increase uptake of cereals by the food industry by stressing the nutritional benefits of wholegrain through the production of nutrition sheets, and consumer information, etc.

45. On the R&D front, the HGCA has identified in its R&D strategy drivers that include reducing production costs; biological flux (resistance, new threats); reducing environmental impact; food and feed safety; and responding to changing patterns of consumption, to government policy and to future scientific/technical advances. It is funding currently about 100 projects, including 31 LINK projects, with an emphasis on 'knowledge transfer' of the final results.[4] A further key activity is continued work on the Recommended List (which is match-funded by plant breeders for the first two years of

3 For example, HGCA have worked on assisting UK exporters to markets such as Egypt and have been involved in developing export 'branding' for UK cereals so that customers understand the attributes of the grain (whether it is of bread-making or feed quality).

4 Recent knowledge transfer activities include an oilseed rape workshop in February 2005 and an orange wheat blossom midge workshop in March 2005.

trials). This aims to direct growers to the best 10% of new varieties, which the HGCA estimate is worth at least 4% in yield. For the Recommended List, yield in fungicide and untreated trials, agronomic characteristics, disease resistance, marketing quality characters and end- use suitability are all measured.

46. On the communications front, activities include production of a weekly 'market overview' and a fortnightly 'Prospects'. Work is continuing on improving the HGCA website.

47. Finally, the HGCA has recently undertaken a special and important activity: the Cereal Industry Review (CIR). This substantial exercise, involving all relevant stakeholders, looked at priorities for HGCA action. Key areas identified included: non-food uses of cereals and oilseeds; the effectiveness of HGCA communications; the need for cross-industry cost reduction and improved supply chain efficiency; effective consultation with stakeholders; and collaboration with other bodies. The priority activities were identified as R&D (and the associated knowledge transfer); the Recommended List; export and market services; obtaining grant-funding from external sources; and projects relating to strategy, communications, and administration.

The Milk Development Council (MDC)

48. The MDC's mission, as described in its Annual Report for 2004/05 is to:
"provide the opportunities, insights and expertise that spur dairy farmers to improve profits in a changing world".

49. The website also says that, to achieve this, MDC activities now focus on three distinct areas that affect farmers' ability to make profit:
- *the opportunities that can add value to, increase demand for or arrest the decline of raw milk;*
- *the insight and knowledge that can increase power and aid better decision-making;*
- *the efficiency, expertise and business-focus with which milk can be produced;*

50. The MDC's main activities outlined in its Annual Report for **2000/01** include the following:
- The introduction of the 'White Stuff' campaign (which was to run for three years).
- A contribution to the establishment of a National Dairy Farm Assurance Scheme.
- The commissioning of two major research reports on the market for milk (one on co-operative marketing and one on milk pricing).
- The launch of MDC Datum services (to provide market information).
- The commissioning of major projects looking at increasing fertility, reducing antibiotic usage, increasing yields from forage, and reducing overhead costs.
- The launch of '£1000 for a 1000 cows' whereby groups of farmers with a total of 1000 cows would be able to employ a consultant up to a cost of £1000 to help them implement the results of MDC research.
- The MDC also contributed to the Dairy Council. (This body provides information regarding milk and milk products).
- Other projects funded by the MDC included a jointly- commissioned research project with the milkmen's association to look at how their marketing might be expanded; a project concerning milk produced during hours of darkness; a project looking at alternative protein crops for dairy cows; consultancy support on low input/low output systems; publication of a guide to re-seeding of grassland; start-up funding for a scheme to eradicate certain diseases from farms; publication of a report looking at

factors affecting the prevalence of digital dermatitis; and a project linking reduced fertility to milk yield.

- To transfer knowledge to producers, the MDC also produced a quarterly mail-shot highlighting newly available information. It also ran Open days and farm walks, and produced booklets and fact-sheets.

51. The main activities mentioned in the MDC's Annual Report for **2001/02** include the following:

- The 'White Stuff' campaign was concluded, coming to an end in September 2001.
- A new Promotional Grants Scheme was established to match-fund generic marketing initiatives aimed at maximising milk sales; these included backing National School Milk Week, supporting in-store promotions, sponsoring milk bars in schools, and joint funding with the National Cheese Board of the 'Say Cheese' campaign.
- MDC Datum – a market information service – was expanded so that at least 13,000 producers received a fortnightly update.
- R&D projects were completed on the effect of enhanced supplementation of trace elements to dairy cows; control of digital dermatitis with non-antibiotic footbaths; abortion in dairy cows; and the effects of diet on lameness.
- As in the previous year, knowledge transfer was undertaken through the publication of a quarterly journal highlighting new work, fact-sheets and booklets, meetings, events and farm walks, and the '£1000 for 1000 cows' programme.
- MDC also continued to contribute to the Dairy Council to provide nutritional expertise.

52. The main activities mentioned in the MDC's Annual Report for **2002/03** include the following:

- Promotional activities were focused on School Milk, cheese, liquid milk and flavoured milks.
- Funding of the Dairy Council was continued.
- A report was commissioned from KPMG on the reasons why the UK milk price was lower than in mainland Europe.
- The market information service through Datum was continued.
- The '£1000 for a 1000 cows' initiative was continued.
- MDC Evaluations Limited (MDCEL) was established to produce genetic information on cows and bulls.
- A number of projects were completed and reported on during the year, including a project on 'feed into milk' to develop an integrated diet formulation system; a review of domestic and overseas markets for organic and Channel Island milk; desktop reviews of transition cow management, mastitis, digital dermatitis and waste management; development of a financial benchmarking system; and two programmes to improve fertility and grassland management.
- Six regional extension officers were deployed to help with knowledge transfer onto the farms and to help with regional events, farmer discussion groups, workshops and road-shows.
- Communications activities included production of a range of publications on technical subjects as well as re-development of the MDC website.

53. The main activities mentioned in the MDC's Annual Report for **2003/04** include the following:

- Commissioning of a practical study to assimilate publicly available information on milk machine automation to assist farmers in decisions concerning automation of dairy parlours.
- Production of human resource templates for farmers to download, e.g. job descriptions, job advertisements, contracts of employment;
- Continuation of the programmes concerning improvements in fertility and grassland management.
- Commissioning of a study and publishing of a report on 'Managing CAP reform – strategies for your dairy business'.
- Launching of MilkBench, a benchmarking system.
- Continuation of '£1000 for a 1000 cows' together with a Small Herds Implementation Project.
- In addition to providing information to farmers via the website, MDC Datum was involved with 38 road-shows to explain CAP reform and worked with Farmers for Action to produce a report on a National Milk Selling Agency.
- Market development included funding activities with the British Cheese Board; working with territorial cheese-makers such as West Country Farmhouse Cheese-makers; supporting the Scottish Dairy Marketing Company Limited to assist generic marketing of milk (the 'milk moustache'); and continued work on the School milk initiative, including School Milk Week and the introduction of school milk bars.

