



annual report and accounts
2007/2008

the milk development council annual report and accounts 2007/2008

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the Industrial Organisation and Development Act 1947
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the year in numbers...

1,300 items of media coverage were produced about the Milk Development Council's (MDC's) services

almost 2,000 *breeding+* programme folders have been issued since launch three years ago

more than 48,000 pieces of school milk information were sent out or downloaded

dairy business group members saved an estimated total of £2.5m from what they found out at the meetings

MDC's water advice could save £1,550 per year for a 100-cow herd, at a cost of £1.40/levy payer

MDC's Datum service is the no.1 source of dairy market information

more than 1,250 guides to saving money on water have flown off the shelves

cheddarvision's 1.7m web hits sold West Country Farmhouse Cheddar to the world

more than two thirds of farmers say the MDC is useful in running the farm business

40% fewer Scottish kids think milk is dull and boring after the Milk Moustache campaign

12% more gym enthusiasts opt for milk after exercise thanks to the milk-for-sport campaign

the UK now has one of the highest focuses on cow fitness in the world!

a total of 317 dairy business group meetings were held throughout the year

towards the end of the year the Datum website had almost 72,500 information downloads in a single month

Want to know more? Read on...

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what are we here to do?

“create the opportunities, insights and expertise to improve farm 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



Brian Peacock

This annual report marks an historic occasion – the completion of the Milk Development Council's 13th and final year. However, the year was far from unlucky with the MDC achieving notable results, particularly in the areas of breeding evaluations, targeted marketing and supply chain relationships. Efforts to improve efficiency on-farm also took a new and productive turn.

But before I look more closely at these developments, with the transfer of activities from MDC to DairyCo Limited, which happened on 1 April 2008, this is an opportune moment to look back at some MDC history.

the birth of the MDC

The MDC was born as a spin-off from the Milk Marketing Boards of England, Wales and Scotland, brought about by the de-regulation of agriculture by the government of the day.

The industry should pay tribute to the farming unions and the late John Moffitt, my predecessor as Chairman, who spotted that several of the activities of the Milk Marketing Boards including the funding of dairy research, milk promotion and genetic evaluation of dairy cattle would not continue as this had historically been provided and financed by the Milk Marketing Boards' operating costs.

The MDC commenced activities in 1995 by picking up the management and funding of projects already established by the Milk Marketing Boards. It used this base to develop an extensive research portfolio, the outcome of which, even today, underpins the on-going work and knowledge base of the MDC.

In the late 1990s a wider remit was needed, giving the MDC a whole new area of activity in market development. This began with a major project bringing together substantial funds from dairy companies for the 'White Stuff' campaign.

The Council also supported the foresight of the Women's Farming Union in establishing the 'School Milk Programme'. Over 300,000 more children today are participating in school milk schemes which are now facilitated by the MDC School Milk Project.

a shifting focus

Into the new millennium and a more commercial focus was needed to provide targeted support to help a struggling industry regain profitability.

A research programme was developed to address technical and farm management issues, the outcomes of which could be used on-farm through active knowledge transfer activity. Alongside this, MDC developed a market development process geared to the maintenance of the market for the industry's products, a means of monitoring the genetic progression of the industry's cattle and a service to collect and disseminate commercial and market information.

This is where this report completes the MDC story as we hand over the organisation in good shape. Today, our research-based farm management programme with the input of **breeding+** from MDC Evaluations is the backbone of the highly successful knowledge transfer initiative. We work with dairy companies and co-operatives to facilitate discussion groups providing technical and management information with the clear objective of helping to improve profitability.

There has been a move away from generic marketing towards successfully targeting support for those areas that have potential for maintaining and growing the market – promoting the image of milk through emphasis on nutritional and dietary benefits allied with positive support for local, regional and specific dairy products. This policy is a clear example of the benefits of cross industry co-operation emphasising what can be achieved with a limited budget within a large market.

a growing reputation

The project which highlights the real success of the MDC is the Datum information service which has developed a national and international reputation for its independent provision of dairy market data and commercial commentary. The initial objective for the service was to ensure that the dairy farmer and his representatives as sellers of milk were as well, or better, informed on industry matters as the buyers of milk.

The MDC wishes DairyCo Limited every success for the future believing that we have laid a sound foundation on which it should be possible to build for the future.

In conclusion, I should like to thank all our Council members and staff for their tremendous help and support during my 10 years as Chairman. I couple this with thanks to all those throughout the industry with whom we have done business during these years.

It has been a great privilege to work with you all.



Brian Peacock
Chairman

16 June 2008

chief executive's report



Ken Boyns

2007/2008 proved to be another challenging year for the MDC – but for very different reasons than in 2006/2007

Bluetongue and Foot and Mouth Disease caused the industry tremendous upheaval, especially when coupled with the low milk price. Finally we saw milk prices rise as a hike in dairy consumption in the Far East and drought in Australia combined with a critical fall in milk production that squeezed supply in the UK. But higher prices were slow to come through to farmers and input prices continued to rise, dampening the good news. Meanwhile, alongside the MDC's 'day job', it started to prepare for its metamorphosis into DairyCo Limited at the end of the year.

focus on profitability

Throughout 2007/2008 the MDC continued its focus on farmer profitability with its strategy of:

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

One particular outcome of this was renewed investment in the extension service, which saw numbers of officers rise to 11 to accommodate increasing demand for our dairy business groups. The popularity of these groups and the very tangible improvements in margin they delivered for their members – estimated at £2.5m – shows the benefits of sharing information and the progress that can be made from working in groups to tackle common problems.

The Profitable Lifetime Index (PLI) was revamped during the year and a highly successful launch took place at the Royal Show in June 2007, bringing together industry specialists, animal charities and retailers to support one of the most welfare-friendly indexes in the world. This wasn't the only launch at the Royal as the MDC also unveiled its new *Routes to Profitability: Practical Steps Forward* report in unprecedented unison with the National Farmers Union of Scotland, National Farmers Union (of England and Wales) and Dairy UK.

The year saw significant progress on cooperation within the industry to find a common platform for milk and dairy products to support consumer marketing, culminating in the development of a fresh new identity for milk and the agreement of key players to progress a generic campaign promoting dairy's attributes.

Alongside this the focus on supporting smaller farmer-owned processors continued with noteworthy campaigns for regional cheeses and Jersey and Guernsey products.

Finally, the market information service – specifically Datum – grew from strength to strength with record downloads and readership for its fortnightly update. It has been clear to me that the new team behind the service grasped the challenges and delivered the necessary insight about the changing market environment as it was happening. This has truly established Datum as the definitive source of credible market information in the industry.

the challenges of success

The abrupt change in the markets during the year was a very positive development for producers but it also raised the same question in many minds: why try to change our circumstances when forces outwith our control have such a dramatic impact?

This was evident in our annual survey of producers completed in March 2008 which found that the importance placed on receiving information to help run the farm business had fallen with more than half of farmers saying they didn't need any help at all compared with under a third the previous year.

I believe that profitability founded on a rising market should be used wisely to increase income further and to prepare for future downturns. But this is a tough message to communicate when the market is so buoyant.

significant change

Finally, the upheaval this year was significant as the organisation made the transition towards becoming DairyCo Limited, a dairy-specific subsidiary company operating wholly under a new over-arching levy body called the Agricultural and Horticultural Development Board (AHDB). This new organisation was established by Parliament in February 2008 and took over all assets and liabilities of the MDC on 1 April 2008.

It is for this reason the staff of the MDC deserve a special mention. Despite the considerable amount of change, their focus and determination to see through projects and ensure farmers were getting the services they needed was a testament to their professionalism.

The outcome of this can also be seen in our benchmarking survey which shows that even though the demand for information has reduced (as mentioned previously), more than two thirds of dairy farmers now acknowledge that the MDC is a provider of information and services of use in running the farm business – should they need that support. This is a dramatic improvement from four years ago when just a quarter of that number felt the same way. Furthermore the MDC is now the preferred provider of market information, and second preferred provider of technical, business management and milk marketing information.

My personal aim was that when the MDC formed the basis of the new dairy sector company DairyCo Limited, there would be a smooth transition and the organisation would be even more focused and efficient than in the past at delivering improved farm profitability. I can now say that I believe that aim has been achieved and that we have handed over the organisation in excellent shape, fit for a bright and productive future.



Ken Boyns
Chief Executive, MDC



Kevin Roberts
Interim Chief Executive, AHDB
& Accounting Officer

16 June 2008

council members' profiles

brian peacock

...was Chairman of the MDC during the year 2007/2008.

He was also Chairman of Milk Development Council Holdings Limited and the Milk Quality Forum, and was 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.

In 2007/2008, Brian chaired 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.

In 2007/2008 Michael chaired the Finance Committee and Eastern Regional Committee of the MDC. He was a member of the Audit, Human Resources and Market Development Committees.

william campbell

...is a dairy and livestock farmer in Ayrshire, and he 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.

In 2007/2008 William chaired the Communications Committee, and was a member of the Economics/ Datum and Audit Committees. He also chaired 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 has been the farming member of the Veterinary Products Committee as well as a former Trustee and Council Member of the RSPCA.

In 2007/2008 Rosemary was a member of the Market Development, Finance and Communications Committees, chaired the South West Regional Committee of the MDC and was 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.

In 2007/2008 Christian chaired the Farm Management Committee and the South East Regional Committee, and was a member of the Market Development 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.

In 2007/2008 Ian chaired the Market Development Committee and was 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, past-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).

In 2007/2008 David chaired the Economics/Datum Committee and the West Midlands Regional Committee, and was a member of the Finance 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 the Farm Management the MDC Evaluations Committees and the South East Regional Committee, and in 2007/2008 was 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. During the year he was also on the Milk Panel of the Welsh Assembly's Agri-Food Partnership.

In 2007/2008 Thomas chaired the Audit Committee, and was a member of the Communications and Finance Committees, and the MDC Regional Committee for Wales.

trevor lloyd

...runs a family dairy 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.

In 2007/2008 Trevor was a member of the Farm Management and Economics/Datum Committees, and was also a member of the 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 the South West Strategic Health Authority.

In 2007/2008 Jonathan chaired the Human Resources Committee, and was a member of the Audit and Market Development Committees of the MDC.

management commentary

performance against targets 2007/2008

target	performance summary
increasing competitiveness of milk production	
Publication of international benchmarking report identifying the key points of competition and targets for British dairy farmers	The key physical and financial international data collected during the year proved too inconsistent to allow accurate comparisons across the datasets. Therefore, in the interests of only providing accurate information to dairy farmers, we could not produce the intended report during the year. However the work has continued, establishing a new UK data set through a revised version of Milkbench. This data will then be used to compare against International Farm Comparison Network (IFCN) data, which has a standard format, in order to produce the benchmarking report during 2008/2009
Research strategy updated Provision of R&D programme based on the new strategy Provision of technical director to Applied Research Forum	The new strategy is complete but yet to be published as DairyCo Limited may wish to revise priorities. However, the current R&D programme is being implemented in line with the new strategy. A new lead technical director of the Applied Research Forum has been appointed Completed projects include: <ul style="list-style-type: none"> The feeding+ programme costing £3/British producer is predicted to return £1,000/participating farmer The updated <i>Parlour Wizard</i> tool costing £1.50/producer will potentially return £1,000 per new parlour installed <i>Economic strategies to increase slurry storage efficiently</i> is predicted to return around £1,000/participating farmer for a cost of £1/British producer <i>Effective use of water on dairy farms</i> is estimated to save participating farmers £1,550 at a cost to each British farmer of £1.40
Publication of three proof runs Availability of customised indices Successful update of Profitable Lifetime Index (PLI) Genetic progress maintained at 1.5% Farmers requesting information increases by 15%	Three proof runs were produced during the year, a reduction from four which was agreed by the whole industry A tool which will provide individual producers with their own customised indices has been completed, but its marketing is still being refined; it will be made widely available during the 2008/2009 year The PLI was successfully updated in July 2007 and well-received by welfare groups, retailers and farmers. The new index focuses more than half its score on 'fitness' traits which increase the longevity and robustness of the cow. Genetic progress in the UK was maintained at the same rate as has been the case in previous years. Production improvement is now slowing down in favour of the 'fitness' traits while maintaining overall profitability In 2007/2008, 88,376 web reports were viewed, an increase of over 20% on the previous year
Publication of feeding+ programme Two updates of breeding+ Two updates of grass+ Two updates of pd+ Four open meetings per region per year (24 total)	The new feeding+ programme is awaiting one final piece of information before completion One breeding+ update has been published and the second one is awaiting changes to the DairyCo website The decision was made to carry out one major update of grass+ rather than two smaller ones. This has been completed One pd+ update has been published and the second one is awaiting changes to the DairyCo website All 24 open meetings have been held by the Extension team
Facilitation of 200 dairy business groups by the end of the year	The original target was revised to 104 in the light of the change in circumstances forced by Foot and Mouth Disease. The revised target was reached with all 104 groups active and meeting regularly, and 206 data sets have been identified for collection
Provision of up to 10 <i>What If?</i>	Five workshops were conducted during the year with detailed feedback, which is shaping future courses









