



annual report and accounts
2006/2007

the milk development council

annual report and accounts 2006/2007

**presented to the House of Commons pursuant to section 7 of
the Government Resources and Accounts Act 2000.**

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but first, some of the numbers...

around **£2.5m of match funding** attracted into the dairy industry through MDC activities

five different specialist cheese projects promoted, contributing to a **4% annual growth in sales**

almost **£6m worth of media coverage** generated to support our market development projects

139,500 copies of the fortnightly Dairy Market Update read by farmers and influencers

almost **50% of all 204 Local Education Authorities** now on board with school milk

£41 per dairy farm invested in R&D

9500 hits on the *breeding+* website per month, an **increase of 100%** from 12 months ago

10% more 11 - 14 year old girls than last year eating three or more items of dairy a day with the help of MDC's Naturally Beautiful campaign

close to **1 million hits** on www.cheddarvision.tv - promoting West Country Farmhouse Cheddar

1214 items of media coverage generated to communicate MDC services to farmers

two new processor contracts now based on MDC's MCVE (Milk for Cheese Value Equivalent) pricing

15 on-farm dairy processing ventures supported through MDC market development grants

farmers rate the value of MDC activities at **6.5 out of 10**, up from 5.9 in 2006

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what are we here to do?

“create the opportunities, insights and expertise to spur dairy farmers to improve their profits in a changing world”

what does success look like?

“increased demand for milk supplied by profitable British dairy farmers”

what is important to us?

“professionalism, trust, focus and being straightforward”





chairman's statement



Once again the British dairy industry has suffered a difficult year with constant pressure on returns brought about by the fierce competition in the liquid milk market and the on-going influence of CAP reform.

In these challenging circumstances the MDC has followed a clearly defined remit from the Council to maintain and develop markets - to ensure that levy payers have the necessary technical and commercial information to aid cost-effective milk production.

This remit is delivered through positive work streams, namely market development support, the provision of farm management knowledge, and the dissemination of economic and commercial information.

targeted market development and support

In a market that remains ultra-competitive and at the same time subject to constant shifts in consumer taste and demand, it is essential to help dairy products maintain and enhance their position within this larger market.

To this end, the MDC has continued to develop a targeted market development programme across the range of dairy products from cheese, yogurts and flavoured milks to the various forms of consumer milks by encouraging product differentiation and innovation. This objective has been achieved by working more effectively with retailers and processors, large and small, on new product development and innovation projects – the drive being to find added-value outlets for milk and to provide the consumer with a range of new dairy products and eating experiences.

The success of this targeted strategy can be measured by the continued development of markets for distinctive products, such as regional cheeses including Lancashire, Stilton and specialist Cheddars. Of equal importance is the success of regional and specialist milks such as Bowland Fresh, milk from the Jersey and Guernsey breeds, and flavoured milks.

Young people are a clear target for continuing activity to ensure that they gain and retain the habit of milk and dairy consumption. Hence there is a continued need to promote milk to school children and to teenagers in a manner that they understand and approve.

the provision of information

The MDC has followed two clearly defined objectives for the provision of information to aid its levy payers to run cost-effective businesses.

Firstly, the provision of dairy market information from the MDC's Datum service to aid the decision-making on-farm and at industry negotiator level. This has been aided by in-depth economic studies looking at dairy supply chain margins, further work on contracts and a review of the long-term structure of the industry.

Secondly, the provision of farm management information in a user-friendly practical manner for the dairy farmer to address the constant pressure of increased costs at all levels of his enterprise.

The MDC regional Extension team has been re-shaped during 2006 to work even more closely with dairy companies and co-operatives to service the growing number of

discussion groups in the process of being set up. The Extension team has become a key unit working with dairy farmers on the quest for ever greater business efficiency by ensuring the availability of information on breeding, feeding and management. The team has risen to the challenge of making the information relevant and of practical use on-farm.

Of course, research into new techniques and systems remains important. The MDC is determined that the outcome of research has to be applicable to the industry within a sensible timescale and in a form that is usable by the dairy farmer.

levy board review

The MDC Council has welcomed the government's decision to set up Levy Board UK and a milk sector company to operate from 1 April 2008, in the understanding that it will offer dedicated and focused support to dairy farmers. We believe that the objectives it has set to support and develop the industry are essential for British dairying. We are looking forward to working closely with the shadow milk sector company in the coming year as we move towards the changeover.

acknowledgements

Once again I must place on record my gratitude to the Council for their wise advice and support which has provided the strategy for another successful year. Equally I would like to thank the staff of the MDC for providing the input for this success.

The Council also places on record its thanks to Kevin Bellamy for his efforts as Chief Executive and wishes him every success in his international role.

The Council now welcomes Ken Boyns as Chief Executive.



Brian Peacock
Chairman

5 July 2007

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chief executive's report



2006/7 has been a challenging year for both the British dairy industry and the MDC. Input prices have risen, milk prices have fallen and milk production and dairy farm profits have suffered.

This has meant that MDC income has fallen slightly, and the efficacy of the work of the MDC has never been more important in assisting dairy farm profitability.

focus on profitability

With a strong focus on improving dairy farm profitability, the MDC crystallised its strategies at the beginning of the year around:

- changing consumer attitudes and breaking down barriers
- developing contracts and relationships in the supply chain
- encouraging the development of farms as competitive businesses for future markets

Significant steps forward have been made in all these areas during the year, and refined versions of these strategies – namely innovation and consumer education; supply chain relationships; farm competitiveness or efficiency – have formed the backbone

of MDC's direction for 2007/8.

Targeted communication has raised the profile of dairy products with the public and the total market is up by 0.6%.

Over the year there have been moves towards greater contract differentiation, and more transparent pricing mechanisms by basing prices on market indicators from the MDC.

industry collaboration

Of equal importance to the efforts of the MDC in improving dairy farm profitability, is working with other organisations in the dairy sector, such as RDAs, Welsh Assembly, Scottish Executive, Defra, farming unions and Dairy UK. To this end the MDC is improving its relationships with these organisations to ensure minimum duplication, and the maximum complementary activity. In fact, farmers benefited to the tune of almost £2.5m additional investment thanks to match-funding from government and industry for R&D activities and extension, school milk, added-value and consumer education initiatives. Fundamentally, all of these organisations want the same thing – a thriving and viable dairy industry.

Despite the current difficulties, the industry needs to continue looking to the future by investing in research, particularly around the areas of economic and environmental sustainability.

We at the MDC also need to ensure all our activities lead directly, or indirectly, back to improved potential profitability for farmers. With this in mind, there is a strong focus

on examining and improving our evaluation of the benefits the MDC's activities provide to dairy farmers. Just as dairy farmers only breed from their best cows, the MDC must focus its spending on the activities that have the potential to provide the maximum amount of profit improvement.

significant change

The staff of the MDC need a special word of thanks for all their hard work in the uncertainty surrounding the Levy Board Review. The next 12 months will prove important for both the dairy industry and the MDC, with both undergoing significant change.

As the new Chief Executive of the MDC, I have made, and continue to make, some significant changes to the way the MDC operates in order that it runs in a professional, straightforward, focused and trusted manner.

My personal aim is that when the MDC forms the basis of the new dairy sector company in April 2008, we will have had a smooth transition and the organisation will be even more focused and efficient than we have been in the past at delivering improved farm profitability. To this end we are working closely with Levy Board UK and the shadow milk sector company in to ensure a smooth transition, with the minimum of disruption to farmer services and staff.

A handwritten signature in black ink, which appears to read 'Ken Boyns'.

Ken Boyns
Chief Executive
5 July 2007

council members' profiles

brian peacock...

...is Chairman of the Milk Development Council.

He is also Chairman of Milk Development Council Holdings Limited and the Milk Quality Forum, and is a director of The Dairy Council. A graduate of Leeds University in biochemistry and bacteriology, he has wide technical, commercial and managerial experience in the dairy industry, initially with a family business and then with Associated Dairies, the Co-operative Wholesale Society, and Northern Foods Dairy Group where he was Technical Director.

Brian Peacock chairs the North West and North East Regional Committees of the MDC.

michael brearley...

...manages the 2,800 acres of Roxholme Estates and is a director of EA Robertson Ltd.

Michael is also a member of the Lincolnshire Valuation Tribunal and a Forum member for Dairy Crest Direct.

Michael Brearley chairs the Finance and East Anglian Regional Committees of the MDC. He is a member of the Audit, Human Resources and Market Development Committees.

william campbell...

...is a dairy and livestock farmer in Ayrshire, and is a member of the NFUS National Milk Committee.

He was a Scottish representative at CEJA between 1992-98 and is a

past Chairman of the NFUS Ayrshire Regional Board. William is currently a local director of First Milk, and is also a member of the Scottish Milk Forum.

William Campbell chairs the Communications Committee, and is a member of the Economics/ Datum and Audit Committees. He also chairs both Scottish Regional Committees of the MDC.

rosemary collingborn...

...is a dairy farmer in partnership with her husband in Wiltshire.

She has been National Dairy Chairman of WFFU and Vice Chairman of WFFU Dairy Committee. She is currently the farming member of the Veterinary Products Committee as well as a former Trustee and Council Member of the RSPCA.

Rosemary Collingborn is a member of the Market Development, Finance and Communications Committees, chairs the South West Regional Committee of the MDC and is also chair of the Regional Chairmen's Committee.

christian fox...

...share farms an organic dairy farm in Wiltshire.

Before becoming a farm manager, he worked in business and served in HM Forces. He is immediate past chairman of The Dairy Council, and was awarded a Nuffield scholarship in 2001.

Christian Fox chairs the Farm Management Committee and the South East Regional Committee, and is a member of the Market

Development, Communications and Human Resources Committees.

ian gordon...

...is Chairman of Giract, an international business research and consultancy company working in food ingredients worldwide.

He is also Chairman of Alpheco, an in vessel composting system supplier. He read Chemistry at Oxford and then worked as a Guinness brewer, as Food Ingredients Director of Express Dairies, and as an international marketing consultant for Coopers & Lybrand. Ian is a Council Member of the Society of Dairy Technology, a Fellow of the Royal Society of Chemistry and a professional member of both the Institute of Linguists and Institute of Food Technology. He also farmed 120 acres in South Buckinghamshire in the 1980s.

Ian Gordon chairs the Market Development Committee and is a member of the Communications Committee.

david homer...

...is a tenant of a mixed arable and dairy farm in Wiltshire and was awarded a Nuffield scholarship in 1999.

He has been Vice Chairman of the Wessex Regional Committee of the Tenant Farmers' Association and Chairman of the Wiltshire Grassland Society. Currently, David is a director of University of Reading Farms, a Forum member of Dairy Crest Direct, a producer representative of Waitrose Select Farm Milk, Chairman of UK-IDF

(International Dairy Federation), and a member of the IDF programme co-ordination committee (responsible for the IDF working area of dairy farming).

David Homer chairs the Economics/Datum Committee and the West Midlands Regional Committee, and is a member of the Finance, Communications and Farm Management Committees.

gwyn jones...

...is a Nuffield Scholar and dairy farmer, farming in partnership in West Sussex milking 750 cows on heavy weald clay.

He is currently the NFU National Dairy Board Chairman, Council member, Governance Board member, and director, as well as being the Vice Chairman of COPA Milk (Brussels). Gwyn is also a main board member and director of Dairy UK, and Chairman of its Farmers' Forum.

Gwyn Jones is past Chairman of MDC Evaluations Limited, and the Farm Management and South East Regional Committees. He is currently a member of the Economics/Datum and Human Resources Committees.

thomas jones...

...is a dairy farmer from Anglesey.

He has been Vice President and Deputy President of the Farmers Union of Wales, a non-executive director of Dairy Crest plc, and the North Wales member of the Milk Marketing Board. Tom is a graduate of the University of Wales in Agriculture and Agricultural Economics. He is on the

Milk Panel of the Welsh Development Agency's Agri-Food Partnership.

Thomas Jones chairs the Audit Committee, and is a member of the Communications and Finance Committees, and the MDC's Welsh Regional Committee.

trevor lloyd...

...runs a dairy farm on the west coast of Anglesey.

He is Chairman of the Anglesey County NFU and a member of the NFU Cymru Milk Board. He is also a non-executive director of National Milk Records plc. Trevor has a BSc Hons degree in Agriculture from Harper Adams Agricultural College. In recognition of his achievements at home since graduating and his plans for the future, Trevor was announced as 'Dairy Farmer of the Future 2002' – a national award sponsored by key organisations in the industry. Trevor is Chairman of Milk Development Council Evaluations Limited.

Trevor Lloyd is a member of the Farm Management and Economics/Datum Committees, and is a member of the MDC's Welsh Regional Committee.

jonathan vickers...

...spent 25 years in the international oil and chemical businesses, including four years as Castrol's director for worldwide marketing and R&D.




He now sits as a non-executive on the boards of a range of organisations, including The Planning Inspectorate, The Fire Service College and NHS South West.

Jonathan Vickers chairs the Human Resources Committee, and is a member of the Audit and Market Development Committees of the MDC.

performance against targets 2006/7

target	performance	
changing consumer attitudes and breaking down barriers		
Total market volume for milk increases by 2.5% by 2009	Across GB, total market volumes were up 0.6% on the previous year	●
Teenage girls not eating dairy because it's fattening decreases to 20% by 2009	By February 2007, only 13% 'strongly agreed' or 'agreed' that they didn't eat dairy because it was fattening 10% more 11-14 year old girls than in 2005/6 said they consumed three or more portions of cheese, milk or yogurt each day	●
More positive attitude among consumers towards milk and dairy products	19% of adults (up from 8% in 2005) guessed semi-skim had 2% fat or less 70% of adults (up from 54% in 2003) agreed or strongly agreed that milk was important; the target for 2009 is 60% 87% of adults (same as in 2003) believed milk was healthy or very healthy. 20% alone thought it was very healthy; the target for 2009 is 32%	●
Increased numbers of schools and LEAs agreeing to provide milk, including doubling the number of schools and all LEAs	10 new LEAs were recruited, taking the total to 99 out of 204 in total; 670 new schools were recruited	●
50% adoption rate of school milk schemes in schools visited by 2009	The 'conversion' rate for schools taking up schemes after visits was 30% for the year, although the last four months of the year saw the rate increase to 40%	●
Increased role for milk in the beverages market in the UK	There have been several new product launches in the past year not directly related to the MDC. The MDC is looking to increase its activity in this area in 2007/8	●
Establish and publish a business case for vending milk and dairy products within schools by 2008	Vending trials are underway; initial findings – over a seven week period – were that milk products outsold fruit juice and waters with 286 vends for water, 720 vends for fruit juice, and 1704 vends for milk including two flavoured milks and one semi-skimmed plain milk A second trial with Cool Drinks Co commenced 16 April 2007 and will run for 13 weeks. Final report for business case will be received in July 2007	●
Regional cheeses maintain their growth ahead of total cheese market (growth in previous three years averaging 2.7%) year on year	On average MDC cheese projects have achieved 4% growth in 2006/7. This is ahead of the total cheese market growth of approximately 1.5%. For each 9,000 litres going in to making one tonne of cheese, the price premium to farmers is typically around 1.5ppl There is evidence of a greater number of farmhouse cheeses being sold locally and the increase in varieties and named cheeses sold through farmer's markets and specialist outlets	●
Food Service supply chain research completed for the dairy sector and published by 2007, with market tracking activities established by 2009	Report <i>Understanding Demand for Dairy Products in the Food Service and Ingredients Sectors</i> was commissioned and completed in 2006/7. Further work will be undertaken in 2007/8 to improve mapping and traceability	●
developing contracts and relationships in the supply chain		
Use of MDC Datum increases by at least 10% year on year across the board	Website downloads were affected slightly by changes to the main MDC website in 2006. But by the end of the year they had recouped their losses and regained 2005/6 levels Recipients of the fortnightly update rose by 7.5% over the previous year, against a backdrop of the dairy farmer audience declining by 6.4% (according to Defra figures) over the past year Media reports rose by 5%	●
Recommendations of <i>Supply Chain Margins</i> and <i>Raw Milk Contracts</i> debated widely among relevant industry stakeholders, and adopted where appropriate to market conditions	Research into the effectiveness and efficiency of the supply chain remains on going and a report is due to be published in 2007 The findings of the <i>Raw Milk Contracts</i> report and coinciding NFU Vision document have been widely debated throughout the industry. There are now moves towards greater contract differentiation and more transparent pricing mechanisms based on market indicators such as MDC's Milk for Cheese Value Equivalent (MCVE), and the equivalent pence per litre cream income to Liquid Milk Processors	●