54. The main activities in **2004/05** were as follows:

- The Datum service produced market information for farmers, including a definitive guide to Dairy Supply Chain Margins.
- Jointly funded R&D with a territorial cheese-maker led to West Country Farmhouse Cheese-makers redesigning and remarketing their products, a successful promotion for Stilton, and the launch of a new name for blended cheeses.
- A series of 'Calcium Summits' was held.
- A 'teenage girls' campaign was launched (match-funded by the EU) to encourage young girls to consume more dairy products.
- School milk facilitators worked with more than 100 Local Education Authorities and the secondary school milk bar initiative fitted almost 1000 new bars.
- New health packs were launched in England and Wales.
- Match-funding was provided to the Scottish Dairy Marketing Company for their 'milk moustache' campaign.
- Match-funded activities were undertaken with the British Cheese Board.
- The grass and fertility programmes (first launched in 2003) were continued, as were the '£1000 for a 1000 cows' scheme and the Small Herd implementation programme.
- Genetic evaluation work for all dairy cattle was commissioned, to be carried out by a Scottish consortium of SAC, Edinburgh University and Roslin.
- Research work was being undertaken on cattle lameness, waste management, processing methodology, and building design.
- On-farm processing workshops were piloted in Scotland before being rolled out across Britain.
- MDC worked with the WDA to provide business benchmarking – MilkBench services – in Wales.

The Meat and Livestock Commission (MLC)

55. As explained elsewhere in this report the MLC now operates through four 'federated' bodies. Below the objectives of the MLC and its federated bodies are summarised, followed by a summary of their activities, year by year for the last five years.

56. The **MLC's** website states that:
"The Meat and Livestock Commission's (MLC) role is to:
- *work with the British meat and livestock industry (cattle, sheep and pigs) to improve its efficiency and competitive position;*
- *to maintain and stimulate markets for British meat at home and abroad, while taking into account the needs of consumers."*

57. **EBLEX's** vision, as described on its website, is as follows:
"To contribute to the long-term profitability and sustainability of the English beef and lamb industries by listening, reporting and delivering measurable benefits."

58. The **BPEX** website states that BPEX is there to:
"determine MLC's Pig Strategy and ensure that pig levy payers' money is efficiently deployed in line with that strategy."

59. The Quality Meat Scotland **(QMS)** website states that QMS's core function is to:
"work with the Scottish red meat industry to improve its efficiency and profitability and to maximise its contribution to Scotland's economy."

60. The Hybu Cig Cymru **(HCC)** website states that HCC:
"seeks to develop profitable and sustainable markets for Welsh red meat for the benefit of all stakeholders in the supply chain."

61. The Annual Report of the **MLC**[5] for **2001** mentions the following activities and successes:
- Activity within the health, nutrition and education sectors helped towards the creation of nutritionally relevant Government standards.
- MLC hosted the first International Meat Secretariat worldwide and a Marketing/Nutrition Communications workshop.
- The MLC marketing team was involved in encouraging the industry to develop innovative meat-based meal ideas.
- Promotion of British pork was undertaken for use in 'McRib' meals in McDonalds.
- MLC agreed with Virgin trains that 99% of meat products served would be British.
- MLC provided input into negotiations on EU beef labelling requirements.
- Conferences were held presenting forecasts on meat supply.
- MLC launched a number of website links and revamped others.
- Fifty-seven open meetings were held across the country during the consultation period on the proposed levy increase.
- MLC helped facilitate the first semen exports to New Zealand in five years and was also involved in inward missions.
- MLC had a British meat stand at SIAL, Paris.

5 The report provides information on the MLC, on MLC Cymru, on QMS, on MLC Commercial Services and on all three species sectors.

- MLC led a crisis response to the outbreak of Classical Swine Fever, including developing protocols to relieve animal welfare problems and developing plans for the early return of pig-meat to the market.
- MLC provided the mechanism for the Pig Industry Development Scheme to fund top-up payments to pig farmers who sold pigs into the Welfare Disposal Scheme.
- Issues management in response to FMD included handling media calls, media interviews, and a dedicated telephone call centre. The Commercial Services section of the MLC provided support for the supervised movement of carcasses, and approval and supervision for cleansing and disinfection.

62. **MLC Cymru** reported the following in **2001**:

- Secured a grant to introduce a quality price reporting system into Welsh auction markets.
- Continuing to fund research projects such as the electronic identification of sheep; a breeding project to improve maternal traits of the mule ewe; and work looking at grasses with high sugar content.
- Five 'technology' farms were used to help with farmer communications.
- The adoption of sire reference schemes was encouraged.
- Benchmarking was provided.
- Communication with farmers was pursued through newsletters etc.

63. **QMS** reported in **2001** as follows:

- Early work was done on establishing the 'specially selected Scotch' brand
- A role was played in quality and farm assurance.
- A meat eating quality project was initiated, run in conjunction with MLC.
- A 'product development' project was undertaken.
- Activities were implemented to provide Scottish-specific information and advice on production trends and supply chain volumes.
- Scotch pork was promoted.

64. The MLC Annual Report for 2001 also includes details of the work of the British Meat Education Service (focusing on work in the education sector); the British Meat Nutrition Education Service (communicating with GPs and healthcare professionals); the British Meat Information Service (consumer media); the MLC Home Economics Department; and the team of twelve Regional Education and Health Sector Managers. There is also a section dealing with MLC Commercial Services.

65. The **MLC** Annual Report for **2002** was prepared on a similar basis to that of 2001. It sets out the services provided by MLC in that year as follows:

- Provision of technical information and expert advice on FMD.
- Operation of the press office, website and FMD call-centre seven days a week.
- Experience in consumer research used to help resolve issues on meat health and animal ID experience used to provide the basis for a temporary sheep ID system.
- Setting up a deadweight reporting system and producing a brochure on selling beef and lamb deadweight during the FMD outbreak.
- Putting in place new facilities for stakeholders to access the information and advice they needed during the FMD outbreak.

- Organising a two-day conference on food traceability and crisis management, a conference on low and medium throughput abattoirs, a market insight conference, and seminars concerning forecasts and policy analysis.
- Participation in three overseas conferences.
- Helping to formulate responses to the Commission proposals on animal health in transport.
- Holding an annual half-day seminar for civil servants.
- Effecting improvements to the FMD call centre and MLC website.
- Introducing industry to eight new technologies or processes.
- Continuing research to reduce the cost of production and disseminating the results, including preparation of two training CDs, newsletters and websites.
- Establishing a pilot scheme to reduce risk from zoonotic organisms.
- Undertaking an ongoing evaluation of advertising.
- Increasing the use of rams with Estimated Breeding Values.
- Devising an exit strategy in respect of OTMS.
- Reducing the proportion of cattle classified as 4H or fatter.
- Increasing the rate of change in beef genetic performance.

66. **MLC Cymru** report in **2002** mentions the following:

- A TV campaign jointly funded by the WDA on British lamb was run in Welsh regions.
- Discussion continued on uptake of British and Welsh lamb with the MOD.
- Help was given with organising the genotyping of 25k female sheep to ascertain resistance to scrapie.