not achieved or not started






target not reached but some progress











target achieved




target	performance summary
developing supply chain relationships	
Publish a report/model on the effects of competition and consolidation in the dairy sector; offer model for use by policy makers	The model was published in a comprehensive report and has been communicated throughout the industry. The OFT and Competition Commission both expressed considerable interest in the report and it is expected to be used as a guide to indicate whether changes in the numbers of processors or retailers through start-ups or rationalisation will impact on consumer price 
Publish report on different contractual arrangements along the supply chain Stimulate contract changes	A follow-up report to the 2005 <i>Raw milk contracts and relationships</i> has been completed. <i>How processors buy and sell milk</i> has now been published on the website During 2007/2008 there was continual liaison with the NFU on the development of its standard contract. The most notable changes in contracts though the year have been with Marks & Spencer, Tesco and Milk Link's cheese contract 
Increased use of market update, market report and website downloads	The number of Datum's fortnightly Dairy Market Updates sent out directly on request has risen by 17% Downloads from the Datum website have increased by 42% Press mentions about the Datum service and market information reports have increased by 59% Queries received by the team comparing the October to March period has increased by 51% Monthly summary reports sent out have increased by 27% The MDC is now the preferred supplier of Market Information data to milkproducers; almost 50% are aware of its existence 
Three new products or differentiated supply chains launched	Projects have been completed with: <ul style="list-style-type: none"> • The Contented Cow Company, producing 'Precious milk' to high animal welfare standards in environmentally friendly pouches currently selling through a major retailer • Lucy's Dairy, producing bottled milk processed on farm and sold to local consumers • Taylersons Malmesbury, providing syrups for milk frappés to bring the café culture into the home 
developing market opportunities	
Initiation of a project to identify new markets and opportunities for milk in the food service sector	A report detailing research into the value and opportunities presented by provenance in dairy products has been published and publicised Several specific opportunities have been identified as part of the report, for example branded regional cheeses for children 
Completion of research identified by The Dairy Council to underpin nutritional messages about milk and dairy	The three-year study at Loughborough was completed this year showing that milk was better at rehydration than water or an isotonic drink. This was publicised and resulted in a 12% increase in the number of people who would buy milk to aid rehydration after exercise A project examining the role of calcium in gut health was also initiated during the year. This will last over 3 years after which the results may be used in a similar way to those from the Loughborough work 

-  not achieved or not started
-  target not reached but some progress
-  target achieved

target	performance summary
<p>Work with industry partners to improve consumer knowledge of the nutritional attributes and benefits of milk and dairy products</p> <p>Facilitate co-operation between industry players in promoting the benefits of milk</p> <p>PR and media activity used as appropriate to promote dairy products</p>	<p>The latest (October 2007) tracking survey for the milk awareness campaign being carried out in Scotland by the MDC-supported and match-funded Scottish Dairy Marketing Company shows a change in attitude to milk, including:</p> <ul style="list-style-type: none"> • 44% of children think milk is becoming more cool (26% March 2003) • 42% agreed that kids seem more interested in milk now (29% March 2003) • Only 19% think children see milk as dull and boring (30% March 2003) <p>A match-funded project establishing a new identity for milk was completed by the Milk Marketing Forum in July 2007, complete with a new logo and brand guidelines that can be used by any processor selling milk</p> <p>A new cross-industry communication strategy has been developed and an EU Application (excluding MDC/DairyCo Limited funds) was made by the dairies in November 2007. The total campaign is for £9m over 3 years (50% EU funded). Communications agency pitches were completed in September and Freud Communications appointed to work with the Milk Marketing Forum. Subject to a successful EU application, the campaign will start in Autumn 2008</p>
<p>Consolidation of all MDC School Milk activities with an industry consortium</p> <p>Increase rate of uplift of consumption in existing and dry schools</p> <p>Establishment of widespread vending contracts within secondary, tertiary and colleges</p>	<p>Research into the opportunities presented by schools started in September 2007. As yet, the route forward is undecided due to the transition to DairyCo Limited, and conversations are ongoing with the Agricultural and Horticultural Development Board (AHDB) and sector companies</p> <p>Promotional research for secondary schools was completed by the end of March 2008 and a report is pending. During the year the School Milk team established contact with 2,771 prospects, resulting in 898 school visits and 265 new school milk schemes. This was a reduction on the previous year partly due to increased commercial activity filling this role, thereby solving market failure and partly due to a smaller facilitator team. There have been 24,000 visits to the school milk website and over 48,000 pieces of information have either been sent out or downloaded</p> <p>Two vending research projects were completed – in Leeds and Bristol. As a result of the Leeds project Cool Drinks Ltd have extended coverage by 50 schools within the Leeds Local Authority. As a result of the Bristol project, Dairy Crest will work with a vending partner to grow its vending business. A summary report will be published in 2008/2009</p>
<p>Continuation of issues management and nutritional advice provision through the Dairy Council</p>	<p>The MDC continues to provide joint funding for the activities of The Dairy Council, a contribution which is matched by milk processors through Dairy UK. The Dairy Council provides issues management support for nutritional allegations and has identified several areas for future research of potential benefit to the industry. Most notably, during the year the World Cancer Society issued a comprehensive report looking at the cancer-causing effects of different foods. While minimal link was made between dairy products and cancer. The Dairy Council reviewed the report and was quickly able to advise the industry of appropriate responses</p>

-  not achieved or not started
-  target not reached but some progress
-  target achieved

target	performance summary	
developing industry services for the future		
An increase from 65% to 75% in awareness of MDC's role among producers	The end point of 2006/2007 year was actually 60% of farmers acknowledging the MDC was a provider of services of use in running the dairy farm business; this rose to 68% at the end of 2007/08. The performance rating of the MDC in delivering these was also up slightly to just over 6.5 out of a possible 10. Some 26% of farmers rated the MDC performance as 'good' or 'very good'	
An attendance of 75% at regional committee meetings All 10 committees meet at least three times in the year	At least three meetings for the committees were achieved during the year, although they produced an average attendance of 60%. This was disappointing and reflected the difficulties farmers have in attending meetings when farm emergencies can occur at short notice, but also meant that there was increased focus during the year on delivering value through the meetings	
Increase from 35% to 50% in awareness of specific activities carried out by the MDC	Fewer farmers than in the previous year could identify specific MDC products and tools – 30% – although the increase in awareness of MDC's general activities has contradicted this. These conflicting results, combined with the slight increase in MDC's rating on performance suggest that people are clearer about what they can get from MDC but identify less with individual products	
Helping to develop the new levy board structure	The new DairyCo Limited structure and associated KPIs have been developed and published	
Establishment of new arrangements for MDC and transfer of assets and staff to the new body DairyCo Limited	A staff survey was held in November and showed that more than 80% agreed or strongly agreed that the managers were keeping them fully informed of changes that might affect them, where possible. A follow-up survey will be held in 2008/2009. There is a rigorous staff consultation process in place and weekly updates are given to keep staff informed about the transition and AHDB's plans. As of 1 April 2008 all personnel and assets were successfully transferred to DairyCo Limited	

-  not achieved or not started
-  target not reached but some progress
-  target achieved



supporting competitive milk production

The roller-coaster year, which started with crippling low milk prices, travelled through Foot and Mouth and Bluetongue, and ended with escalating returns, presented its own challenges to the MDC.

The farmer-facing Extension team, working with over 100 farm business groups around the country, found its activities severely curtailed as disease fears caused movement to be restricted and meetings to be called off. This meant targets for the year had to be revised to take account of 'grounded' staff – although this did provide opportunities to gain more direct Extension Officer input to a number of new tools and packages. Normal service was resumed later in the year and the members of the dairy business groups continued to benefit.

tackling issues through sound science

A considerable amount of our projects this year were desktop reviews,



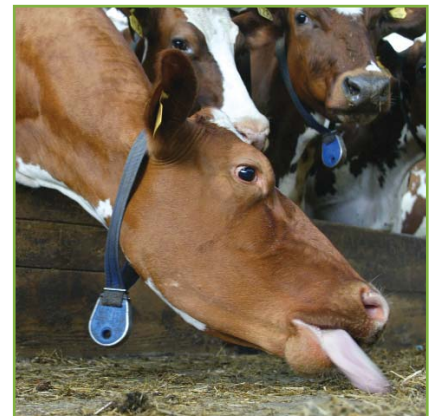
A new Heifer rearing calculator was developed

reducing the costs of new milking installations

The updated *Parlour Wizard* tool has had a great number of options added to help improve the design and labour effectiveness of milking systems. Estimated to generate a saving of around 10% on installations that will cost between £50,000 and £200,000, this equates to an average of £10,000 per farmer using the tool. Some 1,500 dairy farmers are predicted to update their parlours during the lifetime of the tool – which only cost £1.50/British milk producer to create.

providing the scientific knowledge needed for packages such as the *Heifer rearing calculator* and a new *Slurry storage capacity* tool which incorporates existing work on parlour design, housing and slurry storage. Information on *Strategies to reduce culling* and a *Culling assessment calculator* were also collated to enable farmers to analyse their main culling reasons and how they compare with national averages.

Research activities focused on enhancing knowledge to deal with current and future issues. The impact of biofuel production on dairy feeding and economic strategies to increase slurry storage capacity are just two examples, and we were delighted to be able to work collaboratively with other organisations to maximise the research budget, for example in projects such as *Ruminant nutrition regimes to reduce methane and nitrogen emissions*.



Feed is one of the biggest variable costs on a dairy farm

better feeding improves profits

The *feeding+* programme for dairy cow nutrition cost £44,500 to develop. Purchased feeds are the single largest variable cost on most units. *feeding+* stands to save at least 0.7p/litre by producing 2,000 litres more milk from grazed grass and avoiding waste in clamped grass silage production will save another 0.35p/litre – totalling at least 1p/litre. This means an average-sized herd producing average yields could hope to save around £1,000 each year from using the *feeding+* package. The cost of producing the package, when spread across all British milk producers, was only £3/farmer.

New direction was based on an extremely valuable analysis of hundreds of farm records from Professor David Coleman's pivotal 2002/2003 study into farm profitability, which highlighted several key areas in

optimising use of water

The *Effective use of water on dairy farms* report was published in August 2007 and 1,250 booklets had been requested by the end of the year. Water company charges are set to run around 4.2% above inflation but the information in the report would help a farmer using 20 litres/cow/day washing down his parlour to halve this, equating to a saving of £730/year for a 100-cow herd. Furthermore, reducing reliance on mains water by installing a borehole, rainwater collection or water abstraction could provide savings of more than 50% – meaning around £1,550 per 100-cow herd. The report cost £1.40/British milk producer to create. If just half the 1,250 producers who requested the report are able to implement these two measures then total savings will total around £1.4m annually.

which the country's most profitable farms were considerably more cost-effective than the average.

Labour and feeding were two areas that stood out and so one of the tasks of the year was the creation of a new addition to the popular range of farm improvement programmes – **feeding+** – which will be launched to the industry in the autumn of 2008 with the aim of increasing feeding efficiency on individual farms by 5%. The development of the **feeding+** programme will give dairy farmers a world-class package of unique, up-to-date and independent information that has real potential to substantially increase profitability.