target	performance
encouraging the development of farms as a business	
<p>Potential production efficiency increases of 5% generated from R&D activities by 2009</p>	<p>The total Farm Management investment for 2006/7 was £100 per farm. The R&D component of this took the largest single share at £41 per farm</p> <p>Completed projects included:</p> <p>Footbath Design & Use, costing £2.60 per farmer and potentially returning £500+</p> <p>Meeting Market Requirements through Milk Quality, costing 67p per farmer and returning a potential 12p-78p/cow/day</p> <hr/> <p>Dairy Business Groups were a major focus; 84 groups were set up at the end of the year against a target of 100, partly due to delays in recruitment</p>
ensuring the UK's future cow can meet market and management needs	
<p>Sustained improvement in traits relating to profit, longevity and welfare, from improved genetic merit year on year</p>	<p>The trend in the UK's national index £PLI (Profitable Lifetime Index) continued to go up at the same rate (£7 per cow per year). Improvement of milk genetics alone are running close to 100 kgs per year</p> <p>During 2006/7 the daughter Fertility Index was incorporated into £PLI to combat the steady decline in fertility. Further enhancements will be made later in 2007</p> <p>In the last year research towards updating £PLI was completed and will be introduced at the August 2007 proof run. This will significantly increase the emphasis on lifespan traits, impacting on longevity and welfare</p> <hr/> <p>Use of MDC <i>breeding+</i> website has doubled during 2006/7 to nearly 9,500 reports viewed per month in the first quarter of 2007, compared with 4,600 in the same period last year</p> <p>All AI company brochures now carry the MDC <i>breeding+</i> logo and reference the origin of the information</p> <p>A recent survey of just under 3,000 dairy producers revealed that 82% of them now recognised the <i>breeding+</i> logo</p>
ensuring levy payers derive value	
<p>Annual benchmarking survey measuring change in farmer understanding: by 2009 85% of farmers are clear about MDC's role and 60% spontaneously mention MDC as source of useful information</p>	<p>The number of farmers spontaneously naming one or more MDC activity (other than 'milk advertising') rose from 33% in March 2006 to 42%.</p> <p>The number who spontaneously named MDC as a source of information for running their business rose to 31% from 11% in 2006. This placed MDC second next to the farming unions (36%), and above Government bodies (30%) and, for the first time, consultants (26%)</p> <p>The value placed on MDC's services rose from an average of 5.9 out of 10 in 2006 to 6.5 out of 10</p>

-  achieved or on target to achieve
-  some progress
-  yet to be started

great cheese from *Clawson*
EST. 1911
please help yourself



used tickets



£6.58 kg Smoked Applewood

Butter Special Reserve Cheddar

£7.18 kg
326

£7.99 kg
312

grab

changing consumer attitudes and breaking down barriers

Market Development is a crucial activity for the MDC – ensuring that consumer demand for dairy products is stimulated into the future by better education and innovative products that are available when, how and where consumers want them.

The MDC's activities in this area fall in to three parts:

- Creating positive demand
- Focusing on under 16s
- Facilitating the development of added-value products

creating positive demand

One of the biggest challenges is to promote and defend the reputation of milk and dairy.

In 2006/7, MDC undertook this through two streams of activity: firstly support for The Dairy Council, and secondly promotion of dairy products.

We jointly fund The Dairy Council with Dairy UK. The Dairy Council undertakes a crucial role in providing the nutritional expertise behind any communication or promotion the MDC carries out. Even more importantly, The Dairy Council supports the image of milk by speaking about nutritional issues on behalf of the industry or when attacks are made on dairy products in the media. The Dairy Council operates independently and bases its views on scientific evidence only.

The second area is the promotional support for dairy products in which the MDC invested £1.8 million to create positive demand last year.

For the second year, the MDC continued its campaign targeting teenage girls aged 11-16 with healthy messages around milk, cheese and yogurt. Results now show that over the two years this campaign has run, the number of 11-14 year old girls eating three or more portions of these dairy products every day increased from 15% to 25%.

Jointly funded by the EC, the learnings from this campaign are being assimilated into future projects and campaigns, and following its completion we are already working with the industry to develop the next promotional campaign.

The other major MDC promotional initiative is the Milk Moustache campaign in Scotland, which has seen more new celebrities coming on board to encourage people of all ages to drink more milk to stay healthy. With a further year of EC support to come, it will keep going from strength to strength and MDC will consequently start to step back from its commitment to allow private funding to provide increased support for the initiative.

focusing on Under-16s

We continue to work in schools to promote dairy products to children, setting them up for a healthy nutritional diet of which dairy is an important part. Over 315,000 primary schoolchildren are now drinking milk every school day thanks to the MDC team of school milk facilitators who work with milk

processors, Local Education Authorities and individual schools across the country. A suite of education resources support their activities and are specially designed to deliver various aspects of the National Curriculum.



The 'conversion' rate for schools taking up schemes after visits was 30% for the year, although the last four months of the year saw the rate increase to 40%. The uptake of milk among pupils in those schools participating in a scheme rose to 46% from 28% last year

Working with our levy board counterparts allows us to share investment in areas of similar interest, such as the www.foodafactoflife.org website, providing resources to teachers, and the School Milk Project. The School Milk Project also supported LEAF's Open Farm Sunday through its existing programmes of farm visits to help re-connect children with food production.

case study

teenage girls - naturally beautiful



Research by the British Nutrition Foundation in 2000 highlighted the lack of adequate calcium intake in many teenage girls. This is important because, contrary to popular belief, the key age for bone building is not under-10 but actually the teen years.

By failing to eat properly then, teenage girls were storing up potential health problems later on, especially osteoporosis (brittle bones). The MDC decided early in 2004 that it wanted to tackle this audience with a campaign to get girls to eat more milk, cheese and yogurt, which would help them take in the necessary amount of calcium in their diet.

First of all, we undertook extensive research with teenage girls to benchmark how much milk, cheese and yogurt they already ate and to understand how we could develop a campaign that would appeal to them. After going through a tender process, an agency was

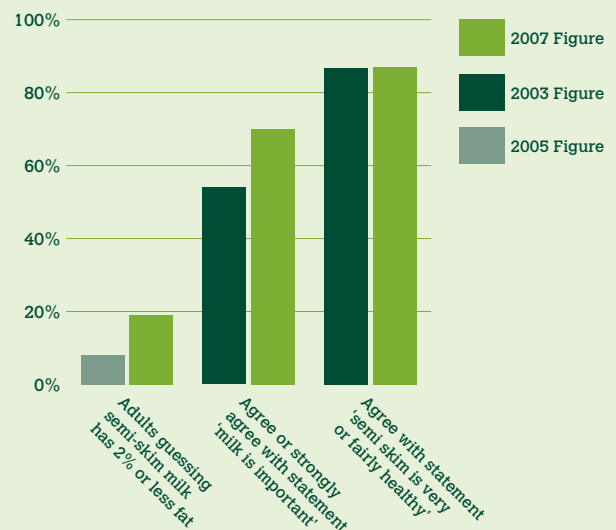
appointed and the MDC applied to the EC for funding of £1.5m to increase the budget to a total of £3m.

The time taken from deciding to do a campaign, carrying out the research, finding an agency, applying for funding and then hearing from the EC that we had been awarded the money, was a whole year!

The campaign launched in March 2005 with press, radio, a website (www.naturallybeautiful.co.uk), cinema ads and a sampling roadshow. Aimed at girls aged 11-16, the adverts told girls how the essential amino acids, B vitamins and calcium could help their hair, skin and teeth look good. In 2006, the cinema ad was transferred to TV and ran for six weeks around the Big Brother programme.

As we benchmarked consumption habits every six months from launch, we could see that girls' eating habits were changing. By the end of the campaign in February 2007, the number of girls aged 11-14 eating three or more portions of milk, cheese or yogurt every day had increased from 15% to 25%!

changes in the 'image of milk'



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21 May

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21 May



developing contracts and relationships in the supply chain

2006/7 was another tough year for dairy farmers and the MDC's Economics department did all it could to support farmers through a number of activities aimed at increasing transparency and improving working relationships within the supply chain. The central element of this was the Datum market information service.

Falling farmgate milk prices – mainly as a result of CAP reform and imbalances of power in the supply chain – combined with further increases in input costs to put an even greater squeeze on farm margins.

Furthermore, the extremely hot, dry summer in 2006 led to a fall in production and did nothing to ease the extremely low morale in the industry; there were calls by some to reduce milk production in an attempt to boost milk prices.



Six direct selling groups of dairy farmers and co-ops were provided with independent and impartial information during 2006/7

was not necessarily the answer, but that improved market innovation, better supply chain relationships and increased efficiency or competitiveness throughout the whole supply chain was.

With supply chain relationships a particular concern of the Economics department, providing factual, independent information to farmer groups supplying the main plc dairies over the year served to increase transparency and push relationships on to a more equal footing. The MDC gave independent, impartial information to those groups supplying Dairy Crest, Wiseman and Arla, as well as some other large, private dairies.

We have also seen big improvements in supply chain relationships more recently, with major multiple retailers announcing ground-breaking deals that will strengthen the relationship between farmer and consumer.

One clear benefit of the higher farmgate prices that should arise from these deals is that farmers will have been given the ability to reinvest and start planning for the future.

problems with reinvestment

Despite this, reinvestment continues to be the stumbling block with many, as highlighted for the first time in the MDC's *Farmer Intentions Survey 2006* (published in May 2006). This exposed the fact that 71% of farmers intended to invest less than £25,000 over the next five years, with the majority of these investing the same amount in the past five years. The 2007 survey (published in April 2007) revealed that this percentage had increased to 77%. This set alarm bells ringing across the industry and has also caught the imagination of the wider media... especially as it is set to deliver a one billion litre or 7% fall in raw milk production by the 2008/9 milk year.

routes to profitability

The MDC report *Routes to Profitability: Is reduced milk production the solution?* explored this issue in depth to find that reducing milk supply

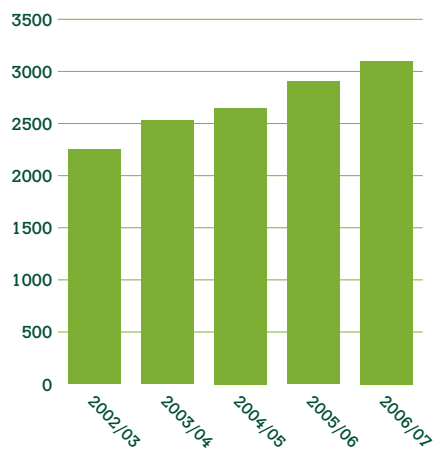
improving transparency

Improving transparency in the market has remained a priority, with the publication of one-off explanatory or research documents, tools which allow comparison of prices, more accurate formulae for calculating milk prices and regular Datum market updates:

- The *Dairy Market Update* is a critical 'product' in the organisation as it analyses possible reasons behind changes in milk prices and dairy markets, and their resulting impact on farmers. The Update was read an estimated 139,500 times by dairy farmers and industry influencers over 2006/7, an increase of 1% on the previous year in terms of total distribution, but 7.5% in terms of directly requested copies. Despite this, it requires a relatively low amount of funding from the department's £460,000 total budget.
- Recently, there have been a number of announcements by milk buyers that farmgate milk prices will be more closely related to returns from commodity markets, using indicators such as the MDC's Milk for Cheese Value Equivalent (MCVE).
- Milk prices paid by buyers continue to be tracked using the MDC milk price league table along with the interactive league table which allows individual users to see ways in which they might maximise their milk contract. The MDC will continue to provide independent and impartial information to the industry and those negotiating prices on behalf of farmers to keep them informed of current and possible future market pressures.

average number of recipients of each fortnightly update

(does not include those sent out by dairies with milk cheques)



case study

The total cost of Economics services was £30 per farmer over the year.

If just one of the direct selling groups the MDC works with (comprising around 1,600 farmers) secured a milk price that was 0.1ppl higher thanks to the independent and impartial information supplied by the team, this would be worth around £1.5m in total.



encouraging the development of farms as competitive future businesses

needs-driven r&d

The year was once again busy – taking research outcomes and shaping them into tools for dairy farmers to use on their own dairy farms. The aim is to have a range of tools that, irrespective of the type of farming system used, enable informed decision-making based (where possible) on economics.

The development of these tools in 2006/7 was driven predominantly by the MDC's field-based extension team, which is working daily with groups of dairy farmers (often through their processors) to help increase the competitiveness of their milk production.

The views of the MDC's 10 Regional Committees were also taken into account when commissioning new activities under the four key R&D areas of Production, Business Management, Cattle Health, and Welfare and Environment. Many of the initiatives funded throughout the year covered a combination of these areas to maximise the value of the £846,000 total invested.

Some of the solutions to on-farm issues have been very simple. An example of this was the development of a simple *Heat Detection* DVD for foreign employees, complete with subtitles in eight Eastern European languages. Nearly 300 flew off the shelf immediately, and we're responding to calls for more resources like this by pulling together a similar DVD on basic cattle husbandry – again with subtitles.

Footbathing has been a constant source of difficulties for farmers,

so the *Effective Footbathing of Dairy Cows* guide, another simple solution, was snapped up by 1,300 producers in less than five months.

However, some solutions have been a little more complex. In recognition of the difficulty farmers have investing in their business at the moment, the MDC has started to look at how big investment decisions can be made more easily. One such development is the *Dairy Housing* desktop review, which considers all the latest worldwide research. Presented on CD, the MDC took this a step further and supported the review with a *Housing Wizard* which helps dairy farmers trial and cost new housing designs. The result – *Housing the 21st Century Cow* – was launched in August and by the end of the year had been taken up by almost 600 producers.

The MDC *Mastitis Plan* project delivered some really impressive results from the original work. Reducing mastitis incidence in individual herds by up to 36% would be all dairy farmers' dream. But this saving comes at a cost – time and targeted attention to detail. So follow-up work to find the best way to communicate the project and get farmers using it was a key focus during the year. January 2008 is the targeted date for rolling out a step-by-step plan farmers can use effectively.

working in partnership for a strategic approach

Dairy farm profitability work continued to be the focus of the extension team. Finishing the year with 86 discussion groups was a considerable

achievement and First Milk, Arla, Milk Link, Dairy Crest, Wiseman and Dairy Farmers of Britain, among others, are to be thanked for their co-operation and support with this initiative. More recently, moves have been made to work more directly with the retailers who are beginning to source from their own dedicated supply chains. This has resulted in a closer working relationship with Sainsbury's, Marks & Spencer, Waitrose, Asda and, more recently, Tesco.