67. **QMS** reported in **2002** as follows:

- New funding arrangements were in place from 1 April 2002 to allow the promotional levy to be used by QMS to promote and develop the Scottish product.
- A website resource was developed to provide information and guidance on FMD.
- A consumer confidence campaign was launched in the wake of FMD.
- An eating quality initiative and product development activity was undertaken focused on development of quality assurance arrangements.
- Progress was made on a fully integrated assurance system for beef, pork and lamb from Scotland.
- Progress was made on new product development with interested companies.
- A major £500,000 advertising campaign was launched.

68. The **2003** Report on **MLC's** performance, that covered BPEX performance and also sheep and cattle, commented on the following:

- The new federal structure took effect from 1 April 2003.
- An annual half-day seminar for civil servants was held.
- An initial impact assessment of the EU proposals on CAP reform was undertaken.
- Input was provided on the Animal By-products Regulations and technical briefings were held for abattoirs and allied industries.
- Technical advice was provided on implementation of new food laws.
- Continued generic marketing activity was undertaken through the British Meat Education Service and the British Meat Nutrition Education Service.

- The British Meat Information Service worked with food writers and consumer journalists to ensure red meat was well presented.
- Three promotional kits featuring pork, beef and lamb were developed and distributed to independent butchers in England and Wales.
- The introduction of eleven new processes over the previous three-year period (eight in the previous two years) was reported.
- An independent evaluation of pig-meat, beef and lamb advertising programmes was undertaken, using econometric modelling.
- Results were obtained from a range of projects on reducing the cost of pig production.
- A marketing strategy for BPEX was developed and enhanced.
- Co-funding from the Food Standards Agency was achieved in respect of a Zoonosis Action Plan, which was established nationally and included a sample collection programme at abattoirs.
- Benchmarking research was undertaken on current levels of consumer confidence in beef.
- Funds were diverted, because of FMD, to deal with specific issues such as light lambs.

69. **HCC** reported as follows:

- PGI status had been obtained for Welsh beef.
- An application for state aids approval for the use of levy funds for marketing and promotional work had been submitted.

70. **QMS** reported as follows:

- QMS was continuing to focus on the development of quality assurance, the meat eating quality initiative, and product development activity.
- QMS was continuing with promotional activity (building on the previous year's work) and work to increase recognition of the 'brand'.

71. The **2004** Reports cover the first full year of the new 'federal' MLC structure. A separate Report was prepared for QMS; the activities of the other bodies are addressed in the **MLC** report. The MLC report comments on the following activities:

- Providing advice and analysis on livestock and meat issues to the industry on CAP reform.
- Working with the Foods Standards Agency to obtain changes and providing market management and economic advice to the industry on the OTM rule.
- Working towards helping the UK to achieve moderate BSE status and to build the case for dismantling the Date Based Export Scheme.
- Delivering information programmes in the nutrition and healthy eating areas to health professionals and schools.
- Commissioning microbiological research on the impact of salt reduction on shelf life of a variety of meat products and the potential for pathogen growth, and preparing briefing papers for the MLC federal bodies.
- Launching best practice guidelines on menu labelling.
- Involvement in the management and work of the Red Meat Industry Forum.
- Holding an Annual Outlook Conference in London.

72. **BPEX** reported the following:

- A major Defra/BPEX funded multidisciplinary programme on the evaluation of different feeding and housing systems was undertaken.
- The start of a joint-funded project with Defra on Post-weaning Multi-systemic Wasting Syndrome (PMWS) was reported.
- Funding was provided for study groups on PMWS.
- The Pig Health and Welfare Strategy was launched.
- The Zoonosis Action Programme was rolled out with producers provided with regular updates on the results of ongoing research.
- Extensive work was undertaken to open the Japanese market to British exports.
- European trade fairs were attended.
- The first-ever World Pork Congress was hosted.
- The Deadweight Average Pig Price system developed through MLC Economics was launched.

73. **EBLEX** reported the following:

- Several investigations to enhance understanding of English consumers were undertaken.
- The essential elements of a quality scheme were researched, leading to the submission of a scheme for approval by the EU.
- Specific briefings on business information were published throughout the year, supplemented with meetings.
- Farm costing data were distributed.
- EBLEX worked closely with the abattoir sector on handling of OTM cattle.
- A campaign ('Tuck-in') was launched focusing on beef and lamb recipes.
- Export opportunities were supported through promotions in the Netherlands, Germany and France and an exporters' mission was taken to Anuga, Cologne.
- EBLEX was awarded £1.5 million by Defra to manage the 'Better Returns Programme'.
- The MLC's research commitments were adopted by EBLEX.
- EBLEX supported the RMIF's benchmarking initiative.
- A pilot technology transfer programme was started in the South West.
- A communications strategy was devised that included launching a new website and a programme of regional meetings.

74. **HCC** reported the following:

- BPEX undertook work on Welsh pigs on HCC's behalf.
- New logos were unveiled for Welsh lamb and beef.
- Welsh lamb was awarded PGI status.
- A range of point-of-sale packs was produced.
- Consumer venues were visited to promote Welsh lamb and beef.
- HCC's School Food Education road-show was delivered to Welsh schoolchildren.
- Consumer recipe leaflets and other promotional material were produced.
- Twenty-five training sessions were run on the importance of red meat in the diet.
- Product evaluation competitions were run to encourage businesses in Wales to develop new meat products.

- HCC participated in the Farming Connect programme, in particular to assist beef and sheep farmers.
- HCC's breeding programme to raise the standard of the Welsh sheep stock was continued.
- Technical and specialist advice was provided for ten Model Farms which then held open days and farmer-run business development groups.
- More than 80 sheep training courses were provided.
- Forty 'selection for slaughter' courses were held.
- Animal health-check schemes, including integrated parasite control schemes, were piloted on 100 Welsh farms.
- A two year livestock Electronic Identification systems evaluation was managed and monitored.
- NHS Trusts were advised on meat quality and specifications.
- Inward trade missions were supported, as was export activity, by helping with promotional material and point of sale material.
- The Anuga trade fair in Cologne was attended, together with other major trade shows.

75. The (separate) **QMS 2003/04** report mentions the following activities.

- EU state aid approval had been sought for Scotch beef and lamb.
- Work was done to produce a first estimate of the contribution the red meat industry makes to the economy.
- A number of joint projects were carried out with the industry aimed at improving business performance and reducing cost, including the development of a common index for showing cattle performance figures.
- A Wholesome Pigs abattoir monitoring programme was started, which provides a quarterly report to producers and their vets on the health status of their herd.
- Farmers were helped to benchmark their performance.
- Five monitor farms in Scotland were funded to act as a point where a farmer group can develop and trial ideas to improve profitability.
- A video on best practice was produced.
- Centralised advice and support on IPPC regulations was provided.
- Training was provided, including on new product development for butchers, and HACCP training for processors.
- An initiative was supported to show Scottish schoolchildren the range of opportunities in the red meat sector.
- A series of workshops on performance recording was funded.
- The Scotch beef advertising campaign was continued, including TV advertisements.
- The Scotch Beef Club was re-launched.
- Consumer research was conducted on beef and lamb.
- A Scotch lamb campaign was conducted.
- Independent research on export markets was commissioned.
- 'Generic' recipes for pork were developed.
- Promotional material for the Scottish butchery sector was produced.
- A sports nutrition guide was produced.