The effectiveness of labour in different milking systems was scrutinised

During the year, better use of labour – including the farmer's own time – was also in the spotlight with the creation of further foreign language tools for immigrant dairy workers, requested by a total of 650 farmers during the year. Another five *What If?* workshops helped farmers make the right strategic decisions for the future of their business, with further workshops planned in 2008/2009.

Other practical help provided to farmers included a report looking at how to reduce water costs; it proved to be an outstanding success with more than 1,250 flying off the shelves. The enlargement of the Nitrate Vulnerable Zone area was also tackled.

As well as these activities, the MDC's strategy for future R&D received attention during the year with a major update to support farmers as they move into a more environmentally-regulated industry.

tough on mastitis

Mastitis in UK dairy herds continues to remain a major problem and the new *Mastitis diagnosis and control plan* was run through its paces with a group of 20 farmers and their vets. This plan is a result of a comprehensive two-year research project fully funded by the MDC. In the original study, the average incidence rate of mastitis on farms implementing the plan decreased by 22% compared with the controls. Plans are unique to the individual farm to tackle the specific mastitis issues they face. Compliance with the plan recommendations is the key to success and those farms implementing more than two thirds of the recommendations achieved up to 36% reduction in mastitis incidence. The results and feedback from participants of the pilot are being analysed to help develop the best strategy to roll the plan out nationally in 2008/2009.

coping with NVZs

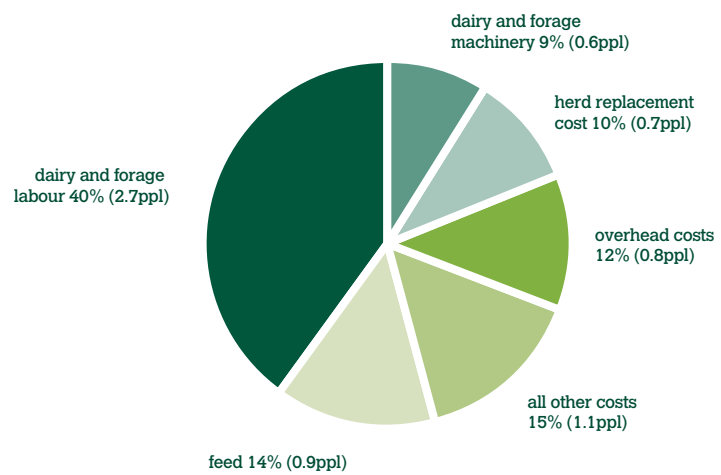
Many more dairy farmers are expected to fall into newly-enlarged Nitrate Vulnerable Zone (NVZ) areas; the majority are predicted to have to spend around £50,000 creating sufficient storage to meet new requirements. The report *Economic strategies to increase slurry storage* efficiently looks at options such as roofing over yards or diverting rainwater. The estimated savings per average herd are £1,000 plus any saved fertiliser costs from better use of slurry – for a cost of £1/British dairy farmer to produce the report.

the importance of data

The potential of the re-analysis of Coleman's work (mentioned previously) to provide direction to R&D and other activities – and to use on-farm, showed the benefits to be had from a major revamping of *MilkBench* which would allow farmers to more easily compare physical and financial data.

This project is nearing completion and as at 31 March 2008, 206 complete data sets were being fed into the system using registered farm secretaries to ensure accuracy. Upon completion, both participating farmers and DairyCo Limited will have an unrivalled set of modern data from which essential decisions can be made, strengths and weaknesses pinpointed, and future priorities identified.

difference in costs between the 10% lowest-cost producers and the rest of dairy farmers





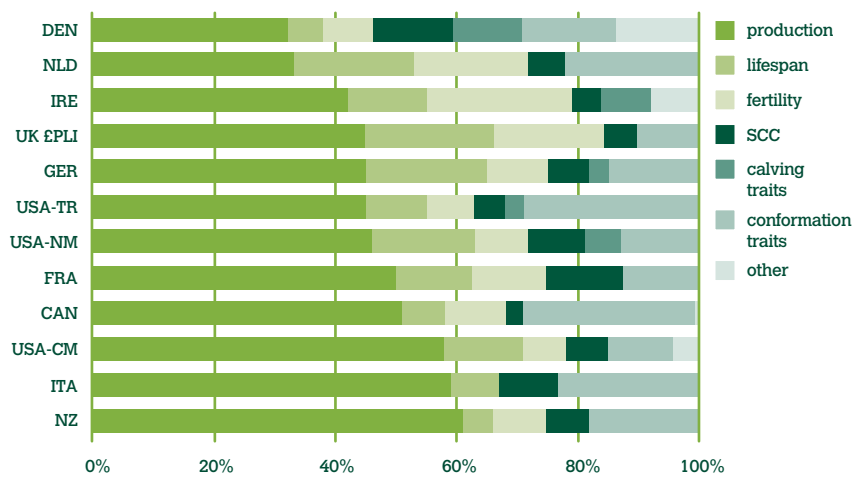
breeding a better cow

Breeding remains one of the most under-recognised factors affecting profitability. Genetic progress accelerated with the introduction of Holstein genetics in the mid 1980s, and was estimated to be worth around £10 per year for each cow. However, new work carried out by DairyCo Limited in association with Promar suggests the average increase of 10 Profitable Lifetime Index (PLI) points in a year across the UK could be worth as much as £45 per cow in improved margins. The annualised benefit to the national herd of around 1.8 million cows is therefore worth a potential £80m every year based on these latest figures.

In recognition of these rewards and of the changing face of the 'optimum dairy cow', 2007 saw the biggest overhaul of the national genetic ranking index since its inception in 1995.

A team of scientists, industry specialists and dairy farmers collaborated on revamping the index and the new

percentage contribution of each trait to indexes in different countries



Profitable Lifetime Index (PLI) was launched to the industry at the July 2007 Royal Show; it was subsequently implemented with the August 2007 genetic evaluation release.

The resulting new PLI has a radical 55% emphasis on 'fitness' traits –

among the highest in the world – so identifies animals which pass on good natural disease resistance and the right conformation for longevity to their offspring.

This is the culmination of almost 12 years' work to increasingly combine

new dairy herd profitability study reveals PLI is worth £4.50 per point

A new independent study measuring the financial performance of dairy herds has revealed stark differences between low and high genetic merit herds.

The difference in margin between a herd of average genetic merit (Profitable Lifetime Index 14), and a herd in the top 1% (PLI 75) has been shown to be, on average,

£286 per cow per year, equating to a staggering £28,600 annually for a 100-cow herd. In other words, one point of PLI is worth over £4.50/cow/year.

The study has used completely independent genetic data from MDC **breeding+** and fully bank-reconciled figures from herds using Promar Farm Business Accounts service. It involved over 20,000 Holstein cows in herds averaging around 7,500 litres/cow/year, and is the first study of its kind to be undertaken for over 10 years.



All dairy breeds monitored have continued to make strong genetic progress



The Customised Herd Index will make it easier for farmers to select for their own goals

This move reflects the steady increase in inbreeding seen in all dairy breeds in Britain, which has the potential to impair dairy cow fitness and performance if it isn't monitored.

However, it's important to note that inbreeding is still not a serious concern in Britain. UK levels for all breeds currently stand at around 2%, which is somewhat lower than those in North America where inbreeding is closer to 5%. Only above 6% are levels considered to be damaging.

Inbreeding percentages are calculated by MDC **breeding+** using milk records and pedigree records supplied by breed societies.

Finally, the *Customised Herd Index* tool was completed and, at 31 March 2008, an easy-to-use interface was being developed before its launch. This will allow those breeding cows to select their own goals, but unlike other ranking tools will show any trade-offs in other desired attributes very clearly.

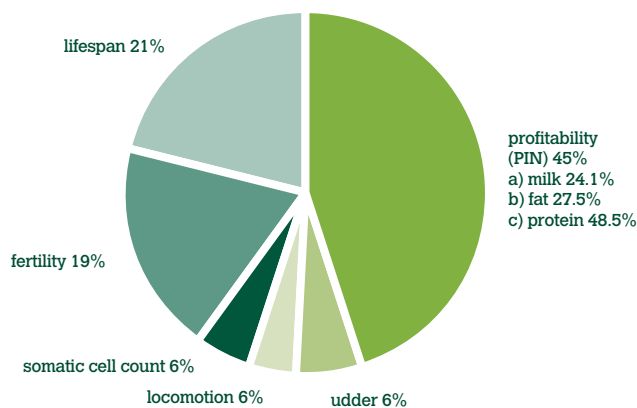
factors that affect longevity into the UK's national genetic index.

focus on inbreeding

In March 2008, in response to the need for dairy farmers to consider inbreeding levels when choosing bulls for their herds, the MDC's **breeding+** management programme added an inbreeding component to its regular online service.

Inbreeding percentages for individual animals as well as whole herd summaries are now routinely included as part of the Herd Genetic Report, available free of charge to all milk-recorded herds.

relative importance of traits in the UK's PLI





developing supply chain relationships

2007/2008 finally saw the long-awaited improvement in milk prices, but few were prepared for the magnitude of the change with an incredible turnaround of power from the buyers to the sellers of raw milk.

While this could have dwarfed the MDC's ongoing activities which focused on improving supply chain relationships and returning a fairer price to all, the need for structural change to provide a longer-term, more sustainable improvement was still evident even as the higher prices trickled through.

routes to profitability

Milk prices were critically low at the start of the year and the MDC continued its plan to publish a follow-up report to its acclaimed *Routes to Profitability* report issued the previous year. The NFUS had requested the sequel and stood together with the rest of the industry – NFU and Dairy UK – in support of it

when the report was finally launched at The Royal Show in June 2007. The markets have since changed, but the industry still stands by this blueprint for long term sustainable change.

While this proved a great success, the significant international benchmarking exercise we undertook to allow British farmers to identify their weaknesses, strengths and opportunities in a world market encountered a hitch – in that the physical and financial international data collected proved too inconsistent to allow accurate comparisons across the datasets. However the work continued, instead using data from the International Farm Comparison Network (IFCN). This has delayed the project but it is still intended that the report will be produced in 2008/2009.

modernising contracts

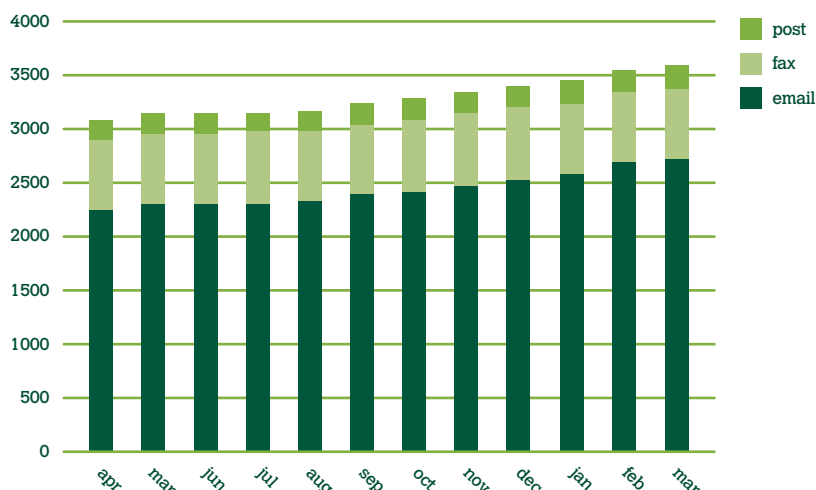
Contracts between farmers and milk purchasers were one of the main



issues identified by the MDC – many are still based on the old Milk Marketing Board contracts of yesteryear and in no way reflect the current industry structure with its many buyers and fluctuating commodity prices. The MDC worked closely with the NFU throughout 2007/2008 to build on the findings of the 2005 *Raw Milk Contracts and Relationships* report, to support the call for change being driven by the NFU.