95% of farmers attending the *What If?* courses in 2006/7 said they were planning strategic change on the farm as a result

It is planned to further develop the skills of this team over the forthcoming year to build on this great start. The data set that will emanate from running this number of groups will provide a valuable resource for the individual dairy farmer seeking to discover his own business strengths and weaknesses, while working towards our targeted 5% efficiency saving in the costs of production.

what if?

The unmitigated 'hit' of the year was the revolutionary interactive computer programme, *What If?*, which the MDC

sourced from Australia under licence to use in the UK. *What If?* enables dairy farmers to challenge their dairy businesses more completely and with greater detail than ever before in a workshop situation.

It initially looks at the core costs of keeping a single cow and then focuses on the impact different management decisions have on the overall profitability of the business. Since the project started, almost 100 dairy farm businesses have participated in a workshop, to have reviews. What is starting as a chore for many farmers – leaving the farm for a number of days to participate in the course – is turning into the ‘best use of three days I’ve ever had...’

Measuring the potential return to the farmers from *What If?* is not easy, but those who attended have commented that it gave them confidence to implement plans for the future, or showed them options they had not necessarily considered before. Participants often went away feeling more in control of their future and more aware of their options. Some participants have expanded as a result and some continue to use the software at home.

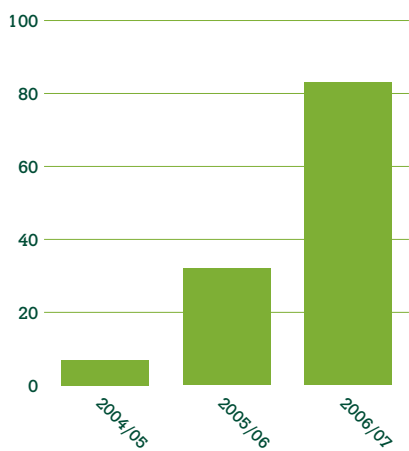
“...the sky is now the limit”

“...good to be challenged on preconceived ideas”

“...small issues can make massive changes to the bottom line”

“...highlighted the need for extra acres and quantified what we could afford to pay”

dairy business group numbers



- 84 groups meeting on average five times per year = 420 group meetings – 170% increase on last year.
- An average of eight farmers in a group = 3360 face to face meetings with dairy farmers compared with 1240 the previous year.
- Over the last three months alone over 20 different subjects have been discussed at the meetings.

r&d spend



case study

risk factors and associated economics of mastitis – total cost of the project is £290,000 over three years

Clinical cases of mastitis cost the dairy industry upwards of £160m per year, as well as the loss of production associated with sub-clinical cases. On completion of the MDC *Mastitis Plan* study programme all the farms showed an average reduction of 22% in cases of mastitis. Among farms that complied with 2/3 of the study's recommendations there was an average fall of 36% in incidences.

With £150 the average cost of a mastitis case for a 120 cow herd (with an industry average rate of 50 cases/100 cows/year, 60 cases per 120 cows) this would mean a cost of £9,000. A potential reduction of 22% would mean a saving of £1,980 on this cost. A potential reduction of 36% would mean a saving of £3,240 on this cost.

A 25% uptake across the 14,883 dairy herds in Britain could potentially mean an industry saving of, at 22% reduction, £7.4 million and at 36%, £12 million. The cost of this project to each dairy farm was £19 (over three years).

case study

footbath design & use – total cost of the project was £39,000 this year

The total cost of digital lameness in a 120-cow herd, calculated on a 25% incidence, is £6,000 (30 cases per year at £200 per case). The cost of footbathing 120 cows five times a week for a year is £1872 (120 cows at £0.30 per week for 52 weeks).

Regular footbathing was shown to reduce digital lameness by an average of 39%, thereby potentially reducing average herd incidence to 18 cases per year.

In larger herds the economies of scale reduce the cost per cow per week and can reduce the cost to as low as 20p per cow per week, giving an increased cost benefit.

The cost of this project to each dairy farm was £2.60; to date, 1,307 farmers have ordered the publication.

case study

meeting market requirements through milk quality – total cost of this project was £10,000

Dairy farmers sell their milk to a number of different milk buyers, each of which have different priorities for the composition of the milk they buy. *Meeting Market Requirements through Milk Quality* looked at the factors that can influence the content of butterfat and protein in cow's milk and provided some short and long term management actions to help maximise returns.

Case Study 1

Rectifying a fall in milk fat and protein; average returns are 78p/cow/day, £24/cow/month, average 120 cow herd equals £2,880/month

Case Study 2

Reversing a decline in butterfat at turnout; average returns are 12p/cow/day, £3.60/cow/month, average 120 cow herd equals £432/month

Case Study 3

Rectifying a rapid fall in yields and butterfat; average returns are 50p/cow/day, £15/cow/month, average 120 cow herd equals £1,800/month

The cost of this project to each dairy farm was 67p.



ensuring the uk's future cow can meet market and management needs

The beauty of a genetic improvement is that it is permanent, that is once you introduce the new genetics you will see the results each year, not just once. Changes are also cumulative; not just the cow herself benefits, but her progeny also carry the improvement into future generations.

Genetic improvement is therefore very cost effective and *breeding+* genetic evaluations (provided by MDC Evaluations Limited) was a key focus of the MDC in 2006/7. By carefully choosing the right bulls, a farmer can make some very cost-effective progress for his future herd.

The UK main selection index (£PLI – Profitable Lifetime Index) contains the following traits:

- Production (milk, fat and protein)
- Somatic Cell Count (to reduce cell counts and mastitis)
- Locomotion (to improve feet and legs, and reduce lameness)
- Fertility Index (to improve conception rates and reduce calving intervals)
- Lifespan (to increase the longevity of the cows)

revamping the profitability index

Over the past year, the MDC has been working with an industry group to update the £PLI calculation. The resulting revised index will be introduced in August 2007, at which point udder composite to improve udder functionality will also be included.

Concerns over longevity and welfare have led to emphasis moving away from production towards other traits, and in particular fertility and longevity.

History shows that effective use of the genetic tools can be a very powerful way of improving farm performance; in fact, over the past 10 years around 80% of the milk production gains can be attributed to genetics alone.

There is also a very clear impact on non-production traits when producers start to incorporate them into their genetic selection programmes – further evidence that genetics has a massive impact on farm performance.

During 2006/7 the daughter fertility index was incorporated into £PLI to combat the steady decline in fertility we have seen in recent years. Further enhancements will be made later in 2007.



Website visits for information on better breeding doubled between 2006 and 2007

case study

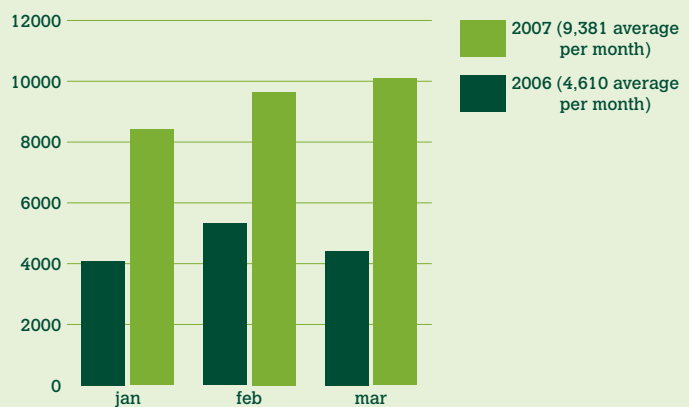
breeding+

The MDC's genetic evaluation service has been known by many names in the past – the Bull and Cow Evaluation Unit, Animal Data Centre and, more recently, MDCEL.

This causes confusion and awareness is low of the independence of the evaluations resulting from MDC's funding (in partnership with United Dairy Farmers of Northern Ireland, which contributes 10%).

The trading name was therefore changed in 2005 to link with the MDC's breeding management programme *breeding+*, and in a recent survey of 2,910 dairy farmers, 84% now recognise the *breeding+* logo as being the 'marque' for independent genetic evaluations.

visits to the new *breeding+* website



case study

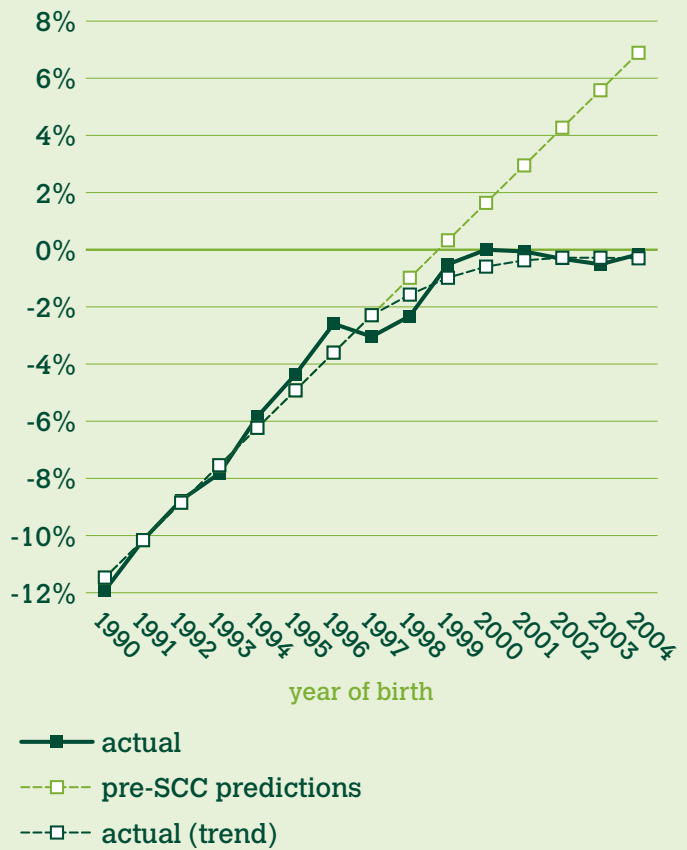
genetic improvements

Currently, black and white heifers produce around 7,500kgs of milk, which is nearly 2,500kgs more than they produced 20 years ago in 1987.

In the same time, genetics has improved the potential to milk by just under 2,000kgs, which is around 80% of the improvements seen on farm.

However, this isn't the only benefit provided by genetics. The graph opposite shows that many years of deteriorating indexes for Somatic Cell Counts (SCCs), which are shown by rising values, have now been succeeded by a period of stability. The period of stability marks – almost exactly – the point at which a genetic index for SCC was first made available to UK breeders (1998), allowing them to breed from animals with inherently lower levels of cell counts and/or mastitis.

cow breeding value

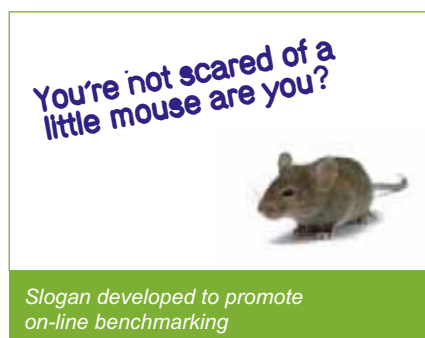




ensuring levy-payers derive value from and are satisfied with the mdc

The MDC is committed to making sure dairy farmers get value for money, and to get value, they have to know what the MDC can offer them.

The Communications department promotes the MDC's products and services, but also tells dairy farmers what other activities the organisation is carrying out on their behalf. If levy payers don't know about the MDC's work, they won't understand the value they get for their levy or the benefits they can enjoy. We have been working to greatly increase the effectiveness of how we communicate, making sure more of the right information gets to people through the right routes.



mdc as a source of information

Progress has been made in increasing knowledge about what the MDC does; in the annual MDC survey of levy payers MDC was lying second to the farming unions as a 'source of information in running your business', with 31% mentioning MDC against 36% mentioning the farming unions.

More people have been using the MDC products and services – 42% of

farmers are now able to spontaneously name one or more of our activities. This compares with 35% last year.

Furthermore, the value placed on the MDC's services has risen from an average score of 5.9 out of 10 last year to 6.5 this year.

The role of our Regional Committees, comprising around 100 farmers across the country, continue to be refreshed to ensure their input is built into our strategy and activities. More opportunities for feedback to Council are now provided and the Committees are exposed to a greater level of information about the workings of the MDC.

The Communications team has continued to implement proactive campaigns for all products and services, by department, ensuring clarity and openness at all times. Routes for this have included trade and national media (both press and broadcast), stakeholder newsletters, attendance at regional shows and national trade shows and a re-designed website providing greater clarity about MDC services.

Some of the other highlights for the year include over 1,200 press items promoting the MDC's services to farmers and the industry including national appearances on Radios 2, 4 and 5Live, and in the Financial Times and Telegraph, as well as regular features in Farmers Weekly and Guardian, British Dairying and Dairy Farmer.

The press office answers around 15 major queries each day from the media, the industry and farmers,

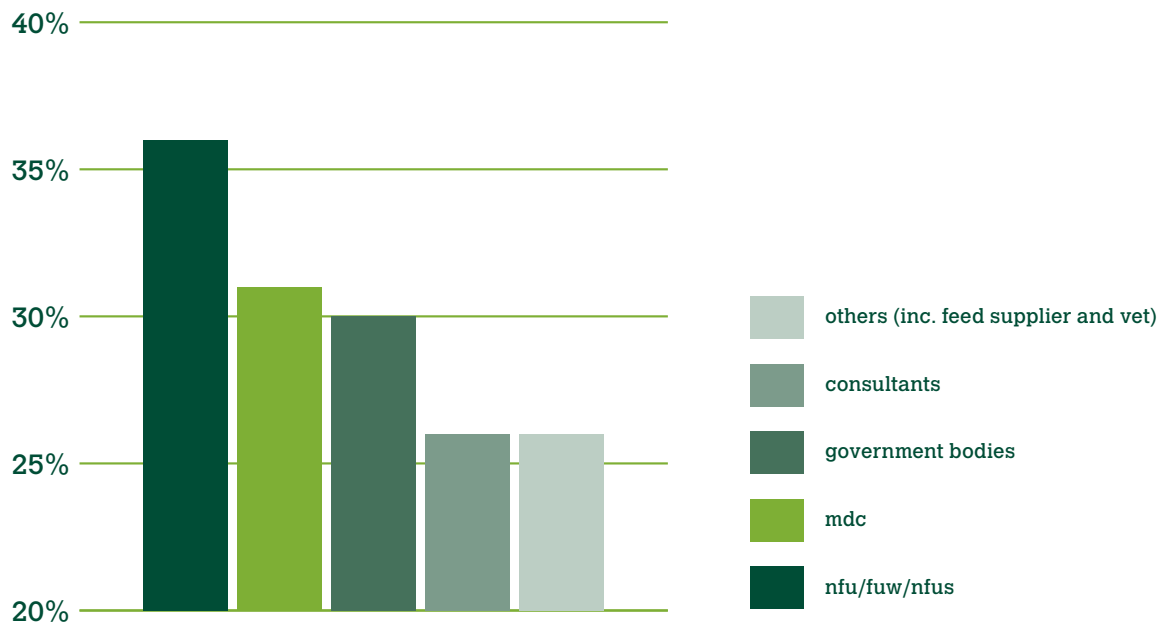


The MDC visited three large regional shows last year giving out over 1,000 samples of milk, cheese and yogurt a day

and to help with this has launched a new virtual press office on the www.mdc.org.uk website.

top three sources of info for dairy farmers in running their businesses, 2007

(spontaneous mentions)



financial review of the year

statutory background

The MDC ('the Council') was created on 7 February 1995 by Statutory Instrument, the Milk Development Council Order 1995 (SI 1995/356), made under the Industrial Organisation and Development Act 1947. The accounts have been prepared in the form directed by the Department for Environment, Food and Rural Affairs with the approval of the Treasury, under Section 7 of the Industrial Organisation and Development Act 1947 and the directions made thereunder.

principal activities and objectives

The main functions and aims of the MDC are set out in Schedule 1 of the above-mentioned Statutory Instrument. The MDC is funded by a statutory levy on all milk production in England, Scotland and Wales. The income generated by this levy is used to improve the competitiveness and profitability of British dairy farmers by the promotion or undertaking of scientific research and development in the fields of milk production and milk consumption. An Amendment to the Order in 2000 enabled Ministers to approve an increase in the levy in order that funds could be used to enhance the public image of milk.