- A portfolio of market information databases was established and developed, drawing on MLC's economic service
- Work was commissioned to quantify the scale and nature of the red meat industry chain in Scotland.
- Various shows, including the Royal Highland Show, were attended.
- The website was re-launched.

76. The **MLC's 2005** Report explains that, by then, most activities were being delivered through the federal bodies and MLC's role was becoming that of a service provider. It comments on four areas of activity:

- the collection and dissemination of market information and industry statistics;
- raising efficiency and standards through knowledge transfer of R&D and best practice;
- promotion of red meat at home and development of export markets; and
- issues management.

77. The main collaborative projects undertaken by the MLC on behalf of the four 'federated' bodies concerned CAP reform; OTMS; health and nutrition; the FSA salt awareness campaign; origin of meat on menus; and the Public Sector Food Procurement Initiative. Other activities included working with the Applied Research Forum and the Red Meat Industry Forum, as well as the Annual Reception in Brussels and the annual Westminster Barbeque.

78. **BPEX's 2005** report mentions the following:

- Agreement was reached with HCC and QMS to implement the Road to Recovery action plan in Wales and Scotland as well as England.
- Support for research on improving competitiveness through production efficiencies etc. was continued.
- Greater emphasis was given to knowledge transfer.
- A multidisciplinary project on weaner nutrition was continued.
- Information was disseminated on PMWS.
- The Supply Chain Grant Scheme – to help the development of more integrated supply chains – was continued.
- Reports covering pork pies, ham and sausages were produced and circulated.
- A pig abattoir monitoring scheme was started.
- A protocol for Artificial Insemination was developed.
- A comprehensive database on best practice was developed.
- A project was undertaken with the HGCA to make the pig industry more aware of risk management relating to feed costs.
- Twelve industry briefings were prepared.
- A redesigned Quality Mark Scheme was launched.
- A consumer marketing campaign was developed.
- An advice package was developed for small companies wishing to develop regional brands.
- The Zoonosis Action Plan continued to be implemented.
- A number of outward and inward trade missions were conducted.

79. The **EBLEX 2005** report mentions the following:

- The 'Tuck-in' campaign was continued.
- State aid approval was obtained for the Quality Standard Mark (QSM).
- A consumer campaign to support the QSM was launched on TV and in stores and magazines.
- Industry briefings and information on CAP reform were provided.
- R&D projects including support for 10 PhD studentships.
- New initiatives were launched to improve technology transfer of R&D.
- EBLEX continued to manage the 'Better Returns Programme'.
- EBLEX mounted stands at major international food fairs such as SIAL, Paris.
- 'Whole farm' fixed costs for beef and sheep farmers was published.
- The EBLEX website was redesigned and re-launched.

80. The **HCC's** report mentions the following:

- The first ever TV advertising campaign was launched in Wales and England.
- Regular themed retail kits were produced for retailers in Wales.
- A healthy eating road-show toured schools and colleges.
- A number of initiatives were undertaken directed at the export market.
- An independent certification body for Welsh lamb and beef was appointed.
- Specialist advice for farmers was facilitated using the Farming Connect and Beef Development Centre resources.
- HCC continued to support a breeding programme for sheep.
- HCC continued to provide technical and specialist advice through the model farm concept.
- HCC supported a number of industry study group tours.
- A new website was launched.
- An exclusive agreement to supply beef to all hospitals across Wales was announced.

81. The full **QMS** report for **2005** was not available at time of writing but a brief report from QMS was included in the MLC's 2005 Report. The following highlights are mentioned:

- publication of the Scottish Red Meat Industry Profile;
- launch of a R&D strategy; and
- the purchase of specialist technical and economic data (from MLC).

Annex E
Levy arrangements

Introduction

1. This Annex describes the arrangements with regard to the levy. It looks first at each of the five levy bodies in turn (in alphabetical order), and summarises the key features of the arrangements for each body: who pays the levy and the bases on which it is collected; the current rates and yields; and the costs of collection. It also describes some issues with and concerns about the arrangements that have been raised by the individual levy bodies. It then provides a brief summary of key points in relation to the levy before commenting on some of the different approaches that were considered by the British Potato Council working group on the levy, whose report has been made available to this Review.

The British Potato Council (BPC)

2. The potato levy is collected from growers of potatoes in Great Britain and from purchasers of such potatoes.

3. Key features of the arrangements in respect of the bases of potato levy are as follows:

- Potato producers and processors are required to register. Registration thresholds apply for both producers and processors: producers growing less than three hectares of potatoes and purchasers purchasing less than 1000 tonnes of potatoes do not need to register.
- Registered potato producers pay a levy on the basis of the area (hectarage) planted with potatoes. Registered producers are required to submit annual returns of potato plantings; they must submit returns: a nil return is required even if no potatoes are grown. It is a criminal offence not to submit a planting return (and a civil offence not to pay the levy due). The BPC report that checking producer registrations is difficult; the BPC do this by means of over-flying on a periodic basis.
- Purchasers of potatoes pay a levy on the basis of tonnage purchased. Purchasers are required to submit monthly returns of potatoes purchased. As for producers, it is a criminal offence not to submit a planting return and a civil offence not to pay the levy due. Levy is paid on both the first and the second purchases of potatoes on a tonnage moved basis, i.e. in cases where a producer sells to a merchant who then sells to another merchant tonnage levy is payable by both merchants. Retailers and catering establishments (including fish fryers) are required to pay levy only on potatoes they purchase directly from producers. Tonnage levy is not payable on potatoes once they have been processed, except where they are processed by the producer. Tonnage levy is payable by co-operatives, even where the co-operative is owned by producers. BPC audit the books of purchasers.

- Sanctions which can be applied by the BPC in the event of levy defaulters are as follows:
  - Apply statutory interest to overdue debts;
  - Charge levy at higher rate where payment is not received by the due date;
  - Estimate plantings and purchases where proper returns have not been made, and charge and pursue levies accordingly.
- Producers of seed potatoes have to pay a levy based on area planted; however, levy is not payable at any further stage on seed potatoes.
- In the 2003/04 year, £4.559 million was raised from producers in levy and £1.150 million was raised in levy from purchasers. Total yield from the producer levy is therefore approximately 0.6% of the primary production value.
- Although the area under potatoes is much the same as five years ago, there are now around 2000-3000 fewer levy payers, indicating a movement towards concentration in production with larger holdings.

4. Key features of the arrangements concerning the rates of levy are as follows:

- The Potato Industry Development Council Order (PIDC) of 1997 provides for the BPC, with the approval of Ministers, to set a levy not exceeding £50 per hectare of land used to grow potatoes, and not exceeding 25p per tonne at point of sale.
- The PIDC Amendment Order 2002 introduced a 2-tier system of levies; a lower rate for those levies paid on time and a higher levy for those paid after the due date: this applies to both producers and processors.
- Levy rates applying in 2004/05 (applied from 1 July 2004) were as follows:
  - the levy rate for growers of potatoes is £39 per hectare for payments received by the due date and £44 per tonne for payments received after the due date; and
  - the levy rate for purchasers of potatoes is 17 pence per tonne for payments received by the due date and 19 pence per tonne for payments received after the due date.