The calls didn't fall on deaf ears as at least one retailer with direct supply contracts with farmers – Tesco – went on to implement some major changes. In fact Tesco requested a briefing from the MDC on how contracts could better reflect costs of production. More retailers and processors are expected to follow in changing their contracts, pushed by the sellers' market.

number of requested Datum updates distributed each issue by email, fax and post





Modelling the supply chain helped to better understand the impact of increasing or decreasing the number of players in the market

modelling the supply chain

Another crucial factor in any long-term solution for instability of prices in the industry was determined as competition. The Competition Commission and Office of Fair Trading, with their heavy focus on the end-consumer, have an understandable interest in any mergers that would reduce the number of industry players. However, it is clear that some rationalisation of processors in particular stand to improve the situation for farmers.

Therefore a major piece of work was undertaken during 2007 by Oxford University to model the balances of power in the dairy supply chain. It was then possible to interrogate the model to ascertain the impact of reductions or increases in processor or retailer numbers. Both competition agencies expressed immediate interest in knowing the project outcomes.

The project, completed in late 2007, confirmed that reducing the number of major milk purchasers would have little impact on prices for the consumer but would improve the prospects for dairy farmers. It is hoped the model will allow much more informed debate around structural changes in the milk market in the future.

datum's success

Finally, the Datum market information service continued its success story throughout the period. In its sixth year, its achievements grew as did the number of farmers using its services. The information service, which ranges from the constantly-updated web pages containing all the latest market statistics and data, fortnightly market news and analysis, and bespoke support for farmer groups supplying the same purchaser, broke several new stories during the year. The number of updates issued each fortnight rose by 17%.

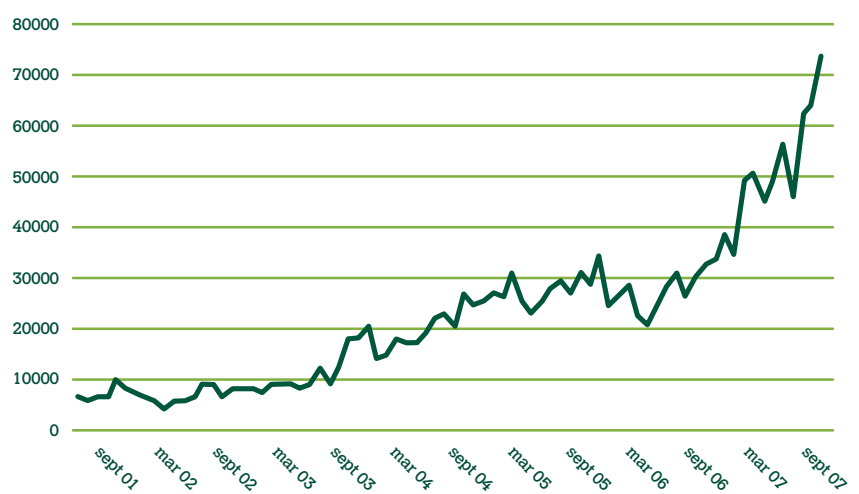
The growing recognition of the Datum website as the first port of call for accurate and impartial information is demonstrated by the number of 'hits' the website receives, this climbed from 6,300 hits per week in 2006/2007 to over 11,500 in 2007/2008. The high point for the website has been receiving almost 72,500 hits for information in February 2008.

On average over the year, the team answered 130 queries from farmers, their representatives and the media each month, and dealt with at least one major investigative enquiry every week. An average of 39 mentions in the press and media were also recorded each month.

providing essential support

The Datum team not only answers around 130 queries each month – it also carried out independent investigations into prices and markets where there was concern about the way contracts were being applied or changes in the markets interpreted. If, as a result of the analysis carried out by the team and information published the average milk price increased by as little as 0.05p/litre – a common outcome – this would mean an extra £6.7m for milk producers if all were to benefit. This demonstrates the impact of impartial information.

no. of times information accessed over the website each month





stimulating a healthy appetite for dairy

The development of new and better markets for dairy remained a critical activity for MDC throughout the year.

While we kept the focus on creating a positive demand for dairy, promoting dairy to under-16s and developing added-value products, particular emphasis was placed on projects that communicated benefits, innovated new products or provided new insight about future opportunities for dairy.

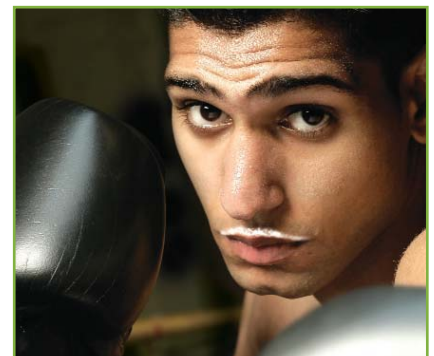
creating positive demand

One of the major developments of the year was work with the GB Milk Marketing Forum to agree an ambitious and unifying industry-wide strategy for generic milk and dairy advertising.

This has so far delivered a new 'milk identity', the appointment of

a communications agency and an application from the dairies for a three-year EU supported campaign (if successful, to start late 2008). Almost more importantly, it was a positive and motivating development for the industry at a time when milk prices remained low and future prospects looked bleak. We're pleased to see this moving forward with industry funding.

2007/2008 also saw the third year of involvement in the part-funded Scottish Dairy Marketing Company's *Milk Moustache* campaign. Results from a survey taken in Scotland in October showed promising changes in attitude. Almost half of the respondents believed that children thought milk was becoming more 'cool', from just a quarter four years previously. Only 8% thought drinking milk was childish even though a quarter had believed that in 2003.



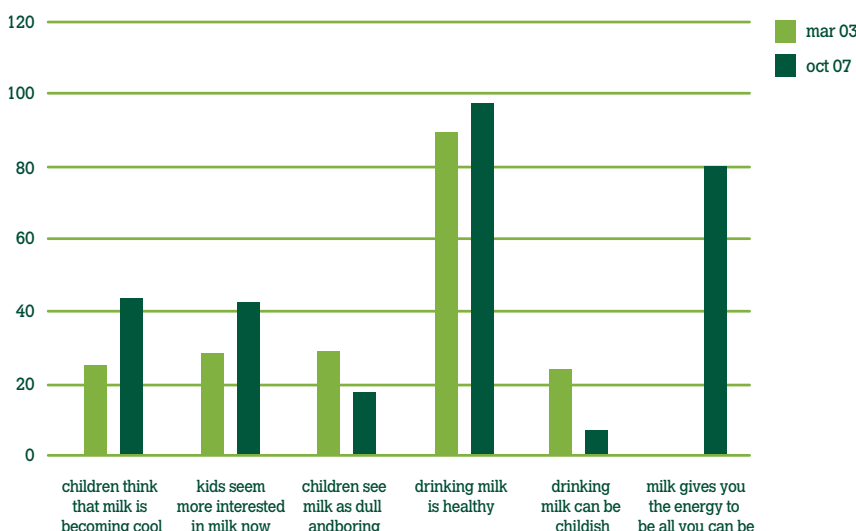
Amir Khan was just one of the celebrities used to support the Scottish Milk Moustache campaign on 2007/2008

focusing on under-16s

Meanwhile, the MDC continued to focus on the development of School Milk schemes with a team of facilitators working with Local Education Authorities (LEAs), schools and dairies to encourage milk consumption by under-16s, and particularly by under-11s. As the year finished we were just completing a research project to identify milk consumption trends among 11-16 year olds, and this is expected to inform future activity.

Through the year the MDC worked closely with the Home Grown Cereals Authority (HGCA) to promote Breakfast Clubs in schools, culminating in a joint stand at the Education Show in February 2008 which was a tremendous success with visiting teachers. We continue to work closely with other organisations such as Year of Food & Farming and Farming and Countryside Education (FACE) to promote dairy knowledge in this critical age group.

**attitudes (%) to milk:
White Stuff Milk Moustache Campaign, Scotland**





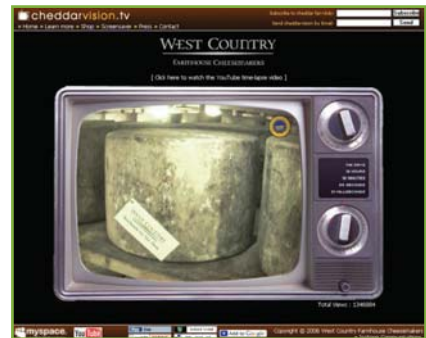
A study of milk consumption in under-16s is just finishing

adding value

During 2007/2008, the MDC continued to provide funding to the British Cheese Board for marketing projects in its quest to promote cheese consumption, as well as supporting individual marketing activities.

Possibly the most notable of these was the creation of the 'Cheddarvision.tv' website with West Country Farmhouse Cheese Makers. It proved an outstanding success with 1.7m website visitors contributing to a 25% increase in sales. The site became a cult hit and generated worldwide interest – and even had its own fan base on Facebook! The campaign won the best consumer marketing communications campaign (under £100k) in the PR Week Awards and was short-listed in the Dairy Innovation Awards in Athens in March 2008.

As well as this, the MDC continued to work with Cheshire Cheese Makers, Lancashire Cheese Makers and the Stilton Cheesemakers Association to support their campaigns and has recently achieved more success with the Jersey and Guernsey PR Campaign 'Big Udder', which is a website featuring a herd of Jersey and Guernsey cows.

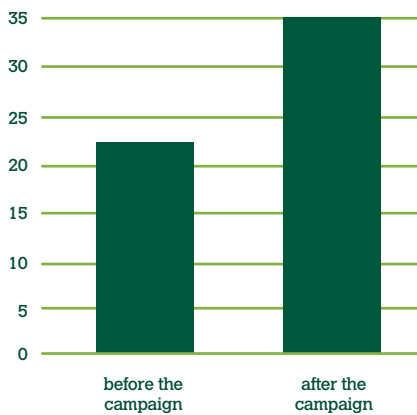


Cheddarvision.tv was an outstanding success with 1.7m web hits and international news coverage

A major review of provenance opportunities was published during the year, which identified many ways to add further value to dairy products by emphasising the values of local sourcing, environmental stewardship and animal welfare.

Finally, further innovation work has continued on the launch of new cheeses, new brands of milk and on a new adult milk Frappes © concept. Recently, the MDC has supported three separate organic milk projects looking at new brand creation and promotion.

percentage of people who would buy milk as an isotonic drink to aid recovery



insights into opportunity

During the year, we completed a major update of our consumer segmentation study to provide further knowledge of the public's consumption habits. This was only the third project of this type ever undertaken by Taylor Nelson Sofres (TNS) and the findings are now being communicated to support future developments by a wide range of companies.

Sport became a focus during the year when the findings of the Loughborough University research into the isotonic properties of milk were published in August 2007. This proved that skimmed milk has an important role in post-sport recovery and the findings are now being used by several companies to drive new product developments in this area – in fact two companies are known to have

already developed specific sports-related milk drinks on the back of the work. A survey held before and after a PR campaign aimed at changing public perception showed 12% more gym-users were likely to buy milk as an isotonic drink post-exercise.

With this approach now proven, we are funding two other important research studies looking at calcium consumption and gut health, and another project looking at dairy consumption and Body Mass Index. Both will be completed under the management of DairyCo Limited.

Finally, we are supporting a project with Chatham House looking at long-term supply chain issues and solutions in dairy. This will provide invaluable input to long-term planning for the industry as a whole.



getting MDC's information into the hands of its funders

The communication of the MDC's work to its levy payers remained a huge challenge throughout 2007/2008. It has been well-recognised within the MDC that irrespective of any new developments within the organisation, if levy payers don't get to hear of them, they can only gain limited, if any, benefit.

Overall, it was a difficult year in which to communicate; the issues caused by Foot and Mouth Disease greatly curtailed opportunities to talk to producers, with the cancellation of the Dairy Event proving a particularly big blow. The massive swing in milk price from devastatingly low to talks of an all-time high also created its own challenges.