The mission of the MDC is to create the opportunities, insights and expertise to spur dairy farmers to improve their profits in a changing world, and its vision is increased demand for milk supplied by profitable British dairy farmers.

The activities of the MDC enable investment to be made in projects that aim to help dairy farmers reduce and control costs, and to improve their returns from the market they serve. To achieve this, the MDC collects the levy from all milk producers and from this income:

- identifies and commissions R&D projects appropriate to the needs of the industry after taking into account similar work carried out by other organisations;
- communicates the results of these projects to the dairy farmer and encourages their uptake;
- undertakes market research into consumer tastes, and supports joint promotional assignments to influence the direction of the market place towards dairy products;
- collects market and pricing information and statistics on an independent basis, and disseminates these effectively and promptly to the industry;
- encourages communication along the supply chain to improve competitiveness and choice to the benefit of the producers and consumers.

The MDC has two subsidiary companies under its control, MDC Holdings Limited and MDC Evaluations Limited (MDCEL). The MDC, representing milk producers, has a participating interest in The Dairy Council through MDC Holdings Limited which holds a 50% share of this company with Dairy UK Limited, the latter organisation

representing the manufacturers, processors and distributors. The results of these companies are consolidated in this Annual Report.

financial results

Levy income fell in 2006/7 as milk production dropped due to difficult weather and financial climate. The MDC is budgeting for milk production to fall slowly for the next three years. This means the MDC will have to continue to focus on reducing all costs and ensuring the effectiveness of all spend.

It is the Council's policy to maintain reserves at a level to fund any winding up of the MDC. Due to reserves being at a higher level than this, the MDC budgeted for a deficit in the 2006/7 year in a conscious effort to reduce the level of reserves.

Reserves have fallen in line with this policy, from £2,835,248 in 2006 to £2,170,832 in 2007.

The deficit was not as large as planned due to delays in the initiations of pan-industry projects involving the whole supply chain. Then this led to lower than budgeted expenditure in the year.

performance against key financial targets

	Budget	Actual	Variance
Levy Income	6,990,000	7,008,400	18,400
Other Income	30,000	98,000	68,000
EU Grant	562,000	504,061	(57,939)
Other Grants	129,000	88,592	(40,408)
Administration Costs	(1,610,304)	(1,674,349)	(64,045)
Exceptional Item (Pension Buy Out)	(1,276,000)	(583,114)	692,886
Levy Income Net of Administrative Costs	4,824,696	5,441,590	616,894
Generic Promotion Campaign in Scotland	(440,000)	(388,000)	52,000
EU Funded Teenage Girls Campaign	(1,089,000)	(1,089,304)	(304)
Cheese Promotion Campaigns	(400,000)	(461,236)	(61,236)
School Milk Campaigns	(644,928)	(635,563)	9,365
Dairy Council Grant	(275,004)	(275,004)	0
Genetic Evaluations	(400,000)	(400,000)	0
Other Organisational Funding	(24,000)	(23,875)	125
Research & Development Project Expenditure	(1,066,566)	(714,113)	352,453
Promotional Funding & Market Development	(1,419,239)	(995,509)	423,730
Communicating spend & Regional Extension Officers	(1,473,946)	(1,148,582)	325,364
Total Grants & Project Expenditure	(7,232,683)	(6,131,186)	1,101,497
Operating Deficit	(2,407,987)	(689,596)	1,718,391
Interest Receivable	70,000	84,443	14,443
Operating Deficit before Tax	(2,337,987)	(605,153)	1,732,834
Taxation	(13,000)	(14,263)	(1,263)
Deficit Retained for the Year	(2,350,987)	(619,416)	1,731,571

Of significance this year was the withdrawal of the MDC from the Milk Pension Fund. Several MDC employees and ex-employees were members of the scheme, and the Council felt it was prudent for the MDC to exit the fund. Permission was obtained from Defra and Treasury.

The withdrawal has simplified the pension provision of the MDC, and means the organisation is exposed to less risk and no potential substantial increases in employers' contributions in order to provide stability to the fund. All staff now have access to a defined contribution pension scheme.

payment policy

It is the policy of the MDC to settle payments within 30 days of agreement of the amount invoiced.

health and safety

The MDC continues to observe the regulations made under the Health and Safety at Work, etc Act 1974 in the working environment. There were no reportable accidents on the premises during the year ended 31 March 2007 (2006:1).

employees

The MDC is supported by a dedicated team of professional permanent and temporary staff. The management team works together to implement the policy and strategies of the Council in order to improve the profitability of dairy farmers. The MDC has a policy of equal opportunities and offers employment to a suitably qualified person whenever vacancies occur.

The MDC depends on the skills and commitment of its employees in order to achieve its objectives. Staff are, therefore, encouraged to make their fullest possible contribution to the success of the MDC. The company's employment practices are designed to attract, retain and motivate all employees and to encourage their participation within the business.

The MDC seeks to promote and maintain good relations with its staff and considerable emphasis is placed on the development and maintenance of an open management style with frequent and informal consultation at a working level. On a more formal basis, regular staff meetings are held to discuss matters of general interest and concern.

The MDC has ensured that its premises conform to the requirements of the Disability Act. On moving to the premises a disability audit was commissioned and recommendations made to improve matters further than required by the Act have been implemented.

council members

Profiles of the current members of the Council are given on pages 6 to 7.

council members' responsibilities

Council members have corporate responsibility for ensuring that the MDC complies with any statutory or administrative requirements for the use of public funds. Members are responsible for the overall strategic direction of the MDC within the

terms of the Statutory Order, and for ensuring that high standards of corporate governance are observed at all times. The Council has established a Register of Interests of Council members which is open for public inspection at the Council's offices.

charitable donations

No charitable donations, other than grants made in furtherance of the objectives of the MDC to bodies that may have charitable status, have been made during the past year.

environmental policy

The MDC is totally committed to minimising any harmful effects of its activities on the environment, and to working with suppliers, levy payers and the local community to carry out this policy. Procedures to reduce energy usage and minimise waste have been put into place and the MDC works with suppliers to avoid excess packaging and to promote the use of recyclable materials.

levy body reform

The Agricultural Levy Boards are currently being reformed into a new structure with one central levy board – currently known as Levy Board UK (LBUK). This new organisation will have subsidiaries for each of the agricultural sectors, and it is planned that the assets and liabilities of the MDC will be transferred to the new structure on 1 April 2008.

The MDC is working closely with the various groups set up to co-ordinate the new structure and with

the new board members. There will be impact on the organisation, but as far as is possible we are planning for business as usual, and as smooth a transition as possible.

The MDC's future plans and activities can be found in the 2007-2010 Corporate Plan available on the MDC website.

going concern

The Council considers that the MDC has adequate resources to remain in operation for the foreseeable future (on the basis that all assets and liabilities will pass to LBUK) and has, therefore, continued to adopt the going concern basis in preparing the financial statements.

auditors

MDC's external auditor is the Comptroller and Auditor General. No payments have been made to the auditors for non audit work during the year ended 31 March 2007.

So far as the Accounting Officer is aware, there is no relevant audit information of which the auditors are unaware. The Accounting Officer has taken appropriate steps to make himself aware of any relevant audit information and to establish that the auditors are aware of the information.

Signed



Ken Boyns

Chief Executive and Accounting Officer
5 July 2007

statement of accounting officer's responsibilities in respect of the accounts

The Chief Executive, as the designated Accounting Officer, is required to keep proper accounts and prepare statements of account for each financial period which give a true and fair view of the state of affairs of the Council and of the surplus or deficit of income over expenditure, in such form as the Ministers, with the approval of the Treasury, may direct. In providing those accounts, the Accounting Officer is required to:

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that the Council will continue in business

The Chief Executive is appointed by the Council under a service contract and is an employee of the Milk Development Council. The Chief Executive has day to day responsibility for managing the Council's business, the control and the security of the Council's assets, preparation of the accounts and compliance with the Standard Orders and Financial Instructions laid down by the Council. The full Council annually approves the Chief Executive's remuneration, having regard to the level of performance during the year.

The Accounting Officer is responsible for ensuring that proper accounting records have been kept which disclose, with reasonable accuracy at any time, the financial position of the Council and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed



Ken Boyns
Chief Executive and Accounting Officer
5 July 2007

accounting officer's statement on internal control

scope

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the policies, aims and objectives of the MDC, as established by the Council members carrying out their duties under Statutory Instrument 1995 No. 356, whilst safeguarding the organisation's funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

corporate governance

During the 2005/6 year the Council implemented and reviewed a revised governance system with updated terms of reference and structure for MDC committees, and revised delegated authorities. The revised structure was confirmed by the Council as enhancing the system of control and accountability existing within the MDC. As part of the system of control there are a number of bodies charged with oversight of MDC's activities.

1. the council

MDC Council Members perform their duties in accordance with their Code of Conduct and display any interests in the Register of Interests which is available for viewing at the MDC's offices. During 2005/6 the Council updated its delegation of authorities to other bodies and the Executive, and updated the employee manual issued to all employees which details the procedure for whistleblowing as part of the procedures for the avoidance of fraud. Council members are also corporately responsible for

implementing the MDC's approach to managing risk and strategically reviewing the internal controls of the organisation. Specific responsibility for reviewing and agreeing the processes for risk management and reviewing internal control procedures has been delegated to the Audit Committee which meets four times a year.

2. mdc management

Each departmental manager provides a letter of representation confirming that the control mechanisms within their area of responsibility are operating correctly, and providing assurance to me as Accounting Officer in providing this statement. To assist them in maintaining the internal control systems on a day-to-day basis, there is an Operations and Procedures Manual that sets out the authorities, procedures and controls of the MDC. This is updated as required, and is subject to an annual review of all procedures and controls. All changes to the Manual have to be approved by the Audit Committee.

3. audit committee

The terms of reference for the MDC Audit Committee have been updated to incorporate current best practice for an organisation of MDC's size, and the role and function of the Audit Committee made discrete from other Council committees. The terms of reference are based on the Audit Committee Handbook issued by HM Treasury. Comparison of the new edition of this handbook with current MDC practice has led to minor changes to the terms of reference of the Audit Committee to ensure that the committee follows best practice. Membership is drawn

from existing Council members. The Chair is independent of all other duties and responsibilities within the MDC. The Audit Committee's primary responsibilities include monitoring the systems of internal control, approving the accounting policies and reviewing the annual financial accounts. The Audit Committee regularly reviews the major risks facing the MDC.

4. external audit

In line with other Non-Departmental Public Bodies the MDC's accounts are audited by the Comptroller and Auditor General. This external audit contributes a further independent perspective on the internal financial control system. The external auditors report their findings to the Audit Committee on an annual basis, and recommendations are monitored for follow-up.

5. internal audit

Because of the limitations of size, the Milk Development Council does not have its own internal audit function, and this function is provided under contract to an external accounting firm, operating to Government Internal Audit Standards. An annual internal audit plan is drawn up and agreed with the external accounting practice. This plan is co-ordinated with that of the external auditors in order to ensure that full coverage is provided to all areas necessary to meet appropriate accounting and audit standards. I have ensured that the findings and recommendations concerning Corporate Governance and Risk Management identified during the year have been implemented.

6. defra

In addition, I meet quarterly with representatives of our sponsoring department Defra to discuss operational and risk management issues that arise. During the year a revised Management Statement and Financial Memorandum covering the relationship between Defra and the MDC has been agreed and implemented. Throughout the year Defra provides advice, information and guidance to the MDC, and continues to monitor activities by the regular receipt of financial reports and minutes of operational matters.

risk identification and management

Council members are corporately responsible for overseeing the MDC's approach to managing risk and strategically reviewing the risk

register. The content of the risk register is agreed, owned and addressed by the Council, who oversee the embedding of risk management in the culture of the organisation.

Responsibility for reviewing and agreeing the processes for risk management, actions to mitigate likelihood and impacts of risks, are delegated by the Council to the Audit Committee. The Audit Committee regularly reviews the major risks facing the MDC which have been identified by the management team and identified within our risk register.

Risks are managed hierarchically and subordinate risk registers to the overall risk register are held within each department. These risk registers identify the unmitigated risk levels, before mitigating action is taken, and residual risk, after action has been taken.

Risk management is part of the MDC's overall management activities, achieved by means of regular reviews by management and the maintenance of a risk register. Risk management has been embedded throughout the MDC's business processes and is regularly reviewed by the Audit Committee, who are given further assurance by the internal auditors. However, a focus during 2007/8 will be to embed risk management further in to the management process so that it becomes a crucial part of the process of achieving outcomes.

the risk control framework

The key elements of this process are summarised below:

- the Audit Committee reviews the MDC's risk management process;
- a risk assessment programme operates that evaluates and prioritises the business risks relevant to the MDC;
- a risk register operates that identifies those responsible for each risk and identifies the significance and likelihood of occurrence, the controls and procedures in place in respect of each risk and the actions taken, where appropriate, to manage risks to the desired level; and
- each department reports on a regular basis through the weekly management meeting on the status of the business risks identified.

The risk register and the status of risks identified will continue to be updated through the risk assessment programme.

internal control and performance management

The system of internal control is designed to manage rather than eliminate the risks of failure to achieve policies, aims and objectives; it can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the principal risks to the achievement of MDC policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them effectively and economically. This process has been in place in the MDC for the year ended 31 March 2007 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

The system of internal control provides only reasonable but not absolute assurance that the assets of the MDC are safeguarded, transactions are authorised and properly recorded, and that material errors and irregularities are either prevented or would be detected within a timely period. The system of internal financial control is based on a framework of regular management information, and administrative procedures including, as far as possible, given that the MDC employs a small administrative staff, the segregation of duties and a system of delegation and accountability. In particular it includes:

- a management structure that clearly defines authority, responsibility and accountability;
- an Operations and Procedures

manual, that documents the policies, systems and controls which are in place;

- staff performance appraisal scheme, designed to set objectives in line with the corporate plan deliverables;
- budgeting systems with an annual budget which is reviewed by the Audit and Finance Committees, and approved by the full Council;
- regular reviews by the Audit and Finance Committees and the full Council of periodic and annual financial reports that indicate and explain financial and physical performance against budgets;
- monitoring by the internal audit function on behalf of the Audit Committee in overseeing the work of the Chief Executive who has responsibility for the development and maintenance of the financial control framework;
- monitoring by the Audit and Finance Committees in overseeing the work of the Chief Executive and other MDC officers who have responsibility for the development and maintenance of the financial control framework, and following up on recommendations made by internal audit regarding corporate governance and risk management and by the external auditors in their management letter;
- setting targets to measure financial and other performance;
- clearly defined capital and investment control guidelines;

- a strategy and policy for identifying and managing key risks;
- as appropriate, formal project management disciplines, which have been standardised during the year and are currently being implemented across the organisation;
- as far as practicable, given that the MDC employs a small administrative staff on efficiency grounds, the segregation of duties and a system of delegation and accountability.

review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. The change of Accounting Officer in February 2007 has made this particularly important this year.