5. As far as costs of collection are concerned:

- The arrangements in respect of potatoes are relatively high-cost. The current costs of collection are about 7% of the total yield from the levy. The BPC estimate that 53% of levy collection costs relate to activities which would not be necessary if all levy payers complied with the regulations.
- Problems that BPC report in collecting the levy include undeclared plantings, understatements of plantings, and unregistered growers or growers growing crops on rented land.

6. Issues raised by the BPC concerning the levy are as follows:

- An issue for growers is the lack of any crop loss relief, whereby producers who lose crop due to flooding etc. could claim relief from paying the levy. The BPC used to have a relief policy but this was discontinued with effect from the 2001 planting season. At its meeting on 5 October 2004 the BPC again considered its levy relief policy, a number of producers having contacted the BPC to say that they had lost part of their crop due to flooding and asking for relief. Typically the areas affected amounted to between 10% and 20% of total plantings but one case was as high as 75%. Following discussion, however, the BPC decided not to reinstate the relief policy: all growers would continue to have to pay on total plantings. Two Council members asked for their dissenting views to be recorded in the minutes.

- As a result of the arrangements for levy, the BPC obtains a considerable amount of information. It knows the area under production; the market producers are growing for; whether they grow under contract; their areas of interest (e.g. seed potatoes or potatoes for export) and what events they might therefore be interested in attending. The BPC's view as to the advantages and disadvantages of the current levy arrangements therefore are a relatively low risk of levy 'leakage', awareness of levy payers' identity; sound data for accurate statistics; and fairness versus a high cost of collection.
- On the scope of the levy, moving to a producer-only levy would reduce the BPC's income by just over £1 million, or about 20% of the current yield. The BPC opposes such a change.
- A particular issue arises for co-operatives in this sector (and in cereals). Because there is a levy on both producers and processors, co-operatives are, effectively, 'double-taxed'.
- Alternative bases for the levy could be tonnage for both producers and processors or turnover on both. At present every hectare of potatoes grown attracts the same levy regardless of whether the potatoes are fresh or go to processing, which some levy payers regard as inequitable. The BPC believes, however, that changes to the bases of levy, or to the other arrangements, could be seen as 'disconnecting' the BPC from levy payers.

The Horticultural Development Council

7. Horticulture levies are collected from producers of fruit, vegetables (but not potatoes), flowers, bulbs and nursery stock in Great Britain.

8. Key features of the arrangements in respect of the bases of the horticulture levy are as follows:

- Levy is raised on the following:
  - All vegetables grown in the open and sold for human consumption including watercress but excluding potatoes.
  - All soft fruit and orchard fruit *excluding* varieties of cider apples and perry pears, hops, and grapes.
  - Flowers and bulbs.
  - Hardy and other nursery stock.
  - Protected crops (all crops grown in glasshouses).
  - Mushrooms.
  - Herbs.
- Under the terms of the Horticultural Development Council Order 1986 (as amended), every grower with sales of their own produce amounting to more than £25,000 a year is required to register with the HDC. Registered growers are then asked to make an annual return of the value of their sales. If, after specified deductions, turnover exceeds £50,000 the net turnover figure is used to calculate the levy due. Special arrangements apply to mushrooms and to apples and pears: the Order provides that mushroom growers who purchase more than 700 litres of spawn per annum are required to register with the Council and pay a levy; and the levy on apples and pears is collected on farms growing two or more hectares or planted up with 50 or more trees.

9. Key features of the arrangements concerning the rates of levy are as follows:

- The rate of the levy is set annually by the HDC, with the approval of the minister, up to a maximum of: 0.5% of net sales turnover of horticultural produce; 15p per litre of spawn purchased; £35 per hectare of apples or pears.
- The rates applying in 2004/05 were: the general growers levy rate at 0.5% of net sales turnover; the mushroom growers levy rate at 8 pence per litre of mushroom spawn purchased; and the apple and pear growers levy rate at £26.50 per hectare.

10. As far as costs of collection are concerned:

- The costs of collection are small, amounting to only 1.3% of the yield from the levy and the costs of identifying evaders is also small. The HDC pays a consultant 1% of the first-year levy from finding an unregistered grower.

11. Issues raised by the HDC concerning the levy are as follows:

- The HDC does not know who should be a levy payer, even though it is obliged to collect the levy. Two methods are used to aid enforcement: one is to look through the trade press and websites, and the other involves a consultant going round the countryside to check on who is growing crops.
- The turnover basis is simple and equitable. The small firm exemption is appropriate: if small growers wish to participate they can be voluntary members of the HDC. The threshold for payment is net turnover of £50,000, which yields approximately £250; the HDC would like to see the threshold aligned with the VAT threshold[1] (currently £60,000 taxable turnover per annum).
- There are some issues around the need to make sure the system is seen by the majority of growers as simple and equitable:
  - At present the levy on the fruit tree sector varies by type of fruit: it is currently different for apples and pears for historic reasons. The disadvantage of the current basis for apples and pears, based on hectarage, is that the levy burden is not reduced in years when turnover is low. The HDC is of the view that if the basis of levy were to be changed for apples and pears it would make sense to do this on a whole farm basis i.e. on turnover in horticulture in the whole enterprise.
  - The return from spawn for non-agaric (exotic) mushrooms is significantly lower than the return for other mushrooms hence the basis of levy is viewed as unfair by exotic mushroom producers.
- There are also some issues over the scope of the levy. Hops,[2] for example, are excluded: the National Hop Association of England co-ordinates the activities of and does research for England's hop growers and funds hop research at HRI Wye College. At the time of the HDC's formation, grapes were only grown for wine production and production was less than now although still only a small area is grown. Apples and pears were also excluded from the HDC remit, although they are now included after the merger between the HDC and the Apple and Pear Research Council. Cider apples and perry pears remain excluded; there is, however, a National Association of Cider Makers (NACM) which is the governing body of the cider and perry industry in the UK. A key role for the NACM is research relating to cider apple orchards.

1 This proposal is discussed in the report on Economic Evaluation of the HDC carried out by the University of Reading 2004. It was noted there that there was some industry resistance to such a proposal and the reviewers commented that they *"can only see benefit in raising the levy threshold to £60k per annum if there are substantive cost-benefits to levy payers as a result"*.

2 The Hop Marketing Board was established in 1932 to exercise statutory control but in 1982 EU rules led to it being disbanded and hops are now marketed by five hop producer groups.

The Home Grown Cereals Authority

12. The cereals and oilseeds levies are collected from growers of cereals and oilseeds in the UK as well as dealers and processors of UK-produced cereals.