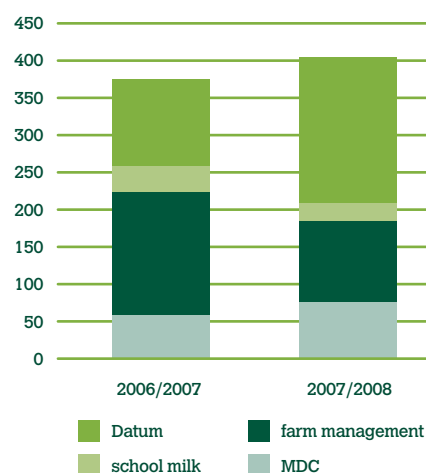
Despite the difficulties the MDC managed to attend the Great Yorkshire, Royal Highland and Royal Welsh shows, as well as AgriScot and the South West Dairy Show. The Royal Show became the launch pad for two major developments – the new *Profitable Lifetime Index* and the follow-up to the *Routes to Profitability* report. Spokespeople from the MDC also took part in several lively Great Milk Debates hosted by the Women's Institute, helping to educate the general public about the economics and benefits of milk.

There were also plenty of developments to talk about between farm events: the *Farmer Intentions Survey*, the new *Oxford supply chain model*, the *School Milk Project*, updates on the *Naturally Beautiful* campaign and the *White Stuff Milk Moustache* campaign – and more than 50 press releases were issued.

Media coverage exceeded the previous year's and produced over 1,300 items, an increase of 100 over 2006/2007. These reached readers and listeners over 71m times – a slight reduction but probably a reflection of the increased focus on regional newspapers. In fact stories and features about the Extension Officers generated 260 items alone. Web statistics also showed a 6% increase in the number of hits, rising to over 400,000 across the various MDC websites.

The annual survey of 500 dairy farmers threw up some interesting results as well. Overall, progress in increasing awareness of the MDC and its services slowed, but indications were this could have been due to the changing economic environment.

number of website hits (000's)



Such was the scale of the change in the dairy markets through 2007/2008 that by the time the survey was carried out in March 2008, many producers appeared to have formed the view that there was relatively little control they could gain over their future – it was dictated by far bigger factors outwith their influence.

This manifested itself in reduced importance placed on receiving information and support to run the business – more than half of farmers said they needed no information compared with less than a third the previous year – which had a knock-on effect of lowering interest in meetings, newsletters, the internet and all other sources of information. This was with the exception of the farming media, which remained extremely popular.

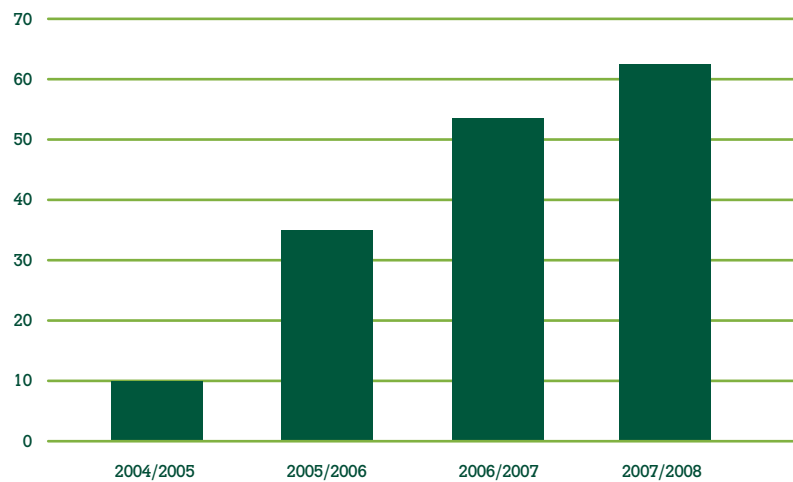
Notably interest in market information also grew, possibly as a means of finding out how these bigger global elements would impact dairy farming.

The MDC became the preferred supplier of market information above all other sources, and was second only to consultants in the provision of technical, business management and milk marketing or processing information – an improved ranking on the previous year. This meant it was not surprising that understanding of MDC’s role grew for the fourth year running with 68% of farmers identifying with at least one of its areas of activity compared with 60% the previous year.

However, faith in the ability of MDC’s activities to improve farmers’ prospects fell in line with the general reduced reliance on external support – even though farmers thought the MDC’s performance at actually delivering them had improved.

Finally, while farmers’ understanding of MDC’s general role increased, their ability to identify particular products and services fell significantly. This suggests that the MDC brand and what it stood for became more recognisable than the individual packages and services under its banner.

% farmers acknowledging MDC as a source of information for their business



financial accounts

financial review of the year

statutory background

The MDC 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 1995 Order was later amended by the Milk Development Council (Amendment) Order 2000 (SI 2000/878). Both the 1995 Order and the 2000 Order were repealed by the Agriculture and Horticulture Development Board Order 2008 (SI 2008/576) which dissolved the MDC and replaced it, and four other statutory levy bodies, with the Agriculture and Horticulture Development Board from 1 April 2008.

These final accounts for the Milk Development Council 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 again in 2007/2008 as milk production dropped, which was predicted in last year's report. Milk production and therefore potential levy income is predicted to keep falling over the next three years. The implication is a continued focus on reducing costs and maintaining a value for money culture. In addition there was a new attitude towards non-levy funding, that is to actively look for opportunities that could aid us in fulfilling our long term strategies.

It has been the Council's policy in the past to maintain reserves to fund the costs of any winding up of the MDC. However, with the transition to DairyCo Limited on 1 April 2008, it was judged to be necessary to hand over the organisation with higher cash reserves, in the region of £2m.

performance against key financial targets:
MDC income & expenditure account 31 March 2008

	Budget £	Actual £	Variance £
Levy Income	6,900,000	6,796,994	(103,006)
Other Income	30,000	213,172	183,172
EU Grant	-	31,555	31,555
Other Grant Funding	129,000	107,771	(21,229)
Admin Costs	(1,529,305)	(1,557,733)	(28,428)
Levy Income Net of Admin Costs	5,529,695	5,591,759	62,064
Scottish Promotion	(76,000)	(76,000)	-
Applied Research Forum	(4,000)	(3,000)	1,000
Cheese	(274,444)	(322,122)	(47,678)
School Milk	(250,000)	(225,024)	24,976
Dairy Council	(325,000)	(365,000)	(40,000)
MDCEL	(399,996)	(399,000)	996
Organisation Funding	(27,996)	(24,493)	3,503
R&D Projects	(1,362,795)	(877,504)	485,291
Market Development	(2,339,405)	(1,110,022)	1,229,383
Comms & Regional Extension	(972,916)	(1,255,857)	(282,941)
Total Grants & Project Expenditure	(6,032,552)	(4,658,022)	1,374,530
Operating Surplus/(Deficit)	(502,857)	933,737	1,436,594
Interest Received	10,000	67,418	57,418
Operating Surplus/(Deficit) before Taxation	(492,857)	1,001,155	1,494,012
Taxation	(3,000)	(14,884)	(11,884)
Surplus/(Deficit) Retained for the year	(495,857)	986,271	1,482,128
Statement of Total Recognised Gains & Losses			
Surplus/(Deficit) for year	(495,857)	986,271	1,482,128
Total Recognised Surplus/(Deficit) for the year	(495,857)	986,271	1,482,128

In line with the points above a more active treasury function was in place in 2007/2008. The budget for interest received was £10,000 and the actual amount received was £67,418. The budget for non-levy income was £30,000 and actual amount received was £213,172. This aided us with the shortfalls in levy and strengthened the balance sheet for the future.

This has been a very challenging year with the fall in milk production, foot and mouth disease, bluetongue disease, flooding, food price increases – in addition to the transition to a new organisation, all of which has been translated into the finances of our organisation. The accompanying accounts reflect how well the MDC has met these challenges.

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 in the premises during the year ended 31 March 2008 (2007:0).

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 Council'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 Discrimination Act 2005. 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 5 and 6.

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 were 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 have been reformed into a new structure with one central levy board – the Agricultural and Horticultural Development Board (AHDB). This new organisation has subsidiaries for each of the agricultural sectors, of which DairyCo Limited is the subsidiary for the dairy sector, and the assets and liabilities of the MDC were transferred to the new structure on 1 April 2008.

going concern

The Council considers that the MDC had adequate resources to pass to AHDB and has, therefore, continued to adopt the going concern basis in preparing the financial statements.

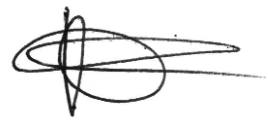
auditors

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 2008.

PricewaterhouseCoopers LLP is the external auditor of MDC Evaluations Limited and MDC Holdings Limited.

So far as the Accounting Officer is aware, there is no relevant 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



Kevin Roberts
Interim Chief Executive, AHDB
& Accounting Officer



Ken Boyns
Chief Executive, MDC

16 June 2008

statement of the accounting officer's responsibilities

Under Section 7 of the Industrial Organisation and Development Act 1947, the Milk Development Council is required to prepare for each financial year a statement of accounts in the form and on the basis determined by the Ministers for agriculture, with the consent of the Treasury. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Council and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to:

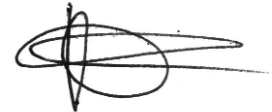
- observe the Accounts Direction issued by the Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going concern basis.

The Accounting Officer of the Department for Environment, Food and Rural Affairs has designated the AHDB Chief Executive as the Accounting Officer of the Milk Development Council. The responsibilities of the Accounting Officer, including responsibility, in consultation with the devolved administrations, for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Milk Development Council's

assets, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum.

Signed



Kevin Roberts
Interim Chief Executive, AHDB
& Accounting Officer

16 June 2008

accounting officer's statement on internal control

scope

As Accounting Officer, I have assumed responsibility for the system of internal control that supported 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 now personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

corporate governance

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 performed their duties in accordance with their Code of Conduct and displayed any interests in the Register of Interests which remains available for viewing at DairyCo Limited's offices. Council members were also corporately responsible for implementing the MDC's approach to managing risk and strategically reviewing the internal controls of the organisation.

2. MDC management

Each departmental manager and the MDC's Chief Executive have provided a letter of representation to me confirming that the control mechanisms within their area of responsibility were operating correctly, and provided 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 was an Operations and Procedures Manual that set out the authorities, procedures and controls of the MDC. This was updated as required, and was subject to an annual review of all procedures and controls. All changes to the Manual were approved by the Audit Committee.

3. Audit committee

The terms of reference for the MDC Audit Committee incorporated current best practice for an organisation of MDC's size, and the role and function of the Audit Committee was made discrete from other Council committees. The terms of reference were based on the Audit Committee Handbook issued by HM Treasury. Membership was drawn from existing Council members. The Chair was independent of all other chairman duties and responsibilities within the MDC. The Audit Committee's primary responsibilities included monitoring of the systems of internal control, approving the accounting policies and reviewing the annual financial statements. The Audit Committee met a minimum of four times per year and regularly reviewed the major risks facing the MDC identified at an organisational and departmental level.

4. External audit

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

5. Internal audit

Because of the limitations of size, the MDC did not have its own internal audit function, and this function was provided under contract to an external accounting firm, operating to Government Internal Audit Standards. An annual internal audit plan was drawn up and agreed with the external accounting firm. This plan was co-ordinated with that of the external auditors in order to ensure that full coverage was provided to all areas necessary to meet appropriate accounting and audit standards.

6. Defra

In addition, the Chief Executive of the MDC met representatives of the sponsoring department Defra quarterly to discuss operational and risk management issues that arose. Throughout the year Defra provided advice, information and guidance to the MDC.

risk identification and management

Council members were corporately responsible for overseeing the MDC's approach to managing risk and strategically reviewing the risk register. The content of the risk register was agreed, owned and addressed by the Council, who oversaw 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, were delegated by the Council to the Audit Committee. Its terms of reference represented current best practice. The Audit Committee's primary responsibilities included monitoring the system of internal control, approving the accounting policies and reviewing the annual financial statements. The Audit Committee regularly reviewed the major risks facing the MDC which were identified by the management team and noted within its risk register.

Risks were managed hierarchically and subordinate risk registers to the overall risk register were held within each department. These risk registers identified the unmitigated risk levels, before mitigating action was taken, and residual risk, after action had been taken.

Risk management was part of the MDC's overall management activities, embedded throughout the MDC's business processes and regularly reviewed by the Audit Committee, who were given further assurance by the internal and external auditors.