My review of the effectiveness of the system of internal control has been assisted by the work of the departmental managers who have responsibility for the development and maintenance of the internal control framework, and comments made by the external and internal auditors in their management letters and other reports.

Unfortunately, the internal review of the system has resulted in concerns about the efficacy of the implementation of the system of internal control. While the design of the system has been adequate, implementation has not. The review of the system has thrown up two main areas of concern: authorising projects and signing contracts. I have:

- Fully reviewed those areas of the system
- Reissued clear guidance to all managers and staff
- Made Audit Committee and Council aware of all the breaches in procedure

- Informed Defra, and our internal and external auditors
- Reviewed all projects that did not comply with the system of internal control to ensure all such projects were valid spends of MDC funds
- Most importantly, strengthened and improved the systems for internal control, by automating some processes, leading to highlighting of any breaches much sooner. This will be reviewed by our internal auditors early in the 2007/8 financial year.

The review of projects has revealed that despite the breaches in procedure, no expenditure was incurred on projects that were outside our remit or corporate plan.

Unfortunately, during the year the MDC made a low value payment for which it did not have proper authority (please see note 29). Our control systems were strengthened to prevent recurrence.

In addition to these concerns, various minor weaknesses have been identified. I have been advised by the Audit Committee on the implications of the findings of my review of the system of internal control, and a plan to address all the problems discovered and to ensure continuous improvement of the system is in place.

I am now satisfied that the improved systems combined with better implementation, mean that there will be a much lower risk of breakdown of procedures in the future.



Ken Boyns
Chief Executive and Accounting Officer

5 July 2007

remuneration report

human resources committee remuneration policy

The Human Resources Committee performs inter alia the functions of a remuneration committee.

The Human Resources Committee comprises four Council members, as listed on page 81. The Committee is responsible for considering, and making recommendations to the Council on the base salary and benefits of the Chief Executive, and for determining, on the Council's behalf, specific remuneration packages and other employment benefits for each of the employees of the MDC. The Chief Executive attends meetings of the committee when it is considering the performance and remuneration of other members of staff.

role of the committee

- to advise the Council on human resources policies and procedures;
- to advise the Council on health and safety policy and practice;
- to recommend the salary and benefits of the Chief Executive to the Council;
- to determine salary structure for all other grades;
- to monitor staff pension arrangements;
- to monitor grade levels and appraisal procedures;
- to monitor training plans;
- to advise on succession planning.

The MDC Chairman, who works on a part-time basis, and the Council, composed entirely of non-executive members, are appointed by the Secretary of State for the Department for Environment, Food and Rural Affairs, the Scottish Ministers and the Minister for Rural Affairs, National Assembly for Wales. Council members and the Chairman are appointed for terms of three years, and are eligible for re-appointment; generally Council members can serve no more than two terms. In exceptional circumstances these terms may be extended, and the present Chairman and Council are in such a position where they have been requested to remain in office until 31 March 2008, when the new levy board structure will be put in place. Remuneration for Council members and Chairman is approved by the Secretaries of State. Members are corporately responsible for the overall operation of the Council and the stewardship of its funds.

Council members do not receive remuneration but can claim an honorarium payment of £150 per day for meetings attended, or for work carried out solely on the Council's behalf. The amount of the honorarium is determined by the Department for Environment, Food and Rural Affairs after consultation with other ministerial departments. No pension contributions are paid for Council members.

The Chairman's remuneration is linked to Senior Civil Service pay bands and is adjusted pro-rata to reflect the number of days actually spent on MDC work. The MDC is advised annually

of the salary by the Department for Environment, Food and Rural Affairs.

Council members and the Chairman are entitled to claim expenses for work undertaken on behalf of the MDC. These are reimbursed at the same rate as that for employees of the MDC.

Details of remuneration, pension entitlements and benefits of the Chairman, Council members, and Chief Executive are set out in the next column.

chairman and council members (audited)

The emoluments of the Chairman were £35,982 (2006: £34,849). No pension contributions are paid for the Chairman.

The following honoraria payments have been made to Council members:

Honoraria payments for the year ended:	31 March 2007 (£)	31 March 2006 (£)
Michael Brearley	4,725	4,875
William Campbell	5,700	6,675
Rosemary Collingborn	5,925	6,600
Christian Fox	6,975	8,400
Ian Gordon	2,025	1,800
David Homer	7,500	8,025
Gwyn Jones	2,325	3,825
Thomas Jones	3,900	5,400
Trevor Lloyd	6,750	10,275
Jonathan Vickers	3,000	3,900

chief executive (audited)

A new Chief Executive (who is not a Council member) was appointed to the MDC on 1 February 2007. The gross emoluments of the Chief Executive up to 31 January 2007 were £64,683, plus a car allowance of £5,500. The gross emoluments include provision of private health cover. The gross emoluments of the new Chief Executive from 1 February 2007 up to 31 March 2007 were £12,500 (salary £75,000 per annum), plus a car allowance of £1,100 (car allowance of £6,600 per annum). There was no provision of private health care. Additionally, pension contributions were made of £1,562. The total gross emoluments for the position of the Chief Executive Officer for the year were therefore £77,183 (2006: £74,308) plus a car allowance of £6,600 (2006: £6,600).

The former Chief Executive was employed under a service contract which entitled him to six months' notice of termination. There is no entitlement to any other benefits on termination of employment. The present Chief Executive is employed under a fixed-term service contract which expires on 31 March 2008. Remuneration of the Chief Executive is decided annually by the Council on recommendations put forward by the Human Resources Committee.

other employees

The number of employees, other than the Chief Executive, earning in excess of £40,000 (excluding pension contributions) is as follows:

	2007 No.	2006 No.
£60,000 and £64,999	-	1
£55,000 and £59,999	-	-
£50,000 and £54,999	3	2
£45,000 and £49,999	1	2
£40,000 and £44,999	-	1

Base salary and benefits for all employees of the MDC are reviewed annually by the Human Resources Committee. In reaching its decisions the committee is advised by an external human resources consultant. Annual appraisals are conducted with each employee to determine performance and areas where additional training is required. The base salary for each employee is determined by taking into account individual performance, and information from independent sources on the rates of salary for similar levels of responsibility in comparable organisations. A grading system is in operation and the duration of employee contracts is dependent upon the grade occupied. Senior management and staff are employed under service contracts of three months' notice of termination, all other staff are employed under contracts requiring one month's notice of termination. There is no entitlement to any other benefits on termination of employment.

In addition to salaries, the MDC provides private medical insurance after a year's service to employees in defined grades, and contributes to approved pension schemes for all employees who wish to join such schemes.



Ken Boyns
Chief Executive and Accounting Officer

5 July 2007

the certificate and report of the Comptroller and Auditor General to the House of Commons and the Scottish Parliament

I certify that I have audited the financial statements of the Milk Development Council for the year ended 31 March 2007 under Section 7 of the Industrial Organisation and Development Act 1947, as amended by the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003. These comprise the consolidated and Milk Development Council's income and expenditure accounts, balance sheets and statement of cash flows, the combined statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

respective responsibilities of the Council Members, Accounting Officer and Auditor

The Council Members and Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with Section 7 of the Industrial Organisation and Development Act 1947 and Ministerial directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements,

and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with Section 7 of the Industrial Organisation and Development Act 1947 and Ministerial directions made thereunder. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Financial Review for the Year is inconsistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Milk Development Council has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Milk Development Council's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Milk Development Council's corporate governance procedures or its risk and control procedures.

I read the other information contained

in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

basis for audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Milk Development Council and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Council's circumstances, consistently applied and adequately disclosed.

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

to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

audit opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with Section 7 of the Industrial Organisation and Development Act 1947 and directions made thereunder by Ministers, of the state of the Milk Development Council's affairs as at 31 March 2007 and of its deficit for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with Section 7 of the Industrial Organisation and Development Act 1947 and Ministerial directions made thereunder; and
- information given within the Annual Report, which comprises the Financial Review for the Year, is consistent with the financial statements.

audit opinion on regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

report

I have no observations to make on these financial statements.



John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London, SW1W 9SP

11 July 2007

consolidated income & expenditure account

For the year ended 31 March 2007		Notes	2007 (£)	2006 Restated (£)
Group Income including share of Joint Venture			7,999,547	8,545,627
Less share of external income of Joint Venture		14	(275,614)	(275,143)
			7,723,933	8,270,484
Comprising				
Levy Income		2	7,008,400	7,248,184
Other Income		3	101,700	226,787
European Union Grant funding		4	504,061	750,000
United Dairy Farmers of Northern Ireland Grant funding			21,180	-
Other Grant funding		5	88,592	45,513
Administration Costs		7	(1,690,883)	(1,498,682)
Exceptional Item:				
Purchase of annuities to buy out pension scheme liabilities		24	(583,114)	-
Group Income Net of Administration Costs			5,449,936	6,771,802
General Promotion Campaign in Scotland			(388,000)	(378,000)
Teenage Girls Dairy Promotions Campaign		4	(1,089,304)	(1,498,400)
Cheese Promotion Campaigns			(461,236)	(400,890)
School Milk Campaigns			(635,563)	(695,574)
Genetic Evaluations			(392,896)	(455,748)
Other Organisational Funding			(23,875)	(23,256)
Research & Development Project Expenditure			(714,113)	(1,086,532)
Promotional Funding & Market Development			(995,509)	(1,173,147)
Communication & Regional Extension Officers			(1,148,582)	(1,147,495)
Total Grants & Project Expenditure			(5,849,078)	(6,859,042)
Exceptional Income		10	-	23,783
Group Operating Deficit			(399,142)	(63,457)
Share of operating deficit of Joint Venture			(340,588)	(320,845)
Total Operating Deficit: Group and share of Joint Venture			(739,730)	(384,302)
Group interest receivable		6	86,293	134,936
Share of interest receivable in Joint Venture		6	7,071	8,542
Operating Deficit before Taxation			(646,366)	(240,824)
Group Taxation		11	(14,615)	(28,393)
Share of taxation in Joint Venture			(1,344)	(841)
Operating Deficit after Taxation			(662,325)	(270,058)
Minority interest			(1,695)	450
Deficit Retained for the Year			(664,020)	(269,608)
Notional Cost of Capital		12	105,110	119,425

The notes on pages 53 to 73 form part of these accounts. All activities are derived from continuing operations.

income & expenditure account (milk development council only)

For the year ended 31 March 2007	Notes	2007 (£)	2006 Restated (£)
Levy Income	2	7,008,400	7,248,184
Other Income	3	98,000	202,057
European Union Grant funding	4	504,061	750,000
Other Grant funding	5	88,592	45,513
Administration Costs	7	(1,674,349)	(1,498,652)
Exceptional Item			
Purchase of annuities to buy out pension scheme liabilities	24	(583,114)	-
Levy Income Net of Administrative Costs		5,441,590	6,747,102
Generic Promotion Campaign in Scotland		(388,000)	(378,000)
Teenage Girls Dairy Promotions Campaign	4	(1,089,304)	(1,498,400)
Cheese Promotion Campaigns		(461,236)	(400,890)
School Milk Campaigns		(635,563)	(695,574)
Dairy Council Grant		(275,004)	(275,004)
Genetic Evaluations		(400,000)	(400,000)
Other Organisational Funding		(23,875)	(23,256)
Research & Development Project Expenditure		(714,113)	(1,086,532)
Promotional Funding & Market Development		(995,509)	(1,173,147)
Communication & Regional Extension Officers		(1,148,582)	(1,147,495)
Total Grants & Project Expenditure		(6,131,186)	(7,078,298)
Operating Deficit		(689,596)	(331,196)
Interest Receivable	6	84,443	131,476
Operating Deficit before Taxation		(605,153)	(199,720)
Taxation	11	(14,263)	(27,671)
Deficit Retained for the Year		(619,416)	(227,391)
Notional Cost of Capital	12	105,110	119,425

The notes on pages 53 to 73 form part of these accounts. All activities are derived from continuing operations.

statement of total recognised gains & losses

For the year ended 31 March 2007	Notes	2007 (£)		2006 Restated (£)	
		Group	Council	Group	Council
Deficit for the financial year		(664,020)	(619,416)	(269,608)	(227,391)
Actuarial loss on pension scheme	24	(45,000)	(45,000)	(80,000)	(80,000)
Total recognised losses for the year		(709,020)	(664,416)	(349,608)	(307,391)

The notes on pages 53 to 73 form part of these accounts.

consolidated balance sheet

as at 31 March 2007	Notes	2007 (£)	2006 Restated (£)
Fixed Assets			
Tangible Fixed Assets	13	76,803	89,265
Fixed Assets Investments	14	200	200
Investment in Joint Venture:			
Share of gross assets	14	186,823	272,145
Share of gross liabilities	14	(23,413)	(48,878)
		163,410	223,267
		240,413	312,732
Current Assets			
Stock		-	4,690
Debtors - amounts falling due within one year	15	2,432,370	2,282,069
Debtors - amounts falling due after more than one year	15	67,066	95,574
Initial Funding for Projects	16	-	33,294
Cash in hand and at bank	19	1,036,058	2,952,186
Total Current Assets		3,535,494	5,367,813
Creditors - amounts falling due within one year	17	(1,399,182)	(2,489,495)
Liability relating to termination of pension fund	24	(33,000)	-
Net Current Assets		2,103,312	2,878,318
Net assets excluding pension liability		2,343,725	3,191,050
Pension Liability	24	-	(140,000)
Minority Interests		(1,036)	659
Net assets including pension liability		2,342,689	3,051,709
Reserves			
Retained Surplus	20	1,942,114	1,660,598
Marketing Development Reserve Fund	21	400,575	1,391,111
		2,342,689	3,051,709

The notes on pages 53 to 73 form part of these accounts.

Approved by the Council on 12 June 2007 and signed on its behalf by



Brian Peacock
Chairman



Ken Boyns
Chief Executive & Accounting Officer

5 July 2007

balance sheet (milk development council only)

as at 31 March 2007	Notes	2007 (£)	2006 Restated (£)
Fixed Assets		£	£
Fixed Assets Investments	14	1	1
Tangible Fixed Assets	13	76,803	89,265
		76,804	89,266
Current Assets			
Stock		-	4,690
Debtors - amounts falling due within one year	15	2,423,653	2,309,325
Debtors - amounts falling due after more than one year	15	67,066	95,574
Initial Funding for Projects	16	-	33,294
Cash in hand and at bank	19	958,473	2,912,255
Total Current Assets		3,449,192	5,355,138
Creditors - amounts falling due within one year	17	(1,322,164)	(2,469,156)
Liability relating to termination of pension fund	24	(33,000)	-
Net Current Assets		2,094,028	2,885,982
Net assets excluding pension liability		2,170,832	2,975,248
Pension Liability	24	-	(140,000)
Net assets including pension liability		2,170,832	2,835,248
Reserves			
Retained Surplus	20	1,770,257	1,444,137
Marketing Development Reserve Fund	21	400,575	1,391,111
		2,170,832	2,835,248

The notes on pages 53 to 73 form part of these accounts.