13. Key features of the arrangements in respect of the bases of the cereals and oilseeds levies are as follows:

- Levy is raised on home-grown wheat, barley, oats, rye, maize, triticale, and rapeseed, linseed, soyabean, and sunflowerseed.
- HGCA Levy Scheme rules say that liability for payment of levy arises when property in cereals and oilseeds passes to the dealer. The dealer is required by the terms of the scheme to register with the HGCA and to collect any pay over the levy. The rules apply to all buyers, including other farmers purchasing product directly as an alternative to buying from a merchant, as well as processors buying directly from farmers. In all cases, dealers are legally required to register with HGCA and to collect the cereal levy; if the dealer is also the processor, they will have to pay both dealer and processor levies, which are distinct (see below).
- The basic rules for a grower selling cereals to a dealer are as follows:
  - The dealer accounts to HGCA for levy (43.3p per tonne in 2004/05 – see below).
  - The dealer recovers levy (40p per tonne in 2004/05) from the grower by deducting levy from the amount owed by the dealer to the grower.
  - The dealer deducts commission (5%) from the total amount of the levy and pays the balance (95%) to the HGCA.
- In the case of oilseeds, the levy is collected via the dealer, although in this case there is no additional specific dealer levy (or processor levy); the dealer accounts to HGCA for levy (65p per tonne in 2004/05) all of which is recovered from the producer. No commission is paid to the dealer for levy collection.
- In 2004 the yield from the levy was as follows: cereal growers paid £6.874 million; dealers paid £194,000 (after commission for collecting the producer levy is taken into account), feed processors paid £232,000, other processors paid £623,000 and oilseed growers paid £1.096 million.

14. Key features of the arrangements concerning the rates of levy are as follows:

- The Cereals Marketing Act 1965 requires the HGCA to submit estimates each year of the amount required to be raised by levy and the apportionment between the different cereals. The Ministers then submit a SI for parliamentary approval. The HGCA Rate of Levy Order 2004 stated that the amount of levy to be raised should be £9.703 million from cereals and £1.299 million from oilseeds. Levy rates applying in 2004/05 (the rates have been held at the same level for the last nine years) were as follows:
  - The cereals grower levy rate was 47 pence (40p + 7p VAT) per tonne of cereals marketed.
  - The cereals dealer levy rate was 50.8775 pence (43.3p + 7.5775p VAT) per tonne of cereals marketed. (This figure includes a sum equivalent to the above cereal grower rate which the dealer recovers from the grower.)
  - The standard rate cereals processor levy rate was 9.69375 pence (8.25p + 1.44375p VAT) per tonne.
  - The 'reduced rate' cereals processor levy rate payable by animal feed processors was 4.7 pence (4p + 0.7p VAT).
  - The oilseeds grower levy rate was 76.375 pence (65p + 11.375p VAT) per tonne.

- The oilseeds dealer levy rate was 76.375 pence (65p + 11.375p VAT) per tonne, although this is entirely recovered from the growers.

15. As far as costs of collection are concerned:

- The cost of levy collection is 4.0p in every £ of levy income; this is accounted for by commission for dealers on collection of the levy at 5% of levy collected from producers.

16. Issues raised by the HGCA concerning the levy are as follows:

- The HGCA does not know who its levy payers are: they have no database of them. The dealer passes to the HGCA the aggregate amount of cereals and oilseeds purchased and levy due: the HGCA does not receive the information by producer.
- Current levy collection arrangements leave out of scope approximately 20% of the total amount of grain harvested that is fed to animals on-farm. For example, Northern Ireland produces around 300,000 tonnes of grain but the HGCA only collect about £8,000 in levy from Northern Ireland. Similar problems arise elsewhere in the UK. In 2004 the HGCA collected levy from cereal growers on 17.3 million tonnes of cereal; 'Agriculture in the UK 2004' indicates a provisional figure for production in the UK in 2004 of 22.03 million tones.
- At present levy is collected from producers, dealers and processors in the case of cereals but only on producers in the case of oilseeds: oilseed crushers do not pay levy. The HGCA is strongly in favour of retaining the processor levy on cereals and considers it may be appropriate to extend it to processing in the oilseed sector. Moving to a 'grower only' levy would reduce total levy income by around £1.5 million, or about 15% of current levels.
- As with potatoes, a particular issue arises for co-operatives in this sector. Because there is a levy on both producers and processors co-operatives are, effectively, 'double-taxed'.
- Alternative options with regard to the levy were examined in the course of the recently-undertaken Cereals Industry Review. The following comments were made in the Summary of Findings from the report of that Review:

  'The specialist group which met to consider levy calculation discussed a variety of possible funding mechanisms. Compared to the present system, they regarded as most attractive a formula which would combine production and price, with a base level linked to production and a variable component linked to price.

  They pointed out that the combination of production and price recognised the fact that HGCA services to the industry might both impact on the level of production and enhance price. However the group noted that a formula which incorporated price would be likely to increase collection costs.'

The Milk Development Council

17. The milk levy is collected from milk producers in Great Britain.

18. Key features of the arrangements in respect of the basis of the milk levy are as follows:

- The levy is raised on all cow's milk sold off-farm in Great Britain. It is collected either from the first purchaser of milk, based on actual deliveries or, where the milk producer sells their milk direct to the public or where the purchaser does not collect the levy, from the farmer directly. More than 80% of milk goes to six major processors.
- Purchasers are allowed to keep the levy funds they collect for up to two months to earn interest to cover their levy collection costs.
- There is no compulsion on milk purchasers to collect the levy from their milk producers (although most do) and, if the purchaser does not want to collect the levy, the MDC

approaches individual producers and requests production information. Where milk producers should pay the MDC direct, but do not provide a production return, the MDC can obtain details of end-year milk quota from the Rural Payments Agency in order to estimate the levy due. Two thousand producers are invoiced directly by MDC.

- Yield from the levy in 2004/05 was just over £7 million.

19. Key features of the arrangements concerning the rates of levy are as follows:

- The Milk Development Council (Amendment) Order 2000 allows the MDC to set a rate of levy, subject to the approval of ministers, not exceeding 0.08 pence per litre (ppl). The levy rate for 2004/05 was 0.06 ppl of milk.

20. As far as costs of collection are concerned:

- According to MDC figures, costs of collection are low, amounting to only 0.6% of the total levy yield. Evasion is also low; the MDC estimate that 99% of levy due is collected.

21. Issues raised by the MDC concerning the levy are as follows:

- A submission from the MDC in July entitled "Options for the future provision of the Milk Development Council's services" looked at three options for funding. The submission states:

  "Collection of the levy is highly efficient, costing only 0.6% of the levy; other routes are likely to consume greater resources either in recruitment or policing payment. The annual cost of levy collection is less than £50,000 per year."

  The submission does, however, explore other options. It considers a contractual levy,[3] and observes that 83% of the levy is currently collected by the six major milk buyers. Another option the submission considers is that of a voluntary levy. The submission argues that, in the longer term, the voluntary levy is to be preferred that but radical changes should not be made until the sector has completed its transition to a free market.

The Meat and Livestock Commission

22. Meat levies are raised on livestock slaughtered in slaughterhouses in Great Britain and on livestock raised in Great Britain and then exported.