However, a focus during 2007/2008 was to embed risk management further into the management process so that it became 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 reviewed the MDC's risk management process;
- a risk assessment programme operated that evaluated and prioritised the business risks relevant to the MDC;
- a Risk Register operated that identified those responsible for each risk and identified 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;
- each department reported 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 were continually updated through the risk assessment programme.

internal control and performance management

The system of internal control was designed to manage rather than eliminate the risks of failure to achieve policies, aims and objectives; it could, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control was 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 was in place in the MDC for the year ended 31 March 2008, and up to the date of approval of the annual report and accounts and accorded with Treasury guidance.

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

- a management structure that clearly defined authority, responsibility and accountability;
- an Operations and Procedures manual, that documented the policies, systems and controls which were in place;
- staff performance appraisal scheme, designed to set objectives in line with the corporate plan deliverables;
- budgeting systems with an annual budget which was 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 indicated and explain financial performance against budgets;
- monitoring by the internal audit function on behalf of the Audit Committee in overseeing the work of the Chief Executive who had responsibility for the development and maintenance of the financial control framework;
- 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 had been standardised during the year and were implemented across the organisation;
- as far as practicable, given that the MDC employed a small administrative staff on efficiency grounds, the segregation of duties and a system of delegation and accountability.

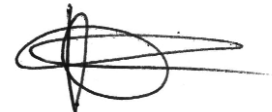
review of effectiveness

As Accounting Officer, I had responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control was assisted by the work of the departmental managers and the Chief Executive of the MDC who had 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.

I can report that following on from the identification of issues with the implementation of certain controls in the previous year, which were reported in the 2006/2007 Annual Report and Accounts, I am satisfied that the improved systems have been combined with better implementation and that there was good adherence to the systems in the year 2007/2008 and no breakdown of procedure.

Signed



Kevin Roberts
Interim Chief Executive, AHDB
& Accounting Officer

16 June 2008

remuneration report

human resources committee

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

The Human Resources Committee comprised four Council members, as listed on page 76. The Committee was 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 attended meetings of the committee when it was 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.

remuneration policy

The MDC Chairman, who worked on a part-time basis, and the Council, composed entirely of non-executive members, were 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 were appointed for terms of three years, and were eligible for re-appointment. Generally Council members can serve no more than two terms but in exceptional circumstances these terms had the potential to be extended, and the Chairman and Council were in such a position where they were requested to remain in office until 31 March 2008 when the MDC was dissolved. Remuneration for Council members and Chairman was approved by the Secretaries of State.

Council members did not receive remuneration but could claim an honorarium payment of £200 per day for meetings attended or for work carried out solely on the Council's behalf. The amount of the honorarium was determined by Defra after consultation with other ministerial departments, and was increased from 1 June 2007 from £150/day to £200/day. No pension contributions were paid for Council members.

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

Council members and the Chairman were entitled to claim expenses for work undertaken on behalf of the MDC. These were 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 below.

chairman and council members (audited)

The emoluments of the Chairman were £36,917 (2007: £35,982). No pension contributions were paid for the Chairman.

The following honoraria were made to Council members.

Honoraria for the year ended:	2008 £	2007 £
Michael Brearley	5,000	4,425
William R Campbell	6,675	6,100
Rosemary Collingborn	8,075	5,325
Christian Fox	4,025	6,300
Ian Gordon	9,450	675
David Homer	8,725	7,600
Gwyn Jones	850	2,100
Tom Jones	5,300	4,200
Trevor Lloyd	5,800	7,200
Jonathan Vickers	4,400	3,150
see note 7	58,300	47,075

chief executive (audited)

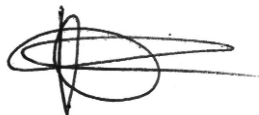
The gross emoluments for the position of Chief Executive Officer up to 31 March 2008 were £75,600 (2007: £75,000) plus a car allowance of £6,600 (2007: £6,600). There was no provision of private healthcare. Additionally, pension contributions were made of £9,431 (2007: £8,352). Remuneration of the Chief Executive Officer was decided annually by the Council on recommendations put forward by the Human Resources Committee. The Chief Executive is on a fixed-term contract until 30 September 2009 as Chief Executive of DairyCo Limited.

other employees

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

	2008 No.	2007 No.
£65,000 and £69,999	1	-
£60,000 and £64,999	1	-
£55,000 and £59,999	-	-
£50,000 and £54,999	2	3
£45,000 and £49,999	1	1
£40,000 and £44,999	2	-

Signed



Kevin Roberts
Interim Chief Executive, AHDB
& Accounting Officer

16 June 2008

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

I certify that I have audited the financial statements of Milk Development Council for the year ended 31 March 2008 under the Industrial Organisation and Development Act 1947. These comprise the Consolidated Income and Expenditure Account, the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Consolidated Balance Sheet, the Balance Sheet, the Consolidated Cash Flow Statement, the Cash Flow Statement 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 milk development council, Accounting Officer and Auditor

The Milk Development Council and the Accounting Officer are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with 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 the Industrial Organisation and Development Act 1947 and the Ministerial directions made thereunder. I report to you whether, in my opinion the financial review, included in the Annual Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if 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 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 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. This other information comprises the Chairman's Statement, the Chief Executive's report, the performance against targets, the narrative on pages 13 to 30 and the unaudited part of the remuneration report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

basis of audit opinions

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 Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Milk Development 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.

opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Industrial Organisation and Development Act 1947 and Ministerial directions made thereunder, of the state of the Milk Development Council's affairs as at 31 March 2008 and of its surplus, total gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Industrial Development Act 1947 and Ministerial directions made thereunder; and
- the financial review, included within the Annual Report, is consistent with the financial statements.

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.

I have no observations to make on these financial statements.

T J Burr
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
London
SW1W 9SS

7 July 2008

consolidated income & expenditure account

For the year ended 31 March 2008	Notes	2008 £	2007 £
Group income including share of Joint Venture		7,557,004	7,999,547
Less share of income of Joint Venture		(365,662)	(275,614)
		7,191,342	7,723,933
Comprising			
Levy Income	2	6,796,994	7,008,400
Other Income	3	228,472	101,700
EU Grant	4	31,555	504,061
UDF NI Grant		26,550	21,180
Other Grants	5	107,771	88,592
Administration Costs	7	(1,589,167)	(1,690,883)
Exceptional Item Pension buy out	22	-	(583,114)
Group Income Net of Administration Costs, share of income of Joint Venture and exceptional item		5,602,175	5,449,936
Generic Promotion Campaign in Scotland		(76,000)	(388,000)
EU Funded Teenage Girls Campaign	4	-	(1,089,304)
Applied Research Forum		(3,000)	-
Cheese Promotion Campaigns		(322,122)	(461,236)
School Milk Campaigns		(225,024)	(635,563)
Genetic Evaluations		(378,212)	(392,896)
Other Organisational Funding		(24,493)	(23,875)
Research & Development Project Expenditure		(877,504)	(714,113)
Promotional Funding & Market Development		(1,110,022)	(995,509)
Communicating Spend & Regional Extension Officers		(1,255,857)	(1,148,582)
Total Grants & Project Expenditure		(4,272,234)	(5,849,078)
Group Operating Surplus/(Deficit)		1,329,941	(399,142)
Share of expenditure of Joint Venture		(376,354)	(340,588)
Total Operating Surplus/(Deficit)		953,587	(739,730)
Group interest receivable	6	69,620	86,293
Share of interest receivable in Joint Venture		6,346	7,071
Operating Surplus/(Deficit) before Tax		1,029,553	(646,366)
Group Taxation	10	(15,604)	(14,615)
Share of taxation in Joint Venture		(1,269)	(1,344)
Minority interest		(3,176)	(1,695)
Surplus/(Deficit) Retained for the Year		1,009,504	(664,020)
Notional Cost of Capital	11	107,943	105,110

There were no acquisitions in the year

The notes on pages 55 to 71 form part of these financial statements

income & expenditure account (milk development council only)

For the year ended 31 March 2008	Notes	2008 £	2007 £
Levy Income	2	6,796,994	7,008,400
Other Income	3	213,172	98,000
EU Grant	4	31,555	504,061
Other Grants	5	107,771	88,592
Administration Costs	7	(1,557,733)	(1,674,349)
Exceptional Item Pension buy out	22	-	(583,114)
Levy Income Net of Administrative Costs		5,591,759	5,441,590
Generic Promotion Campaign in Scotland		(76,000)	(388,000)
EU Funded Teenage Girls Campaign	4	-	(1,089,304)
Applied Research Forum		(3,000)	-
Cheese Promotion Campaigns		(322,122)	(461,236)
School Milk Campaigns		(225,024)	(635,563)
Dairy Council Grant		(365,000)	(275,004)
Genetic Evaluations		(399,000)	(400,000)
Other Organisational Funding		(24,493)	(23,875)
Research & Development Project Expenditure		(877,504)	(714,113)
Promotional Funding & Market Development		(1,110,022)	(995,509)
Communicating Spend & Regional Extension Officers		(1,255,857)	(1,148,582)
Total Grants & Project Expenditure		(4,658,022)	(6,131,186)
Operating Surplus/(Deficit)		933,737	(689,596)
Interest Receivable	6	67,418	84,443
Operating Surplus/(Deficit) before Tax		1,001,155	(605,153)
Taxation	10	(14,884)	(14,263)
Surplus/(Deficit) Retained for the Year		986,271	(619,416)
Notional Cost of Capital	11	107,943	105,110

The notes on pages 55 to 71 form part of these financial statements

statement of total recognised gains & losses

For the year ended 31 March 2008		2008	2008	2007	2007
		£	£	£	£
	Notes	Group	Council	Group	Council
Surplus/(deficit) for the financial year		1,009,504	986,271	(664,020)	(619,416)
Actuarial loss on pension scheme	22	-	-	(45,000)	(45,000)
Total Gains/(Losses) recognised since last annual report		1,009,504	986,271	(709,020)	(664,416)

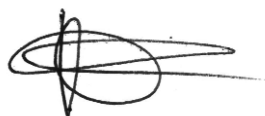
The notes on pages 55 to 71 form part of these financial statements

consolidated balance sheet

For the year ended 31 March 2008	Notes	2008 £	2007 £
Fixed Assets			
Fixed Assets Investments	13	-	200
Tangible Fixed Assets	12	43,440	76,803
Investment in Joint Venture:			
Share of gross assets	13	198,411	186,823
Share of gross liabilities	13	(41,278)	(23,413)
		<u>157,133</u>	<u>163,410</u>
		<u>200,573</u>	<u>240,413</u>
Current Assets			
Debtors due within 1 Yr	14	1,861,173	2,432,370
Debtors due >1 Yr	14	19,590	67,066
Cash at Hand & in Bank	17	<u>2,178,551</u>	<u>1,036,058</u>
Total Current Assets		<u>4,059,314</u>	<u>3,535,494</u>
Creditors	15	(903,482)	(1,399,182)
Liability relating to termination of pension fund	22	<u>-</u>	<u>(33,000)</u>
Net Current Assets		<u>3,155,832</u>	<u>2,103,312</u>
Total Assets Less Current Liabilities		<u>3,356,405</u>	<u>2,343,725</u>
Minority Interests		<u>(4,212)</u>	<u>(1,036)</u>
Net Assets		<u>3,352,193</u>	<u>2,342,689</u>
Reserves			
Retained Surplus	18	3,352,193	1,942,114
Marketing Development Reserve Fund	19	<u>-</u>	<u>400,575</u>
		<u>3,352,193</u>	<u>2,342,689</u>

The notes on pages 55 to 71 form part of these financial statements

Signed on behalf of the Council



Kevin Roberts
Interim Chief Executive, AHDB
& Accounting Officer

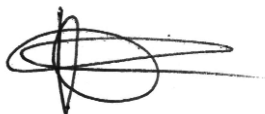
16 June 2008

balance sheet (milk development council only)