Approved by the Council on 12 June 2007 and signed on its behalf by



Brian Peacock
Chairman



Ken Boyns
Chief Executive & Accounting Officer

5 July 2007

consolidated statement of cash flows

as at 31 March 2007	Notes	2007 (£)	2006 Restated (£)
Net Cash (Outflow)/Inflow from Operating Activities	18	(1,659,946)	105,068
Returns on Investments and Servicing of Finance			
Interest received	6	74,293	129,936
Taxation		(28,052)	(30,141)
Capital Expenditure			
Amounts paid to acquire tangible fixed assets	13	(27,419)	(90,543)
Financing			
Payments to joint venture		(275,004)	(275,004)
Cash Outflow before use of Liquid Resources		<u>(1,916,128)</u>	<u>(160,684)</u>
Analysis of Cash at Year End			
(Decrease)/Increase in cash deposits		(294,800)	708,910
Decrease in term cash deposits		(1,621,328)	(869,594)
Decrease of Cash	19	<u>(1,916,128)</u>	<u>(160,684)</u>

The notes on pages 53 to 73 form part of these accounts.

statement of cash flows (milk development council only)

as at 31 March 2007	Notes	2007 (£)	2006 Restated (£)
Net Cash Flow from Operating Activities	18	(1,971,136)	(93,128)
Returns on Investments and Servicing of Finance			
Interest received	6	72,443	126,476
Taxation		(27,670)	(29,449)
Capital Expenditure			
Amounts paid to acquire tangible fixed assets	13	(27,419)	(90,543)
Cash Flow before use of Liquid Resources		<u>(1,953,782)</u>	<u>(86,644)</u>
Analysis of Cash at Year End			
(Decrease)/Increase in cash deposits		(336,365)	554,090
Decrease in term cash deposits		(1,617,417)	(640,734)
Decrease in Cash	19	<u>(1,953,782)</u>	<u>(86,644)</u>

The notes on pages 53 to 73 form part of these accounts.

notes to the accounts at 31 march 2007

1. accounting policies

Basis of preparation

The accounts are prepared in accordance with the requirements of Statements of Standard Accounting Practice and the Financial Reporting Standards issued by the Accounting Standards Board. The accounts have been prepared in accordance with a form agreed with the Department for Environment, Food and Rural Affairs under Section 7 of the Industrial Organisation and Development Act 1947, and in accordance with the 2006-07 Government Financial Reporting Manual (FReM) issued by HM Treasury.

The accounting policies contained in the FReM follow generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Milk Development Council (MDC) for the purpose of giving a true and fair view has been selected. The accounts have been prepared on the historical cost basis using the accruals convention. The policies applied in preparing these accounts have been applied consistently, except as indicated below:

Change of Accounting Policy

MDC Holdings Limited holds a 50% interest in The Dairy Council with the other 50% held by Dairy UK Limited. The Group's share of the results of this company is included in the consolidated income and expenditure account using the gross

equity method of accounting, and its interest in the company's gross assets and liabilities are included in the consolidated balance sheet. The twelve month period covered by the financial statements of The Dairy Council ends on 31 March. This is a change in accounting policy during the year as The Dairy Council was previously recognised as an associate undertaking, with the company's assets and liabilities included in the consolidated balance sheet on a net basis. This change does not result in a change to 2006 opening reserves (note 28).

During 2006, MDC changed its recognition policy for grants paid to its subsidiary undertaking, MDC Evaluations Limited, from a cash basis to an accruals basis which is considered more appropriate. This has not impacted the overall group position or changed the 2006 opening reserves position (note 28).

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the MDC and the two companies under its control, Milk Development Council Holdings Limited (MDC Holdings Limited) and Milk Development Council Evaluations Limited (MDC Evaluations Limited) on the acquisition basis of accounting. The results of the joint venture undertaking (The Dairy Council) are incorporated on the gross equity basis of accounting.

The twelve month period covered by the financial statements of the MDC and all group entities are co-terminous, ending on 31 March. Separate audited accounts are prepared for

the two companies and are filed with the Registrar of Companies.

Fixed asset investments

Fixed asset investments are stated historical cost. The Council does not believe that any impairment should be recognised with respect to its investments.

Tangible fixed assets

All tangible fixed assets are held at cost less accumulated depreciation. The Council is of the opinion that there is no material difference between the value shown in the financial statements and the current market value in the existing use of the assets.

Operating lease agreements

Rentals payable for operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the Income & Expenditure account as incurred.

Levy income

Levy income is credited to the Income & Expenditure account on a production basis using the best evidence available and adjusted as necessary when further evidence is received or for any amounts whose recovery is considered to be in doubt.

Depreciation

Depreciation is provided on all tangible fixed assets from the date of acquisition, at rates calculated to write off the cost, less estimated residual value at the date of acquisition, of each asset evenly over its expected useful life, as follows:

- Operating system software – over three years
- Other software – over one year
- Computer hardware – over three years
- Fixture and fittings – over three years

Following a review of the expected life of computer hardware and fixtures and fittings, the rate was changed from two years to three years during the year to more accurately reflect the useful lives of the assets. As a change in estimation, this has had no impact on the prior year.

Research and development project expenditure

Expenditure is charged on an accruals basis, reflecting contractual or other liability.

Grants

Government grants are recognised in the Income & Expenditure account as they become receivable and in the financial years necessary to match them with the related costs. The Market Development Reserve Fund is a fund set aside solely for the support of promotional activities that attract match-funded grants where it is a condition to maintain

an account separate from the retained surplus of the MDC.

Foreign currency account

A bank account is held in Euros to facilitate transactions with other European organisations. Transactions in Euros are translated into Sterling at the exchange rate in operation on the date of the transaction. The balance on this account is translated into Sterling at the rate in operation at the balance sheet date. All revaluation differences and realised foreign exchange differences are taken to the Income & Expenditure account.

Pension costs

For defined benefit schemes the amount charged to the Income & Expenditure account in respect of pension costs and other post retirement benefits is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The interest cost and expected return on assets are included within other finance costs.

Actuarial gains and losses arising from new valuations and from updating valuations to the balance sheet date are recognised in the Statement of Total Recognised Gains and Losses.

Defined benefit schemes are funded, with the assets held separately from the company in separate trustee administered funds. Full actuarial valuations, by a professionally qualified actuary, are obtained at least every three years, and updated to reflect current conditions at each balance sheet date. The pension scheme assets are measured at fair value. The pension scheme liabilities

are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency. A pension scheme asset is recognised on the balance sheet only to the extent that the surplus may be recovered by reduced future contributions or to the extent that the trustees have agreed a refund from the scheme at the balance sheet date. A pension scheme liability is recognised to the extent that the company has a legal or constructive obligation to settle the liability.

For defined contribution schemes the amount charged to the Income & Expenditure account in respect of pension costs and other post retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Taxation

Her Majesty's Revenue and Customs have confirmed that the MDC is exempt from corporation tax on its activities, as they do not constitute a trade. Taxation is payable on any investment returns and rentals received. Taxation is provided for in full, and as the group does not incur corporation tax on its activities no deferred tax is recognised.

2. levy income

On 7 February 1995 the Milk Development Council Order 1995 came into effect. This provided for the imposition of a levy on milk produced for sale, specified as not to exceed

0.05 pence per litre (ppl). Following a positive milk producer referendum and approval by the Welsh Assembly, the Scottish Parliament, Westminster and Brussels, the Milk Development Council (Amendment) Order 2000 legislation allowed the increase of the maximum statutory levy to 0.08 ppl (inclusive of VAT) from 1 April 2000 for the purpose of “promoting or undertaking arrangements for better acquainting the public in the United Kingdom with the goods and services supplied by the industry and methods of using them”. The total levy approved by the Ministers for the year to 31 March 2007 was 0.06 ppl (for the year ended 31 March 2006: 0.06 ppl).

3. other income

Other income in the year ended 31 March 2007 relates to match-funding on projects from external sources, sales of statistical information, *What If?* workshops, and rent receivable totalling £98,000 (2006: £202,057). Income generated by MDC Evaluations Limited from external sources came to £3,700 (2006: £24,730).

4. European Union Grant funding

In January 2005 the European Commission awarded £1.5 million to the MDC to match-fund a new campaign promoting the benefits of milk, cheese and yogurt to teenage girls (Teenage Girls Naturally Beautiful campaign) over a period of two years.

5. Other Grant funding

In May 2005 the MDC was awarded a grant from Defra (to not exceed £386,000 over a three year period) under The Agriculture Development Scheme. The project, Business Improvement in the Dairy Sector, is in collaboration with Dairy Farmers of Britain, Milklink Distribution Ltd and First Milk Ltd. The project started in June 2005 and interim payments are made quarterly in arrears on submission of a statement of costs expended on the project.

6. interest receivable

Levy monies are placed on interest-earning short and medium term deposits. Income is accounted for on an accruals basis.

	2007 (£)		2006 (£)	
	Group	Council	Group	Council
Interest receivable	74,293	72,443	129,936	126,476
Net finance charge on pensions scheme assets and liabilities (note 24)	12,000	12,000	5,000	5,000
	86,293	84,443	134,936	131,476
Share of Interest receivable in Joint Venture	7,071	-	8,542	-
	93,364	84,443	143,478	131,476

7. administrative costs

	Central Services (£)	Direct Council costs (£)	Communications & Public Relations (£)	Total (£)
Year ended 31 March 2007				
Council members' honoraria	-	47,075	-	47,075
Council members' travel and subsistence	-	51,575	-	51,575
Staff costs (see note 9)	365,176	46,965	151,709	563,850
Rent, rates and office maintenance	57,163	-	-	57,163
Printing, stationery and office supplies	85,717	3,675	233	89,625
Telecommunications	17,424	1,164	1,506	20,094
Computer costs	40,288	601	13,073	53,962
Publicity and communications	-	-	372,343	372,343
Auditors' Remuneration	29,000	-	-	29,000
Other professional services	161,074	260	-	161,334
Depreciation	36,429	-	-	36,429
Amortisation of prepaid rent	45,316	-	-	45,316
Write-off of bad debts	3,037	-	-	3,037
Provision for doubtful debts	114,852	-	-	114,852
Other administrative costs	28,694	-	-	28,694
Milk Development Council	984,170	151,315	538,864	1,674,349
MDC Evaluations Limited	16,534	-	-	16,534
Group	1,000,704	151,315	538,864	1,690,883

Expenditure incurred during the year under operating leases were for land and buildings £13,000 (2006: £13,000), and for telephone equipment £3,176 (2006: £3,176).

There was no remuneration paid to auditors for non-audit services during the year (2006: nil).

	Central Services (£)	Direct Council costs (£)	Communications & Public Relations (£)	Total (£)
Year ended 31 March 2006				
Council members' honoraria	-	59,250	-	59,250
Council members' travel and subsistence	-	59,048	-	59,048
Staff costs (<i>see note 9</i>)	382,839	51,412	163,286	597, 537
Rent, rates and office maintenance	67,019	-	-	67,019
Printing, stationery and office supplies	65,571	4,061	4,768	74,400
Telecommunications	18,867	1,203	1,433	21,503
Computer costs	38,197	1,294	28,115	67,606
Publicity and communications	-	-	392,027	392,027
Auditors' remuneration	18,796	-	-	18,796
Other professional services	62,778	-	-	62,778
Depreciation	29,084	-	-	29,084
Amortisation of prepaid rent	39,313	-	-	39,313
Write-off of bad debts	(9,501)	-	-	(9,501)
Provision for doubtful debts	3,206	-	-	3,206
Other administrative costs	16,586	-	-	16,586
Milk Development Council	732,755	176,268	589,629	1,498,652
MDC Holdings Limited	30	-	-	30
Group	732,785	176,268	589,629	1,498,682

8. emoluments of council members and employees

Chairman and council members

The emoluments of the Chairman Brian Peacock were £35,982 (2006: £34,849). No pension contributions are paid for the Chairman.

Council members do not receive remuneration but can claim an honorarium of £150 per day (2006: £150 per day) for meetings attended, or for work carried out solely on the Council's behalf. No pension contributions are paid for Council members. The following honoraria payments have been made:

Honoraria payments for the year ended:	31 March 2007 (£)	31 March 2006 (£)
Michael Brearley	4,725	4,875
William Campbell	5,700	6,675
Rosemary Collingborn	5,925	6,600
Christian Fox	6,975	8,400
Ian Gordon	2,025	1,800
David Homer	7,500	8,025
Gwyn Jones	2,325	3,825
Thomas Jones	3,900	5,400
Trevor Lloyd	6,750	10,275
Jonathan Vickers	3,000	3,900

Chief Executive

A new Chief Executive (who is not a Council member) was appointed to the MDC on 1 February 2007. The gross emoluments of the Chief Executive up to 31 January 2007 were £64,683, plus a car allowance of £5,500. The gross emoluments include provision of private health cover. The gross emoluments of the new Chief Executive from 1 February 2007 up to 31 March 2007 were £12,500 (salary £75,000 per annum), plus a car allowance of £1,100 (car allowance of £6,600 per annum). There was no provision of private health care. Additionally, pension contributions were made of £1,562. The total gross emoluments for the position of the Chief Executive Officer for the year were therefore £77,183 (2006: £74,308) plus a car allowance of £6,600 (2006: £6,600). The chief executive is on a fixed term contract until 31 March 2008.

9. staff costs

	Administrative services (£)	Projects (£)	Total 31 March 2007 (£)	Total 31 March 2006 (£)
Wages and salaries	391,224	939,939	1,331,163	1,250,144
Social security costs	44,156	93,943	138,099	132,613
Other pension costs	52,719	82,292	135,011	127,185
	488,099	1,116,174	1,604,273	1,509,942
Temporary staff	8,832	18,473	27,305	30,543
Private medical insurance	7,655	9,078	16,733	14,452
Recruitment costs	9,626	24,632	34,258	33,608
Training costs	7,166	16,583	23,749	40,820
Other staff related costs	42,472	173,151	215,623	208,237
	563,850	1,358,091	1,921,941	1,837,602

Other staff related costs included expenditure on travel and subsistence, business entertainment, and staff catering.

The number of employees including the Chief Executive earning in excess of £40,000 (excluding pension contributions)	31 March 2007 No.	31 March 2006 No.
£80,000 and £84,999	1	-
£75,000 and £79,999	-	1
£70,000 and £74,999	-	-
£65,000 and £69,999	-	-
£60,000 and £64,999	-	1
£55,000 and £59,999	-	-
£50,000 and £54,999	3	2
£45,000 and £49,999	1	2
£40,000 and £44,999	-	1

The average number of employees during the year was 51 (2006: 48). The average number of staff employed on project and marketing work, including the Chief Executive, was 39 (2006: 37), and on administration and communications work the average number was 12 (2006: 11).

The number of employees by activity at the end of the year	2007 No.	2006 No.
Chief Executive	1	1
Farm Management & Genetics	6	6
Extension Officers	10	8
Market Development	6	5
School Milk Facilitators	11	14
Market Information	5	6
Finance & Administration	7	7
Communications & Public Relations	4	4
	50	51

Pension Costs

MDC offers access to stakeholder pension schemes for all its employees in accordance with statutory pension requirements (Note 24).