23. Key features of the arrangements in respect of the bases of the meat levies are as follows:

- Levy is raised on cattle, sheep and pigs slaughtered in Great Britain and on exports of these animals. It is in two parts: there is a general levy; and there may be a species promotion levy. (In practice both levies are raised). The general levy is payable in equal parts by the farmer and the slaughterer; the promotion levy is payable only by the farmer.
- The promotion levy is used exclusively for marketing and promotional expenses, which have particular significance on a species-specific basis.
- In terms of the mechanics, the abattoirs act as collection agents in respect of the levy. They pay to the MLC all that is due and then deduct the farmer's share from the

3 This could be along the lines of the arrangements for sugar, whereby sugar beet producers, under the terms of their contract with the British Sugar Corporation (the monopoly purchaser), have levy deducted from the payments made to them. The proceeds, together with a matched contribution by the Corporation, are used by the BBRO to fund projects of common interest to beet producers. It is a contractual rather than a statutory levy and is very cheap and easy to collect.

amounts owed to him. The MLC pay an administrative fee in respect of the collection of levy, and carry out audits. (The administrative fee has been maintained at its current level of around £530,000 since 2003, although the rates of levy collected (per head of livestock) have increased over this period.)[4]

- Total yield from the levies in 2004/05 amounted to £26.4 million, made up of £11.9 million from the general levy (with farmers and processors each contributing half, i.e. just under £6 million each) and £14.5 million in species promotion levy. This can be divided into £4.4 million in respect of cattle, £5 million in respect of sheep, and £5.1 million in respect of pigs.

24. Key features of the arrangements concerning the rates of levy are as follows:

- The Commission set the rate levy rates within the maximum which are set by Parliament (MLC levy scheme (Confirmation) Order 1987). The maximum permitted rates are 350p, 40p and 55p for the general levy on cattle, sheep, and pigs respectively, and 350p, 40p and 80p for the species promotion levy.
- The rates of levy for 2004/05 are as follows:

Cattle	215p general plus 242p species promotion
Sheep	33p general plus 34p species promotion
Pigs	40p general plus 65p species promotion

25. As far as costs of collection are concerned:

- The levy on animals slaughtered domestically is in general easy to collect and costs are low, amounting to 2% of the total levy yield. However, the MLC have observed that collection of levy from exports is more problematic. At present, live exports are almost non-existent; however, if these did become significant again methods and costs of levy collection would need to be addressed.

26. Issues raised by the MLC concerning the levy are as follows:

- Because levy collection is done at the abattoirs, and the returns made by them to the MLC do not identify individual levy payers, the MLC does not know who its levy payers are. Defra is currently considering whether access can now be given to such information from the livestock register.
- As noted above, processors currently pay just under £6 million in levy as compared with farmers who pay in total nearly £20.5 million. Limiting the levy to farmers would thus reduce levy income at current rates by just under £6 million. The MLC is not supportive of such a change.
- The post-devolution arrangements have created some issues with the meat levy. The MLC transfers to QMS and HCC levy raised in respect of animals slaughtered in Scotland and Wales respectively, deducting collection costs. This split of income is thus driven by where the animals are slaughtered rather than where they were raised, something that was not an issue when funds were managed on a nation-wide basis.[5]

4 While the rate at which levy is paid has increased, it should be noted that the gross levy income of the MLC has remained relatively stable; this is a result of reduced livestock numbers over recent years.

5 Further, whilst the MLC accounts show the funding of expenditure as between general levy and promotional levy, this information is not provided for QMS and HCC. It is therefore not possible to check whether, at devolved body level, funds have been appropriately applied for the purpose intended.

Summary of key points

27. The following key points arise in relation to the levy:

a) Looking first at governance and oversight, the extent of ministerial and parliamentary involvement in the setting of levy rates varies from body to body. The arrangements with regard to cereals and oilseeds require the rate to be approved annually by ministers and then submitted to Parliament. In the cases of milk, potatoes and horticulture, the rates are subject to ministerial approval within the maxima set down in legislation. The meat arrangements have the least degree of ministerial involvement: maxima are set in legislation but there is no requirement to seek ministerial approval prior to setting individual levy rates.

b) Looking at geographical coverage, levies on milk, meat, potatoes and horticulture are collected on a GB basis. Cereal and oilseeds have UK coverage.

c) Turning to the scope of the levies, levies are raised only on primary production in milk and horticulture but on primary production and on processing in the meat, cereals (but not oilseeds) and potato sectors.

d) Because levy is payable by purchasers of cereals and potatoes, members co-operatives have to pay the producers levy; as co-operatives they also have to pay the purchaser's levy. A number of co-operatives have expressed dissatisfaction with this.

e) The scope of levy can also vary at a more detailed level: for example, grain fed to animals on farm escapes levy. The use of exemptions varies: registration thresholds exist in potatoes and horticulture that have the effect of exempting very small producers but these do not apply in the other sectors. And there are some special issues in the horticulture sector relating to apples and pears and mushrooms.

f) The basis upon which levy is collected also varies by sector. Three of the levies on primary production amount to something close to turnover. The horticulture levy is actually based on turnover figures, derived from producer accounting returns. In the case of milk the producer levy is deducted at first point of sale on a pence per litre basis, and in the case of grain and oilseeds the producer levy is similarly deducted from the amounts due from merchants to producers on a weight basis. As liquid milk, grain and oilseeds are close to being commodities realising standard unit prices, these arrangements may be regarded as approximating to turnover. But the potato levy is not turnover based; the production levy is based on area planted and the processor levy is based on tonnage. And the meat levy is not turnover-based, being applied per head of cattle, sheep and pigs.

g) Levy is either invoiced directly to the grower, as with horticulture, potatoes, and some milk producers, and/or it is collected at first point of sale, as with cereals and oilseeds, potato processing, most milk, and all meat. In general collection costs are lowest when the first point of sale approach is used but the levy body then loses the ability to make direct contact with levy payers.

Different approaches to the levy: input from the BPC

28. The BPC has submitted a report (July 2005) to this Review on different levy collection options. The BPC review group looked at a range of possibilities in the context of potatoes and some of the key points are summarised below.[6]

6 The group did not fully address the question of whether levies should be paid by producers only or also by processors.

Current system: area and tonnage.

29. Problems with the current system are its cost; the fact that the amount of potatoes cropped may be lower than expected for the planted area because of disease or flooding; and the fact that the potato co-operatives 'pay twice'.

Levy based on tonnage only.

30. In this option levy would be charged at a fixed rate per tonne on tonnage purchased. The BPC report assumes that levy would be charged at each point of purchase. Purchasers would submit monthly returns on potatoes purchased. There would be no need for grower returns/monitoring and so there would be cost savings. The BPC would lose the statistics currently collected through the planting returns and would lose direct contact with the growers. The BPC is also concerned that it, rather than the farmer, would bear the risk of crop failure (currently the farmer pays on acreage sown to potatoes so that any failure of the crop is a risk he bears).

Levy based on turnover and collected from purchasers.

31. This would be a levy set as a percentage of the farm gate price and collected from first purchasers. Levy rates would be calculated taking into account the crop values from the previous seasons. The volatility of the ex-farm values is seen as a problem for this option. Again, concerns about BPC assuming the risk for the crop is also identified as a problem.

Levy based on turnover and collected from producers and purchasers.