For the year ended 31 March 2008	Notes	2008 £	2007 £
Fixed Assets			
Fixed Assets Investments	13	-	1
Tangible Fixed Assets	12	43,440	76,803
		43,440	76,804
Current Assets			
Debtors due within 1 Yr	14	1,830,432	2,423,653
Debtors due >1 Yr	14	19,590	67,066
Cash at Hand & in Bank	17	2,166,426	958,473
Total Current Assets		4,016,448	3,449,192
Creditors	15	(902,785)	(1,322,164)
Liability relating to termination of pension fund	22	-	(33,000)
Net Current Assets		3,113,663	2,094,028
Net Assets		3,157,103	2,170,832
Reserves			
Retained Surplus	18	3,157,103	1,770,257
Marketing Development Reserve Fund	19	-	400,575
		3,157,103	2,170,832

The notes on pages 55 to 71 form part of these financial statements

Signed on behalf of the Council



Kevin Roberts
Interim Chief Executive, AHDB
& Accounting Officer

16 June 2008

consolidated statement of cash flows

For the year ended 31 March 2008	Notes	2008 £	2007 £
Net Cash Flow from Operating Activities	16	1,463,333	(1,659,946)
Returns on Investments and Servicing of Finance			
Interest received		69,620	74,293
Taxation			
Tax paid		(14,263)	(28,053)
Capital Expenditure			
Amounts paid to acquire tangible fixed assets		(11,197)	(27,418)
Financing			
Payments to joint venture		(365,000)	(275,004)
Cash Flow Before use of Liquid Resources		<u>1,142,493</u>	<u>(1,916,128)</u>
Analysis of Cash at Year End			
Decrease in cash deposits		(472,466)	(294,800)
Decrease in term cash deposits		1,614,959	(1,621,328)
(Decrease)/Increase in Cash	17	<u>1,142,493</u>	<u>(1,916,128)</u>
The notes on pages 55 to 71 form part of these financial statements			
Cash b/f		1,036,058	2,952,186
Cash c/f		<u>2,178,551</u>	<u>1,036,058</u>
		<u>1,142,493</u>	<u>(1,916,128)</u>

statement of cash flows (milk development council only)

For the year ended 31 March 2008	Notes	2008 £	2007 £
Net Cash Flow from Operating Activities	16	1,165,995	(1,971,136)
Returns on Investments and Servicing of Finance			
Interest received		67,418	72,443
Taxation			
Tax paid		(14,263)	(27,671)
Capital Expenditure			
Amounts paid to acquire tangible fixed assets		<u>(11,197)</u>	<u>(27,418)</u>
Cash Flow Before use of Liquid Resources		<u>1,207,953</u>	<u>(1,953,782)</u>
Analysis of Cash at Year End			
Decrease in cash deposits		(441,675)	(336,365)
Increase/(Decrease) in term cash deposits		<u>1,649,628</u>	<u>(1,617,417)</u>
Increase/(Decrease) in Cash	17	<u>1,207,953</u>	<u>(1,953,782)</u>
The notes on pages 55 to 71 form part of these financial statements			
Cash b/f		958,473	2,912,255
Cash c/f		<u>2,166,426</u>	<u>958,473</u>
		<u>1,207,953</u>	<u>(1,953,782)</u>

notes to the accounts at 31 March 2008

1. accounting policies

Basis of preparation

The accounts are intended to comply with best commercial practice including 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 2007/2008 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.

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), as well as the interest in The Dairy Council which is accounted for as a joint venture in the consolidated financial statements.

The twelve month period covered by the financial statements of the MDC and the two companies under its control 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 at the lower of cost or net realisable value.

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 applicable to 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 when milk is produced using the best evidence available and adjusted as necessary 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.

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 and Expenditure Account so as to match them with the expenditure towards which they are intended to contribute and are recognised only when the conditions for their receipt have been complied with and there is reasonable expectation that they will be received

Foreign currency account

The Euro bank account was closed during the year. There are now no other accounts other than sterling.

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 2008 was 0.06 ppl (for the year ended 31 March 2007: 0.06 ppl).

3. other income

Other income in the year ended 31 March 2008 relates to match-funding on projects from external sources, sales of statistical information, *What If?* workshops, and rent receivable (British Grassland Society £7,000, 2007: £2,625), £213,172 (2007: £98,000). Income generated by MDC Evaluations Limited from external sources came to £11,800 (2007: £3,700). Management fees were £3,500 (2007: nil).

4. eu grant

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 campaign). The campaign ended January 2007. We made the final claim and received the final amount within the financial year of £31,555 (2007: £504,061)

5. government (Defra) grant

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. The MDC accrues for the income due from the Defra grant in order to match expense.

6. interest receivable

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

	2008	2008	2007	2007
	£	£	£	£
	Group	Council	Group	Council
Interest receivable	69,620	67,418	74,293	72,443
Net finance charge on pensions scheme assets and liabilities (note 22)	-	-	12,000	12,000
Share of Interest receivable in Joint Venture	6,346	-	7,071	-
	75,966	67,418	93,364	84,443

7. administrative costs

	Central Services £	Direct Council costs £	Communications & Public Relations £	Total £
Year ended 31 March 2008				
Council members' honoraria	-	58,300	-	58,300
Council members' travel and subsistence	-	45,522	-	45,522
Staff costs	398,529	49,902	163,163	611,594
Rent, rates and office maintenance	62,696	-	-	62,696
Printing, stationery and office supplies	128,492	2,514	-	131,006
Telecommunications	44,170	1,719	947	46,836
Computer costs	46,425	411	-	46,836
Publicity and communications	-	-	434,425	434,425
Auditors' remuneration - 2008	23,500	-	-	23,500
Auditors' remuneration – 2007 not accrued	7,000	-	-	7,000
Other professional services	89,212	-	-	89,212
Depreciation	44,560	-	-	44,560
Amortisation of prepaid rent	46,976	-	-	46,976
Write-off of bad debts	10,519	-	-	10,519
Movement in provision for doubtful debts	(101,249)	-	-	(101,249)
Milk Development Council	800,830	158,368	598,535	1,557,733
MDC Evaluations Limited	29,134	-	-	29,134
MDC Holdings Limited	2,300	-	-	2,300
Group	832,264	158,368	598,535	1,589,167

	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	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	89,265
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	20,000	-	-	20,000
Other professional services	170,074	260	-	170,334
Depreciation	36,429	-	-	36,429
Amortisation of prepaid rent	45,316	-	-	45,316
Write-off of bad debts	3,037	-	-	3,037
Movement in 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
MDCEL Limited	16,534			16,534
MDC Holdings Limited	-	-	-	-
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 (2007: £13,000), and for telephone equipment £2,421 (2007: £3,176).

There was no remuneration paid to auditors for non-audit services during the year (2007: nil).

8. emoluments of council members and employees

See remuneration report page 41

9. staff costs

	Administrative services £	Projects £	Total 31 March 2008 £	Total 31 March 2007 £
Wages and salaries	451,408	1,021,228	1,472,636	1,331,163
Social security costs	49,460	108,441	157,901	138,099
Other pension costs	41,303	95,614	136,917	135,011
	542,171	1,225,283	1,767,454	1,604,273
Temporary staff	19,668	1,634	21,302	27,305
Private medical insurance	6,928	12,564	19,492	16,733
Recruitment costs	15,744	48,248	63,992	34,258
Training costs	11,477	14,685	26,162	23,749
Other staff related costs	15,606	198,054	213,660	215,623
	611,594	1,500,468	2,112,062	1,921,941

Other staff related costs included expenditure on travel and subsistence, business entertainment, and staff catering. Project staff costs are included within 'Total grants and projects expenditure' in the income and expenditure account.

The average number of employees during the year was 53 (2007: 51). The average number of staff employed on project and marketing work, including the Chief Executive, was 39 (2007: 39), and on administration and communications work the average number was 14 (2007: 12).

The number of employees by activity at the end of the year was as follows:	2008 No.	2007 No.
Chief Executive	1	1
Farm Management & Genetics	6	6
Extension Officers	11	10
Market Development	6	6
School Milk Facilitators	8	11
Market Information	7	5
Finance & Administration	9	7
Communications & Public Relations	5	4
	53	50

Pension Costs

MDC offers access to stakeholder pension schemes for all its employees in accordance with statutory pension requirements (Note 22).

10. taxation

The current and previous year tax charges are as below:

	Group 2008 £	Council 2008 £	Group 2007 Restated £	Council 2007 Restated £
Surplus/deficit of income over expenditure before taxation	1,029,553	1,001,155	(646,366)	(605,153)
Surplus/deficit multiplied by standard rate of corporation tax in the UK of 30% (2007: 30%)	(308,866)	(300,347)	193,910	181,546
Non-taxable items	283,756	278,021	(218,640)	(204,066)
Utilisation of small companies rate of corporation tax 30 % -20% (2007: 7.1%)	8,437	7,442	8,257	8,257
Items disallowed	(200)	-	-	-
Current tax charge for year	(16,873)	(14,884)	(16,473)	(14,263)

The Inland Revenue has confirmed that the MDC is exempt from corporation tax on the basis that its principal activities do not constitute a trade.

The Council will continue to pay tax on its bank interest received and chargeable gains. Provision has been made for a tax liability on the bank interest received.

The comparatives have been restated for presentational purposes only.

11. 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 provided by the levy payers. 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 2008 this is determined by applying 3.5% (2007: 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 the same level of risk.

12. tangible fixed assets

	Computer Equipment	Fixtures & Fittings	Total
Cost	£	£	£
At 1 April 2007	197,717	50,865	248,582
Additions	11,197	-	11,197
Disposals	(78,007)	(29,167)	(107,174)
At 31 March 2008	130,907	21,698	152,605
Depreciation:			
At 1 April 2007	127,994	43,785	171,779
Provided during the year	40,487	4,073	44,560
Disposals	(78,007)	(29,167)	(107,174)
At 31 March 2008	90,474	18,691	109,165
Net book value			
At 31 March 2008	40,433	3,007	43,440
At 1 April 2007	69,273	7,080	76,803

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.

13. fixed asset investments

Group

MDC Holdings Limited holds 50% share of The Dairy Council with the other 50% held by Dairy UK Limited. The financial results of the entity up to 31 March 2008 are included in the consolidated accounts of the Group, on the basis that it is a joint venture. 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 2008	31 March 2007
	£	£
Share of turnover of joint venture	365,662	275,614
Share of loss before tax of joint venture	(5,009)	(58,513)
Share of tax of joint venture	(1,269)	(1,344)
Share of loss after tax of joint venture	(6,278)	(59,857)
Share of fixed assets	13,126	11,604
Share of current assets	185,285	175,219
	198,411	186,823
Share of current liabilities	(41,278)	(23,413)
Share of net assets	157,133	163,410

MDC Holdings Limited also holds 200 £1 shares in Promise Fertility Limited (20% of total share capital), a dormant company, which it has written off during the year, and 900 £1 shares in MDC Evaluations Limited (90% of total share capital) whose net assets as at 31 March 2008 were £42,237 (2007: £10,358) and whose profit before tax for the year ended 31 March 2008 was £32,348 (2007: £17,300).

Council

The MDC controls MDC Holdings Limited, a company limited by guarantee. The extent of its investment is the guarantee of £1 in the event of MDC Holdings Limited being wound up.