10. exceptional income

A Redundancy Trust Fund had been established by previous owners of MDC Evaluations Limited to provide a basis for the final settlement of termination payments due to employees of the former Milk Marketing Board, under a redundancy agreement drawn up at the time of the dissolution of that body. During the year ended 31 March 2006 the terms of this agreement came into effect, and termination payments were made in accordance with that agreement. The provisions of the Trust Fund having been satisfied, the Fund was wound up and the remaining balance of £23,783 returned to MDC Evaluations Limited, as allowed by the terms of the Trust Fund.

11. taxation

Tax on ordinary activities

	Group	2007 (£) Council	Group	2006 (£) Council
Taxation for the year based on operating deficit before taxation adjusted for tax purposes at 19% (2006: 19%)	14,615	14,263	28,393	27,671

Tax reconciliation

The tax charge incurred for the year is different from the standard UK Corporation Tax rate for small companies of 19% as explained below:

	Group	2007 (£) Council	Group	2006 (£) Council
Deficit before tax at the UK Corporation Tax rate of 19%	(122,810)	(114,979)	(45,757)	(37,946)
Effect of non-taxable items (Note 1)	137,425	129,242	74,150	65,617
Taxation for the year based on operating deficit before taxation adjusted for tax purposes at 19% (2006: 19%)	14,615	14,263	28,393	27,671

12. notional cost of capital

HM Treasury requires Non-Departmental Public Bodies to make a notional charge in their accounts for the cost of capital employed in their activities. The notional cost of capital represents the opportunity cost of the investment in the MDC. Given the nature of the MDC's business and its funding arrangements, the Council considers it would be inappropriate to include such a charge in the Income & Expenditure Account. However, the notional cost of capital is shown as a memorandum item. In the year ended 31 March 2007 this is determined by applying 3.5% (2006: 3.5%) to the average capital employed by the MDC during the year, and indicates the return on the investment that an investor would otherwise be able to expect at a comparable level of risk.

13. tangible fixed assets

	Computer equipment (£)		Fixtures and fittings (£)		Total (£)	
	Group	Council	Group	Council	Group	Council
Cost:						
At 1 April 2006	244,529	244,529	45,349	45,349	289,878	289,878
Additions	21,825	21,825	5,594	5,594	27,419	27,419
Disposals	(68,637)	(68,637)	(78)	(78)	(68,715)	(68,715)
At 31 March 2007	197,717	197,717	50,865	50,865	248,582	248,582
Depreciation:						
At 1 April 2006	160,743	160,743	39,870	39,870	200,613	200,613
Provided during the year	35,413	35,413	3,993	3,993	39,406	39,406
Disposals	(68,162)	(68,162)	(78)	(78)	(68,240)	(68,240)
At 31 March 2007	127,994	127,994	43,785	43,785	171,779	171,779
Net book value						
At 31 March 2007	69,723	69,723	7,080	7,080	76,803	76,803
At 1 April 2006	83,786	83,786	5,479	5,479	89,265	89,265

The Council members have reviewed the value of fixed assets and believe that no impairment has occurred. The Council members believe that the value shown in the financial statements represents the current value of fixed assets to the business. Reviews are made annually of the estimated remaining lives of individual assets, taking account of commercial and technological obsolescence as well as normal wear and tear.

14. fixed asset investments

Council

The MDC controls MDC Holdings Limited, a company limited by guarantee. The company has net assets of £25 (31 March 2006: £25). The extent of its investment is the guarantee of £1 in the event of MDC Holdings Limited being wound up.

Group

MDC Holdings holds the following investments, all of which are registered in England and Wales:

(a)	Subsidiary	Principal activity	Interest %
	Milk Development Council Evaluations Limited	Genetic evaluation of dairy cattle	90

The Company's net assets as at 31 March 2007 were £10,358 (2006 restated: negative £6,590) and its profit before tax for the year ended 31 March 2007 was £17,300 (2006 restated: loss £4,467).

(b)	Associated undertaking		
	Promise Fertility Limited	To advise and assist in the fertility of cattle (dormant)	20

The address of the registered office of the above undertakings is Stroud Road, Cirencester, Gloucestershire GL7 6JN.

(c)	Joint Venture		
	The Dairy Council	To promote the health benefits of milk and dairy products.	50

The address of the registered office of The Dairy Council is Henrietta House, 17/18 Henrietta Street, London WC2E 8QM.

The financial results of the Dairy Council up to 31 March 2007 are included in the consolidated accounts of the Group, on the basis that it is a joint venture with Dairy UK Limited. The Group's share of The Dairy Council results for the years, and assets and liabilities at the years ended are as shown below.

	31 March 2007 (£)	31 March 2006 Restated (£)
Share of turnover of joint venture	<u>275,614</u>	<u>275,143</u>
Share of loss before tax of joint venture	(58,513)	(37,299)
Share of tax of joint venture	<u>(1,344)</u>	<u>(841)</u>
Share of loss after tax of joint venture	<u>(59,857)</u>	<u>(38,140)</u>
Share of fixed assets	11,604	15,578
Share of current assets	<u>175,219</u>	<u>256,567</u>
	186,823	272,145
Share of current liabilities	<u>(23,413)</u>	<u>(48,878)</u>
Share of net assets	<u>163,410</u>	<u>223,267</u>

15. debtors

	2007 (£)		2006 Restated (£)	
	Group	Council	Group	Council
Debtors due within one year:				
Levy due from milk wholesalers	1,370,683	1,370,683	1,129,276	1,129,276
Levy due from producer retailers	553,092	553,092	667,511	667,511
Other debtors	37,084	30,667	27,462	21,123
Prepayments and accrued income	471,511	467,811	457,820	455,015
Amounts owed by group undertakings (see Note 25)	-	1,400	-	36,400
	2,432,370	2,423,653	2,282,069	2,309,325
Debtors due after more than one year:				
Prepaid rent	67,066	67,066	95,574	95,574
	2,499,436	2,490,719	2,377,643	2,404,899

16. initial funding for projects (group and milk development council)

	2007 (£)	2006 (£)
Initial funding for projects	-	33,294

Initial funding for projects represents payments made to research organisations in accordance with contractually agreed terms to finance initial project outlays that are in excess of work performed to date.

17. creditors: amounts falling due within one year

	2007 (£)		2006 (£)	
	Group	Council	Group	Council
Corporation tax	14,263	14,263	27,701	27,671
Other taxes (VAT) and social security	70,568	70,465	135,870	126,226
Trade creditors	194,637	115,618	670,460	670,460
Other creditors	177,704	199,338	35,516	35,517
Accruals and deferred income	942,010	922,480	1,619,948	1,609,282
	1,399,182	1,322,164	2,489,495	2,469,156

18. reconciliation of operating deficit to net cash flow from operating activities

	2007 (£)		2006 Restated (£)	
	Group	Council	Group	Council
Operating deficit	(399,142)	(689,596)	(63,457)	(331,196)
Depreciation	39,406	39,406	32,380	32,380
Loss on disposal of asset	475	475	-	-
Decrease in stocks	4,690	4,690	(4,350)	(4,350)
Increase in debtors and initial funding for projects	(88,499)	(52,526)	(1,788)	(60,526)
Decrease in creditors	(1,090,314)	(1,146,993)	115,535	243,786
Increase in provisions	-	-	25,000	25,000
Difference between pension charge and cash contributions	(140,000)	(140,000)	-	-
Movement in taxation	13,438	13,408	1,748	1,778
Net cash flow from operating activities	(1,659,946)	(1,971,136)	105,068	(93,128)

19. analysis of cash balances shown in the balance sheet

	1 April 2006 (£)		Cash Flow (£)		31 March 2007 (£)	
	Group	Council	Group	Council	Group	Council
Cash at bank & in hand	1,156,005	1,154,680	(258,658)	(300,223)	897,347	854,457
Guarantee account	140,158	140,158	(36,142)	(36,142)	104,016	104,016
Medium term deposits	1,656,023	1,617,417	(1,621,328)	(1,617,417)	34,695	-
	2,952,186	2,912,255	(1,916,128)	(1,953,782)	1,036,058	958,473

20. retained surplus

	2007		2006 Restated	
	Group	Council	Group	Council
Surplus brought forward at 1 April	1,660,598	1,444,137	1,833,562	1,574,884
Deficit for the year	(664,020)	(619,416)	(269,608)	(227,391)
Transfer from Market Development Reserve Fund	990,536	990,536	176,644	176,644
Actuarial loss on pension scheme	(45,000)	(45,000)	(80,000)	(80,000)
Surplus carried forward at 31 March	1,942,114	1,770,257	1,660,598	1,444,137

21. market development reserve fund

	2007 (£)	2006 (£)
Reserve Fund at 1 April	1,391,111	1,567,755
Utilisation of Fund for the year	(990,536)	(176,644)
Surplus carried forward at 31 March	400,575	1,391,111

22. future funding commitments

Contracted and falling due:	2007 (£)	2006 (£)
In one year	1,480,719	3,287,759
In one to two years	956,482	860,155
In two to five years	807,760	479,185
	3,244,961	4,627,099

Commitments approved by the Council represent research and development projects, promotional projects and grants to other bodies associated with the dairy industry.

The main commitments are as follows:

£176,684 is due in one year, and £29,447 is due in one to two years (2006: £129,167 due in one year; £166,833 due in one to two years) on the Business Improvement in the Dairy Sector (BIDS) project.

There are future funding commitments of £400,000 a year over the next two years to MDC Holdings' subsidiary company (MDC Evaluations Limited). This grant enables MDC Evaluations Limited to perform its genetic evaluation activities. MDC Evaluations Limited has out sourced its operational services under a non-cancellable operating lease. Payments under that lease are £277,000 due to fall in one year, (2006: £269,000 due in one year; £277,000 due in two to five years).

There are no further payments due in support of the MDC campaign to encourage milk and dairy consumption amongst teenage girls (2006: £1,089,304).

23. other financial commitments

At 31 March 2007, the MDC had the following annual commitments under non-cancellable operating leases:

Operating leases which expire:	2007 Land & buildings (£)	2007 Others (£)	2007 Total (£)	2006 Land & buildings (£)	2006 Others (£)	2006 Total (£)
In one year	-	3,176	3,176	-	-	-
In one to two years	-	-	-	-	3,176	3,176
In two to five years	13,000	-	13,000	13,000	-	13,000
	13,000	3,176	16,176	13,000	3,176	16,176

24. pension commitments

Defined benefit pension scheme (The Milk Pension Fund)

The MDC is in the process of exiting the Milk Pension Fund. As part of this process, three members are having their benefits bought out by an insurance company (Legal & General). The MDC has made an initial payment to Legal & General in respect of securing deferred annuities for two members, and an immediate annuity in respect of one member. The total value of the purchased annuities is £583,114. The other members allocated to MDC as at 31 March 2006 all transferred their benefits out of the Fund before 31 March 2007

The buyout of the three remaining members is underway. A data cleanse exercise by Legal & General is currently ongoing. Once this is complete, the insurer will provide a final price for the liabilities. For details on the contingent liability in relation to the pension scheme see note 27.

The final price will depend on market conditions at the final date of payment and the precise benefits to be bought out, although the terms of the exit have already been agreed with Legal & General. As at 31 March 2007.

For the purpose of setting contribution rates and allocation of assets and liabilities, MDC and its associated undertaking, MDC Evaluations Limited, were considered as the same participating employer in the Fund. At the end of the year there were no active members (2006: two active members), no deferred pensioners (2006: four), and no pensioners (2006: one) in The Milk Pension Fund. The total cost of contributions to the scheme by the MDC in the year ended 31 March 2007 was £11,000 (2006: £160,165). There were no amounts outstanding to the Fund at the year end.

The following statistics have been obtained from an independent qualified actuary in accordance with the requirements of Financial Reporting Standard 17 Accounting for Retirement Benefits (FRS17).

As MDC had no liability to the Milk Pension Fund at 31 March 2007 only information relating to 31 March 2006, and prior periods, has been included below.

Assets

The asset data (for the whole Fund) has been taken as:

- Investments value as at 31 March 2006 (£ mid-market value) £311,961,814 (2005: £280,073,205), plus
- the Trustee bank account balance as at 31 March 2006, plus certain other creditors and debtors, estimated as £231,090, plus
- assets in respect of insured pensions of £378,436 (2005: £390,465).

This leads to a total market value of assets as at 31 March 2006 of £312,571,340. (2005: £280,476,594).

The share of the overall Fund's assets notionally allocated to MDC was £1,680,000 at March 2006 (2005: £1,320,000). This has been calculated by taking the market value of assets notionally allocated to MDC as at 31 March 2003 for funding purposes and rolling forward this figure allowing for actual investment returns during the periods to 31 March 2005 and 2006. Further allowance has been made for contribution income (including special contributions) and pension payments over the period. Account has not been taken of Additional Voluntary Contributions for the purpose of these calculations. This is due to the fact that assets and liabilities are directly matched for these funds.

The market conditions at prior period balance sheet dates are:

	31 March 2006	31 March 2005	31 March 2004
Merrill Lynch AA rated over 10 year corporate bond index	5.05%	5.43%	5.54%
Fixed interest 15 year index yield	4.32%	4.66%	4.73%
Index linked yield for over 5 years stocks, 0% inflation	1.40%	1.84%	1.90%

The financial assumptions for the three years are set out below:

	31 March 2006	31 March 2005	31 March 2004
Discount rate	5.1% pa	5.5% pa	5.5% pa
Price inflation	2.9% pa	2.8% pa	2.8% pa
Salary growth	4.4% pa	4.3% pa	4.3% pa
Pension increases (except on pre-88 GMP)	2.9% pa	2.8% pa	2.8% pa

The following long-term return assumptions for each asset class is as follows:

	31 March 2006	31 March 2005	31 March 2004
Fixed Interest Gilts	4.3% pa	4.75% pa	4.75% pa
Index-Linked Gilts	1.4% pa real	1.75% pa real	2.0% pa real
Equities	7.75% pa	8.00% pa	8.00% pa
Bonds	5.1% pa	5.5% pa	n/a
Cash	4.5% pa	4.75% pa	4.0% pa

The asset allocation and overall long-term return on the assets at prior period balance sheet dates are shown below (allowing for a long term inflation rate as set out above):

	Return 31.03.06	Allocation as at 31.03.06	Return 31.03.05	Allocation as at 31.03.05	Return 31.03.04	Allocation as at 31.03.04
Fixed Interest Gilts	4.3% pa	0%	4.75% pa	12.8%	4.75% pa	14.0%
Index-Linked Gilts	1.4% pa real	51.0%	1.75% pa real	42.2%	2.0% pa real	51.9%
Equities	7.75% pa	41.2%	8.0% pa	32.7%	8.0% pa	33.2%
Bonds	5.1% pa	7.3%	5.5% pa	11.5%	n/a	-
Cash	4.5% pa	0.5%	4.75% pa	0.8%	4.0% pa	0.9%
Overall	5.8% pa	100%	5.9% pa	100%	5.8% pa	100%

Balance sheet position as at 31 March 2007, 31 March 2006 and 31 March 2005

	31 March 2007	31 March 2006	31 March 2005
Balance Sheet	£'000	£'000	£'000
Market value of assets	-	1,680	1,320
Liabilities:			
Active members	-	180	770
Deferred pensioners	-	750	590
Pensioners and dependants	-	890	0
Total	-	1,820	1,360
Deficit before any allowance for deferred tax liability	-	(140)	(40)

Analysis of other transactions during the years ended 31 March 2007, 2006 and 2005

	2007 £'000	2006 £'000	2005 £'000
Analysis of the amount charged to operating profit:			
Current service cost	(9)	(185)	(40)
Losses on settlement	(60)	-	-
Total operating charge	(69)	(185)	(40)

	2007 £'000	2006 £'000	2005 £'000
Analysis of the amount charged to other interest:			
Expected return on pension scheme assets	67	80	70
Interest on pension liabilities	(55)	(75)	(70)
Net return	12	5	-

	2007 £'000	2006 £'000	2005 £'000
Analysis of the amount recognised in Statement of Total Recognised Gains and Losses (STRGL):			
Actual return less expected return on assets	205	130	10
Experience gains and losses arising on the scheme liabilities	63	(70)	30
Changes in assumptions underlying the present value of scheme assets	(313)	(140)	-
Net (loss)/gain recognised	(45)	(80)	40

	2007 £'000	2006 £'000	2005 £'000
Movement in deficit:			
Deficit in scheme at the start of the year	(140)	(40)	(65)
Movement in year:			
- Current service costs	(9)	(185)	(40)
- Contributions	209	160	25
- Losses on settlement	(60)	-	-
- Net return on assets	12	5	-
- Actuarial (loss)/gain	(45)	(80)	40
- Transfer of balance relating to termination of pension fund to current liabilities	33	-	-
Deficit in scheme at the end of the year	-	(140)	(40)

History of experience gains and losses	2007	2006	2005
Difference between the expected and actual return on scheme assets:	£'000	£'000	£'000
- Amount	205	130	10
- Percentage of scheme assets	-	7.85	0.70%
Experience gains and losses on scheme liabilities:			
- Amount	63	(70)	30
- Percentage of the present value of scheme liabilities	-	(3.80%)	2.20%
Total amount recognised in the statement of total recognised gains and losses			
- Amount	(45)	(80)	40
- Percentage of the present value of scheme liabilities	-	(4.40%)	2.90%

Data is only available within the actuarial report for these three years.