32. This is a variation of the above option with purchasers paying a flat rate levy and producers paying a percentage of ex-farm value.

Levy linked to the Single Farm Payment (SFP)

33. Under this option, the BPC would see Defra providing it with an agreed amount deducted from the funds available from the SFP. Similar arrangements would have to be put in place for the devolved authorities. This has a number of attractions spelled out in the BPC's report.[7]

Levy collection based on information collected in conjunction with SFP.

34. Under this option the levy would be based on area, as now, but based on information provided by farmers in connection with their SFP applications and passed to the BPC by Defra and the devolved authorities. The BPC report identifies major cost savings from the reduction in staff costs associated with area monitoring activities.[8]

7 However, it would appear not to be permissible under EU law. See below.

8 But it does not acknowledge the difficulty of changing SFP rules (which derive from EU Regulations) in order to accommodate the changes BPC wish to see in the system. One point it does acknowledge is that, because claims under SFP may be made by the landowner or the farmer depending on the circumstances, the 'producer' in terms of BPC legislation, i.e. the person obliged to pay the levy, may not be the same as the person who claims under SFP. The report does present a way to overcome this problem but this does not appear to take full account of the difficulties that would be met in altering the rules.

Levy based on annual business turnover collected from producers and augmented by a purchasers levy based on tonnage.

35. This is in part based on the system in horticulture and similar problems to those identified with other turnover-based systems arise. Moreover, the report notes that informal discussions with levy payers have indicated that there is a groundswell of resistance to this option as levy payers are reluctant to provide access to their books.

36. The BPC report also provides a most helpful annex that examines other agricultural levy collection systems in Northern Europe. Key points are as follows:

Netherlands
Growers must complete forms which show the hectarage of potatoes. Levy is charged per hectare. The last trader/exporter in the supply chain also pays a tonnage levy.

Belgium
Levy payments are based on the previous year's planting. A levy is paid by growers on hectarage planted. Traders, packers and peelers pay a tonnage levy.

Germany
The levy collected from all growers is 0.4% of growers' turnover (on an ex-farm basis). Traders only pay for certain purposes on an ad-hoc basis. Processors do not pay levy.

France
A basic levy is paid at 2 euro per tonne. 50% is paid by the grower and 50% is paid by the processor or packer. The processor pays and bills the grower accordingly.

37. A separate document has also been provided to this Review by the BPC, prepared by Bidwells consultants. This looked at the payment by grower groups/producer organisations of the merchant levy as well as paying the grower levy. As was noted above, a number of co-operatives have complained at what they see as unfair treatment and one that discriminates against farmers co-operating. The conclusion set out in the Bidwells report is that farmer collaboration is more widespread and that current 'first purchaser' definitions are probably inadequate for the changing structure of the industry.

Single Farm Payment

38. Some suggestions have been made during the course of this Review that the levy should be deducted from the Single Farm Payment. (This was also one of the options in the BPC report considered above in this Annex). Defra legal officers have been consulted on this option, as it would, in principle, appear to have a number of advantages. These officers have advised that they do not consider that levy payments can be deducted in advance from SFP entitlements. The reasoning is set out below.

"Article 28(1) of Council Regulation 1782/2003 (the basic SFP legislation) says: *"Save as otherwise provided for in this Regulation, payments under support schemes listed in Annex I shall be made in full to the beneficiaries."*

39. Article 28 is replicated in earlier legislation and our view has always been that any deductions from payments not provided for in the Regulations would be *ultra vires*.

40. There have been occasions where, despite article 28 or similar, the RPA have set off debts owed by the farmer to the RPA elsewhere, against subsidy payments due to him. However, the main point here is that there must be a crystallised debt, i.e. an invoice or demand must have been presented and remain unpaid by the due date.[9] The initial levy

9 See case: Bent Jensen.

payment would not meet this requirement and could not therefore be deducted as proposed. Moreover, even if levy were to become an unpaid debt, as the debt is owed to the levy body (an NDPB), and the SFP is a payment by Defra the national set-off rules would not be applicable.

41. There are of course compulsory deductions such as for modulation, but otherwise, the restriction in article 28 would prevent unrelated deductions not anticipated in the Council Regulation.

42. There are some other points relevant to this issue. First, from 2005 farmers in England will receive a Single Payment based upon the area of eligible land they control, adjusted initially to reflect their historic receipts from the CAP. EU Regulations exclude apple orchards and other permanent crops from payment but allow exceptions for environmental reasons so, apart from the legal problems outlined above, the SFP does not apply to some of horticultural levy payers.

43. Furthermore, there is the matter of who the single payment goes to, i.e. landowner or tenant. Entitlements to SFP can be transferred with or without land by sale and with land by lease (i.e. entitlement can only be leased with land to support it). This issue is touched upon in footnote 8 to this Annex. Farmers can also claim SFP were they have an entitlement to common land.

44. Finally, it should be noted that the devolved authorities may deal with the SFP in ways different from that applied in England. Levy systems currently have to apply for bodies with GB coverage (UK in the case of cereals).

Annex F
Properties

	Lease/ Freehold	Lease Expiry date	Rental cost (£000 p.a.)	NBV (£000s)
BPC				
4300 Nash Court John Smith Drive Oxford Business Park Oxford	Lease	Dec 2013	169	
Sutton Bridge East Bank Sutton Bridge Spalding	Freehold			277
Rural Centre West Mains Newbridge Ingliston Edinburgh	Lease	16/02/2006	5	
HDC				
Tithe Barn Bradborne House East Malling Kent	Lease	08/08/2007	36	
HGCA				
Caledonia House Floors 1&2 Pentonville Road London	Lease	30/06/2007	250	
MDC				
MDC Trent Lodge Royal Agricultural College Stroud Road Cirencester	Lease	30/06/2014	39*	
MLC				
MLC HQ: Winterhill House Snowdon Drive Milton Keynes	Freehold			3931
PDU Hitchin Road Stotfold	Freehold			354
EBLEX HQ: Graphic House Ferrars Road Huntingdon	Lease	22/01/2009	21	
EBLEX RO: 7 Windsor Court Harrogate	Lease	19/12/2005	10	
EBLEX RO: Somerton House 10 Hamilton Road Taunton	Lease	31/03/2008	11	
EU Office: 61 Rue de Treves Brussels	Lease	31/08/2013	19	
Paris Office: 13 bis Rue Paul Saramy Fontainebleau	Lease	01/03/2013	5	
MLC Ops Group Boyle Chambers 93 Commercial Street Dundee	Lease	31/03/2006	2	
MLC Ops Group Unit 24 Sketchely Lane Industrial Estate Hinkley	Lease	30/11/2005	4	
MLC Ops Group Unit 14 Midland Court Central Park Lutterworth	Lease	30/11/2008	21	
MLC Ops Group Ross House 20 Melville Terrace Stirling	Lease	03/09/2005	5	
HCC PO Box 176 Aberystwyth Ceredigion	Lease	Dec 2005	24	
QMS The Rural Centre Ingliston Newbridge Midlothian	Lease	4/05/2017	29	

*Estimate based on MDC Annual report 2004/05