14. debtors

	2008 £	2008 £	2007 £	2007 £
Debtors due within one year:	Group	Council	Group	Council
Levy due from milk wholesalers	920,918	920,918	1,370,683	1,370,683
Levy due from producer retailers	669,308	669,308	553,092	553,092
Other debtors	55,094	29,643	37,084	30,667
Prepayments and accrued income	215,853	210,563	471,511	467,811
Amounts owed by group undertakings	-	-	-	1,400
	1,861,173	1,830,432	2,432,370	2,423,653
Debtors due after more than one year:				
Prepaid rent	19,590	19,590	67,066	67,066
	1,880,763	1,850,022	2,499,436	2,490,719

15. creditors: amounts falling due within one year

	2008 £	2008 £	2007 £	2007 £
	Group	Council	Group	Council
Taxation	15,602	14,884	14,263	14,263
Other taxes (VAT) and social security	63,465	58,752	70,568	70,465
Trade creditors	271,600	259,247	194,637	115,618
Other creditors	27,589	27,590	177,704	199,338
Amounts owed by group undertakings	-	25,535	-	-
Accruals and deferred income	525,226	516,777	942,010	922,480
	903,482	902,785	1,399,182	1,322,164

16. reconciliation of operating surplus/(deficit) to net cash flow from operating activities

	2008 £	2008 £	2007 £	2007 £
	Group	Council	Group	Council
Operating surplus/ (deficit)	1,329,941	933,737	(399,142)	(689,596)
Depreciation	44,560	44,560	39,406	39,406
Loss on disposal of asset	200	-	475	475
Decrease in stocks	-	-	4,690	4,690
Increase in debtors and initial funding for projects	618,673	640,697	(88,499)	(52,526)
Decrease in creditors	(497,041)	(419,999)	(1,090,314)	(1,146,993)
Decrease in pension accrual	(33,000)	(33,000)	-	-
Difference between pension charge and cash contributions	-	-	(140,000)	(140,000)
Movement in taxation	-	-	13,438	13,408
Net cash flow from operating activities	1,463,333	1,165,995	(1,659,946)	(1,971,136)

17. analysis of cash balances shown in the balance sheet

	1 April 2007		Cash Flow		31 March 2008	
	£	£	£	£	£	£
	Group	Council	Group	Council	Group	Council
Cash at bank & in hand	91,199	48,308	(472,466)	(441,675)	(381,267)	(393,367)
Medium term deposits	944,859	910,165	1,614,959	1,649,628	2,559,818	2,559,793
	1,036,058	958,473	1,142,493	1,207,953	2,178,551	2,166,426

18. retained surplus

	2008 £	2008 £	2007 (£) £	2007 £
	Group	Council	Group	Council
Surplus b/f at 1 April	1,942,114	1,770,257	1,660,598	1,444,137
Surplus/(Deficit) for the year	1,009,504	986,271	(664,020)	(619,416)
Transfer from Market				
Development Reserve Fund	400,575	400,575	990,536	990,536
Actuarial loss on pension scheme	-	-	(45,000)	(45,000)
Surplus carried forward at 31 March	3,352,193	3,157,103	1,942,114	1,770,257

19. market development reserve fund

	2008 £	2007 £
Reserve Fund at 1 April	400,575	1,391,111
Utilisation of Fund for the year	(400,575)	(900,536)
Surplus carried forward at 31 March	-	400,575

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. This was no longer required in 2008 and was therefore closed.

20. future funding commitments

		2008 £	2007 £
Contracted and falling due:	in one year	658,135	1,480,719
	in one to two years	470,991	956,482
	In two to five years	24,750	807,760
		1,153,876	3,244,961

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

Included in the above 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. There are no future payments under that lease (2007: £277,000). These commitments will be met in future by DairyCo Limited (see note 26).

21. other financial commitments

At 31 March 2008, the MDC had the following annual commitments under non-cancellable operating leases:

	2008 Land & buildings £	2008 Others £	2008 Total £	2007 Land & buildings £	2007 Others £	2007 Total £
Operating leases which expire:						
In one year	-	-	-	-	3,176	3,176
In one to two years	-	-	-	-	-	-
In two to five years	13,000	-	13,000	13,000	-	13,000

These commitments will be met in future by DairyCo Limited (see note 26).

22. pension commitments

During 2006/2007 MDC exited its defined benefit pension scheme (The Milk Pension Fund). There were no assets nor liabilities under FRS17 in relation to the scheme as at 31 March 2008 nor at 31 March 2007 and so no balance sheet comparatives are included in this note. Included in the accounts as at 31 March 2007 was an accrual of £33,000 to buy out liabilities for the remaining members of the scheme.

The following amounts were included in MDC's accounts in 2007 and are provided for comparative purposes only.

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

Analysis of the amount charged to other interest:	2007
	£'000
Expected return on pension scheme assets	67
Interest on pension liabilities	(15)
Net return	12

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

Movement in deficit between 31 March 2006 and 31 March 2007:	2007
	£'000
Deficit in scheme at the start of the year	(140)
Movement in year:	
- Current service costs	(9)
- Contributions	209
- Losses on settlement	(60)
- Net return on assets	12
- Actuarial (loss)/gain	(45)
- Transfer of balance relating to termination of pension fund to current liabilities	33
(Deficit) in scheme at the end of the year	-

History of experience gains and losses	2007 £'000
Difference between the expected and actual return on scheme assets:	
- Amount	205
- Percentage of scheme assets	-
Experience gains and losses on scheme liabilities:	
- Amount	63
- Percentage of the present value of scheme liabilities	-
Total amount recognised in the statement of total recognised gains and losses	
- Amount	(45)
- Percentage of the present value of scheme liabilities	-

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 (2007: 42). 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 2008 amounted to £143,506 (2007: £124,118). No amount was due to the insurance company (NFU Mutual) at the year end (2007: £15,090.38).

23. 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 2008 MDC made grants of £399,000 (2007: £400,000) to MDC Evaluations Limited for the maintenance of the operational services for genetic evaluations. Amounts owed to MDC Evaluations at 31 March 2008 were £25,535 (2007:nil).

MDC Holdings Limited holds 20% of the issued share capital of Promise Fertility Limited. The primary objective of this company is to provide a service to the dairy farmer by advising on the fertility of their animals. A loan of £8,800 has been made by the MDC to Promise Fertility Limited. Provision has been made in case of the irrecoverability of this loan. During the year ended 31 March 2008 Promise Fertility Limited was in a dormant state.

All loans made to the above companies are repayable on demand.

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 2008.

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 2008 Brian Peacock and Ken Boyns were directors of that company. In the year ended 31 March 2008 the MDC made grants of £365,000 (2007: £275,004) and other purchases totaling Nil (2007: £1,057) to The Dairy Council. As at 31 March 2008, there were no amounts outstanding to or from The Dairy Council (2007: Nil).

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

During the year there were no material transactions with 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 Nil (2007: £336,600) and obtained non-levy receipts of Nil (2007: £130). A Council member (William Campbell) is a local director of First Milk. As at 31 March 2008, there were no amounts outstanding to or from MDC (2007: Nil).
- Holstein UK (HUK): T Gue is a director of Holstein UK and M Winters, an MDC employee, is a director of the Centre for Dairy Information (CDI), a subsidiary of Holstein UK. Both are also directors of MDC Evaluations Limited and MDC Evaluations Limited paid £1,327 (2007: £1,101) towards the operational costs for the dissemination of genetic information. As at 31 March 2008, there were no amounts outstanding to or from MDC (2007: Nil).
- Dairy UK: the MDC spent £35,250 (2007: £2,816) on projects and other purchases, and received £4,350 (2007: £1,767) towards projects with Dairy UK. A Council member (Gwyn Jones) is a director of Dairy UK. As at 31 March 2008, there was an amount outstanding from Dairy UK to MDC of £833 (2007: Nil).
- National Milk Records (NMR): MDC paid project costs to NMR of £1,415 (2007: £1,846). A Council member (Trevor Lloyd) is a non-executive director of NMR. As at 31 March 2008, there were no amounts outstanding to or from MDC (2007: Nil).
- National Farmers' Union (NFU): MDC paid sundry costs of £794 (2007: £36) to the NFU, and £16,924 (2007 £16,911) 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. As at 31 March 2008, there were no amounts outstanding to or from MDC (2007: Nil).

- Shilton Investments Limited: this company operates the chairman's office; costs in the year were £4,735 (2007: £2,218). The chairman is Company Secretary of Shilton Investments Limited. As at 31 March 2008, there was an amount outstanding to Shilton Investments from MDC of £123 (2007: Nil).
- Kemble Farms Ltd: Funding for a project to the value of Nil (2007: £14,057) was agreed during the year. One of the directors of Kemble Farms Ltd is married to Amanda Ball, Marketing Manager – Added Value. As at 31 March 2008, there were no amounts outstanding to or from MDC (2007: Nil).
- 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 £24,493 to UK-IDF (2007: £24,250). Minor receipts from UK-IDF relating to the recharge of travel costs in the year amounted to Nil (2007: £647). As at 31 March 2008, there was an amount outstanding from UK IDF to MDC of £17,825 (2007: £180).
- Applied Research Forum for Farming & Food (ARF): Brian Lindsay, the MDC Head of Farm Management, is a lead technical director of ARF. During the year the MDC contributed £3,000 towards funding of the ARF (2007: £3000). As at 31 March 2008, there was an amount outstanding from MDC to The ARF of £27,589 (2007: Nil).
- Genesis Faraday Partnership: Marco Winters, MDC Technical Director, is on the R&D Committee of this company, a "not for profit" company co-ordinating basic research into animal production, health and welfare. During the year MDC paid an annual membership subscription of £1,500 (2007: £1,500). As at 31 March 2008, there were no amounts outstanding to or from MDC (2007: 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.

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 2008.

MDC has been awarded a £1.5 million grant by the European Commission to match fund the Teenage Girls 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 £31,555 (2007: £577,321). As at 31 March 2008, there were no amounts outstanding to or from MDC (2007: Nil).

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 £4,240 (2007: £92,640). In addition, Defra match-funded other project costs to the value of nil (2007: £21,395). As at 31 March 2008, there were no amounts outstanding to or from MDC (2007: Nil).

There were payments to the British Potato Council, a Non-Departmental Public Body sponsored by Defra of £11,750 (2007: Nil). As at 31 March 2008, there were no amounts outstanding to or from MDC (2007: Nil).

MDC paid the Meat & Livestock Commission (MLC) £16,252 (2007: £9,978) as a contribution towards the Food & Farming module. As at 31 March 2008, there was an amount outstanding from MLC to MDC of £174 (2007: Nil).

Quality Meat Scotland (QMS) is due to become an NDPB on 1 April 2008. In the year ended 31 March 2008 QMS contributed £5,000 towards the Ayrshire Monitor Farm project (2007: £5,000). As at 31 March 2008, there were no amounts outstanding to or from MDC (2007: Nil).

24. financial instruments

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

Because of the nature of its activities and the way in which 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.

25. contingent liabilities

There were deemed to be no contingent liabilities at 31 March 2008 (31 March 2007: Nil).

26. post balance sheet events

Milk Development Council ceased to exist on 31 March 2008. This was in accordance with the Statutory Instrument (2008/576) dated 28 February 2008 creating Agricultural and Horticultural Development Board (AHDB) and a delegation agreement dated 28 March 2008 giving DairyCo Limited a subsidiary of AHDB the same purpose and objectives as Milk Development Council.

All of MDC's assets and liabilities have passed to AHDB in accordance with the statutory instrument. Subsequently the assets and liabilities passed to DairyCo Limited in accordance with the delegation agreement.

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 2008 and subsequent financial years in accordance with:

- a. Government Financial Reporting Manual (FReM)
- 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
AHDB	Agricultural and Horticultural Development Board
AI	Artificial Insemination
ARF	Applied Research Forum
BVD	Bovine Viral Diarrhoea
CAP	Common Agricultural Policy
CEJA	The European Council of Young Farmers
COPA	The (European Committee) of Agricultural Organisations
Defra	The Department for Environment, Food and Rural Affairs
FACE	Farming and Countryside Education
FReM	Financial Reporting Manual
IDF	International Dairy Federation
IFCN	International Farm Comparison Network
KPI	Key Performance Indicator
LEA	Local Education Authority
LEAF	Linking Food and the Environment
MDC	The Milk Development Council
MDCEL	Milk Development Council Evaluations Limited
MDCH	MDC Holdings Limited
NDPB	Non-Departmental Public Body
NFU	National Farmers Union (of England and Wales)
NFUS	National Farmers Union of Scotland
NVZ	Nitrate Vulnerable Zone
PLI	Profitable Lifetime Index (incorporating PIN with lifespan traits)
PIN	Profitability Index (combining milk, fat and protein yields)
R&D	Research and Development
RDA	Rural Development Agency
SCC	Somatic Cell Count
TNS	Taylor Nelson Sofres plc
UDFNI	United Dairy Farmers of Northern Ireland
WFFU	Women's Food and Farming Union

milk development council information

council members

Mr B Peacock (Chairman)
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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