Defined contribution pension scheme (NFU Mutual Insurance Society)

A defined contribution pension scheme was introduced in February 2001 to allow MDC employees to join a Group personal pension plan. Forty two employees have exercised this option (2006: 33). Contributions to the plan made by the MDC are in proportion to the employees' contributions. The Council's contribution to the plan is subject to a maximum of 12.5% of an employee's pensionable earnings as long as a contribution of 5% is made by the employee on the same earnings. Employees can contribute more than 5% of their pensionable earnings to the plan up to the limit established by statute. The assets of the scheme are held separately from those of the MDC, being invested with an insurance company. The pension cost represents contributions payable by the MDC to the insurance company and in the year ended 31 March 2007 amounted to £124,118 (2006: £84,020). An amount of £15,090 was due to the insurance company (NFU Mutual) at the year end (2006: nil).

25. related party transactions

MDC with associated undertakings and joint venture companies

The Council members of the MDC also hold directorships in MDC Holdings Limited, a company limited by guarantee, formed in March 2001 to exploit the findings and technology emerging from research carried out by or on behalf of the MDC. This company has acquired participating shares of 90% and 20% respectively in MDC Evaluations Limited and Promise Fertility Limited. The results of MDC Holdings Limited and MDC Evaluations Limited are consolidated within these financial statements.

MDC Holdings Limited holds 90% of the issued share capital of MDC Evaluations Limited. One Council member (Trevor Lloyd) and the Chief Executive of the MDC (Ken Boyns) and Marco Winters, an employee of MDC, have been appointed to the Board of Directors of MDC Evaluations Limited. This company was formed in December 2001 to ensure the maintenance of a database of cattle for genetic evaluation to be calculated and the results to be disseminated among the industry.

In the year ended 31 March 2007 MDC made grants of £400,000 (2006 restated: £400,000) to MDC Evaluations Limited for the maintenance of the operational services for genetic evaluations. Balances owed by MDC Evaluations Limited at the year end are disclosed in Note 15.

MDC Holdings Limited holds 20% of the issued share capital of Promise Fertility Limited, a dormant company. At the year end 31 March 2007, the Head of Farm Management of the MDC (Brian Lindsay) was on the Board of Directors of the company. A loan of £8,800 has been made by the MDC to Promise Fertility Limited, and a full provision was made against this loan (31 March 2006: Loan of £8,800, with a full provision).

All balances outstanding at the year-end with any of the above companies are repayable on demand and attract no interest.

The MDC provides various administrative, advisory and secretarial services to the above companies as agreed by the Council. No charges have been made for these services during the year ended 31 March 2007 (2006: nil).

MDC Holdings Limited has also held 50% membership of The Dairy Council, a company limited by guarantee, with effect from 1 April 2003. The Dairy Council acts as an agency on behalf of the entire dairy industry in Great Britain, promoting the health benefits of milk and dairy products. At the year end 31 March 2007 Brian Peacock and Ken Boyns were directors of that company. In the year ended 31 March 2007 the MDC made grants of £275,004 (2006: £275,004) and other purchases totalling £1,057 (2006: £134) to The Dairy Council. As at 31 March 2007, there were no amounts outstanding to The Dairy Council (2006: £23,148).

Chairman, council members, directors and key management of MDC and associated companies

During the year there were no material transactions or amounts owed by or due to any of the Council members or key management of the MDC, or with any members of their families.

Other related party transactions with organisations connected with past and present Council members or key management in excess of £1,000 are as follows:

- First Milk: the MDC match-funded the installation of school milk bars for £336,600 (2006: £166,000) and obtained non-levy receipts of £130 (2006: nil). A Council member (William Campbell) is a local director of First Milk.
- Dairy UK: the MDC spent £2,816 (2006: £22,853) on projects and other purchases, and received £1,767 (2006: £1,912) towards projects with Dairy UK. A Council member (Gwyn Jones) is a director of Dairy UK.
- National Milk Records (NMR): MDC paid project costs to NMR of £1,846 (2006: £6,018). A Council member (Trevor Lloyd) is a non-executive director of NMR.
- National Farmers' Union (NFU): MDC paid sundry costs of £36 (2006: £3,904) to the NFU, and £16,911 (2006: £17,085) to the NFU Mutual Insurance Society Limited for office and employee liability insurance. A Council member (Gwyn Jones) is chairman of the NFU Dairy Board, a member and director of the NFU Policy & Governance Board and an NFU Council member. A Council member (Trevor Lloyd) is NFU County Chairman and a member of the NFU Welsh Milk Board.
- Shilton Investments Limited: this company operates the chairman's office; costs in the year were £2,218 (2006: £2,272). The chairman is Company Secretary of Shilton Investments Limited.
- UK-IDF (International Dairy Federation): MDC is entitled to nominate 6 members to the management board. David Homer (MDC Council member) is chairman of UK-IDF; Judith Bryans (Chief Executive of The Dairy Council), and Brian Lindsay (Head of Farm Management, MDC) are also members of the management board. MDC pays an annual membership subscription of £24,250 to UK-IDF (2006: £23,750). Minor receipts from UK-IDF relating to the recharge of travel costs in the year amounted to £647 (2006: nil).

In all the above cases normal competitive bidding was observed before the award of the contract. The related parties within the MDC were not involved in the decision-making process.

There were no balances owed to or from the above organisations at 31 March 2007 (2006:nil)

MDC with other government bodies

The MDC is a Non-Departmental Public Body (NDPB) funded by a statutory levy on milk producers and sponsored by the Department for Environment, Food and Rural Affairs (Defra). As such, transactions with government departments and other government bodies are considered to be related party transactions. Excluding payments to central and local authorities for tax, the following normal trading transactions, in excess of £1,000, are reported below for the year ended 31 March 2007.

MDC has been awarded a £1.5 million grant by the European Commission to match fund the Teenage Girls Naturally Beautiful campaign (see Note 4). Payments of the grant to MDC are made through the Rural Payments Agency, an Executive Agency of Defra. Payments made to MDC in the year were £577,321 (2006: £666,385).

MDC has been awarded a grant from Defra not to exceed £386,000 over a three year period under The Agriculture

Development Scheme, towards a project (Business Improvement in the Dairy Sector), to be carried out in collaboration with Dairy Farmers of Britain, Milklink Distribution Ltd and First-Milk Ltd (see Note 5). Payments received in the year were £92,640 (2006: £16,465). In addition, Defra match-funded other project costs to the value of £21,395 (2006: £126,969).

There were no payments to the British Potato Council, a Non-Departmental Public Body sponsored by Defra (2006: £10,440).

MDC paid the Meat & Livestock Commission £9,978 (2006: nil) as a contribution towards the Food & Farming module.

The functions of the Welsh Development Agency (WDA), a Non-Departmental Public Body were transferred to the Welsh Assembly Government (WAG) during the year. There were no transactions between the MDC and the WAG during the year (2006: £49,362 paid to, and £43,932 received from, the WDA).

MDC paid £20,603 (2006: £26,796) to The National Audit Office for annual audit work relating to year 2005-06. The National Audit Office is accountable to the Public Accounts Committee appointed by Parliament.

There were no payments to the Historic Royal Palaces (2006: £8,654), a public body, for internal audit services.

Quality Meat Scotland (QMS) is due to become an NDPB on 1 April 2008. In the year ended 31 March 2007 QMS contributed £5,000 towards the Ayrshire Monitor Farm project (2006: £5,000).

There were no balances owed to or from the above organisations at 31 March 2007 (2006:nil)

26. financial instruments

Financial Reporting Standard 13 – Derivatives and Other Financial Instruments (FRS13) requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

Because of the nature of its activities and the way in which the MDC is financed, it is not exposed to the degree of financial risks faced by other business entities. Moreover, financial instruments play a much more limited role than would be typical of the listed companies to which FRS13 mainly applies.

Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the MDC in undertaking its activities, or for trading. The fair values of all its financial assets and liabilities approximate to their net book values. In line with FRS13, short term debtors and creditors (those which mature or become payable within 12 months from the balance sheet date) have been excluded from these disclosures.

27. contingent liabilities

The Council decided during 2005/06 to buy out its element of the pension liabilities of the Milk Pension Fund. This transaction had not been completed at 31 March 2007 or at the date of these accounts, but the estimated liability of £33k relating to this, has been provided for in the accounts. (31 March 2006: £1.4m)

28. prior year restatement

In 2006 the MDC prepaid £35,000 of the 2007 grant for MDC Evaluations Limited. During 2006, MDC changed its recognition policy for grants paid to its subsidiary undertaking, MDC Evaluations Limited, from a cash basis to an accruals basis which is considered more appropriate.

The results of the prior period have been restated to reflect the change. The effect of this has been to reduce expenditure and increase debtors by £35,000 in 2006, and increase expenditure by £35,000 in 2007. There is no impact on MDC's opening reserves for 2006 as a result of the change and there is no impact on the overall Group position.

Note 1 includes details of the change in accounting policy for the recognition of the Dairy Council from an associate undertaking to a joint venture. The impact of this on the income and expenditure account and the balance sheet is that balances are disclosed on a gross, rather than a net, basis. This more closely reflects the nature of the relationship. There is no impact on MDC's opening reserves in 2006 as a result of this change.

29. losses and special payments

During the year a one off special payment was made to a former employee of £3,615 in relation to costs incurred in taking the role (2006: No losses or special payments incurred).

30. post balance sheet events

The Annual Report and Accounts were authorised by the council to be laid before Parliament on 12 July 2007.

accounts direction

Accounts direction, given by the Secretary of State, with the approval of the Treasury, in accordance with the Milk Development Order 1995, as amended.

The annual accounts shall give a true and fair view of the income and expenditure and cash flows for the financial year, and the state of affairs as at the year end. Subject to this requirement the MDC shall prepare accounts for the financial year ending 31 March 2007 and subsequent financial years in accordance with:

- a. Government Financial Reporting Manual (FRM)
- b. other guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view
- c. any other specific disclosures required by the Secretary of State; except where agreed otherwise with the Treasury, in which case the exception shall be described in the notes to the accounts.

Signed by the authority of the Secretary of State for Environment, Food and Rural Affairs.

application of the accounting and disclosure requirements of the companies act and accounting standards

Schedule 1

Companies Act

1. The disclosure exemptions permitted by the Companies Act shall not apply to the MDC unless specifically approved by the Treasury.
2. The Companies Act requires certain information to be disclosed in the Directors' report. To the extent that it is appropriate, the information relating to the MDC shall be contained in the Foreword.
3. When preparing its Income and Expenditure account, the MDC shall have regard to format 2 of the Profit and Loss Account as prescribed in Schedule 4 to the Companies Act.
4. When preparing its balance sheet, the MDC shall have regard to the balance sheet format 1 prescribed in Schedule 4 to the Companies Act. The balance sheet totals shall be struck at 'Total assets less current liabilities'.
5. The MDC is not required to provide the additional information required by paragraph 33(3) of Schedule 4 to the Companies Act.
6. The Foreword and balance sheet shall be signed by the Accounting Officer and dated.
7. The MDC is not required to include a note showing historical cost profit and losses as described in Financial Reporting Standard (FRS) 3.

Schedule 2

Accounting Standards

1. The Foreword shall, inter alia:
 - a) include a statement that the accounts have been prepared in a form directed by the Ministers with the consent of Treasury in pursuance of the Industrial Organisation and Development Act 1947
 - b) include a brief history of the MDC and its statutory background.
2. The notes to the accounts shall include details of:
 - a) the key corporate financial targets set by Ministers together with the performance achieved
 - b) any write-offs and special payments.

glossary of acronyms

Acronym	Definition
AI	Artificial insemination
CAP	Common Agriculture Policy
CEJA	The European Council of Young Farmers
COPA	The (European) Committee of Agricultural Organisations
Defra	The Department for Environment Food and Rural Affairs
FReM	Financial Reporting Manual 2006/7
IDF	International Dairy Federation
LEA	Local Education Authority
LEAF	Linking Environment and Farming
LBUK	Levy Board UK (the working title for the overarching levy body to be introduced in April 2008)
MCVE	Milk for Cheese Value Equivalent (a calculation created by the MDC providing a factory-gate valuation of returns from processing milk into mild cheddar and associated by-products)
MDC	The Milk Development Council
MDCEL	Milk Development Council Evaluations Limited (a wholly owned subsidiary of MDC evaluating the genetic merit of dairy cattle and trading as <i>breeding+</i>)
NFU	National Farmers Union (of England and Wales)
NFUS	National Farmers Union of Scotland
£PLI	Profitable Lifetime Index (an index for ranking the genetic merit of dairy cattle)
R&D	Research and Development
RDA	Regional Development Agency
SCC	Somatic Cell Count
UDFNI	United Dairy Farmers of Northern Ireland
WFFU	Women's Food and Farming Union

milk development council information

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Mr M Brearley
Mr W Campbell
Mrs R Collingborn
Mr C Fox
Mr I Gordon
Mr D Homer
Mr G Jones
Mr T Jones
Mr T Lloyd
Mr J Vickers

specific committees audit committee

Mr T Jones (Chairman)
Mr M Brearley
Mr W Campbell
Mr J Vickers

human resources committee

Mr J Vickers (Chairman)
Mr M Brearley
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Mr G Jones

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