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Livestock and Meat Commission
for Northern Ireland

Annual Report
for the year ended 31 March 2006

Laid before each House of Parliament
by the Livestock and Meat Commission
for Northern Ireland in accordance with
Paragraph 12(2) and (4) of the Schedule
to the Northern Ireland Act 2000 and
Paragraph 6 of the Northern Ireland Act
2000 (prescribed documents) order 2004.

24 July 2006

Laid before the Northern Ireland
Assembly under the Livestock Marketing
Act (Northern Ireland) 1967 (as amended)
by Department of Agriculture and Rural
Development Northern Ireland.

24 July 2006



MISSION STATEMENT

LMC will serve the Northern Ireland Beef and Sheepmeat Industry and will do this with independence, transparency and integrity.

EQUALITY STATEMENT

This document can be made available in a range of accessible formats such as Braille, large print, audio cassette, by e-mail, website and minority languages. Please let us know if you would like the document in any of these formats and we will do our best to assist you.

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CHAIRMAN'S STATEMENT



LMC Chairman
Owen Brennan

I am pleased to present the thirty-ninth Annual Report of the Livestock and Meat Commission for Northern Ireland (LMC).

This report covers the period 1 April 2005 to 31 March 2006.

The year reported upon has been one of transition for the beef and sheepmeat sectors in Northern Ireland following the decoupling of subsidies from production under the Mid Term Review of the Common Agricultural Policy. As might have been expected during transition, the industry has experienced significant volatility in the supply and price of livestock coming forward for slaughter. We in LMC have continued to seek to facilitate the industry at all levels in coming to terms with the new circumstances of a market-focussed and market-driven trading environment. Based on our review of Government

published information we conclude that at farm gate level, assuming that farmers' drawings from their businesses equated to the basic agricultural wage, the Northern Ireland beef sector lost £125 million and the sheep sector lost £25 million during the year. Whilst we recognise that the single farm payments made to farmers within our sector are likely to a large degree to have compensated for this loss, the return will still not provide sufficient remuneration to provide a wage equivalent to the average industrial wage, for a return for their management and investment, and for any measure of real profitability. It is starkly obvious that since the presence of livestock on farms is not a requirement under the single farm payment system, farmers would have been much better off not keeping cattle and sheep for meat production. This is clearly an unsustainable situation and it has been a core activity of LMC during the year to highlight these circumstances and to seek to motivate the full range of stakeholders to find solutions that would move us towards sustainability. We have continued to provide information and analysis for the industry and advice to Government that would allow all within our sector to understand and to respond to the massive challenges that lie ahead. However, there remains a significant

lack of longer term planning in this new market-driven environment. We have met frequently with senior stakeholder representatives with a view to developing such a longer term plan and will continue to do so throughout the forthcoming period.

I mentioned in my Chairman's Statement in the last LMC Annual Report that a core objective for LMC and the industry was to have all restrictions on the export of cattle and beef removed. It is pleasing to note that we are, at the time of writing this report, at last in such a position. We expect that this development will assist in resolving the conundrum of profitability that now faces the industry and through a greater diversity of market opportunity will allow a better realisation of value for our livestock and hopefully an enhanced offer to producers at farm gate level.

In anticipation of the final removal of the beef export ban, we initiated market research in a number of European country markets and have been encouraged to find growing or stable markets for beef, declining local production in most countries, and better market prices in many of them. This should bode well for a successful reintroduction of Northern Ireland beef products into a range

of markets. We continue to support and facilitate the industry in this endeavour.

I would like to take the opportunity to thank our stakeholders for their continuing support and contribution to the development of LMC's plans and activities. Our role is fundamentally to serve our industry sector and we cannot do this successfully without a major input from producers, processors and Government, together with many others in the chain of distribution and consumption. I would like to acknowledge the continuing high level of support from all such sources and we look forward to their continuing contribution to our work.



Owen Brennan
Chairman

CHIEF EXECUTIVE'S REVIEW



LMC Chief Executive
David Rutledge

2005 has been a turbulent year in the Northern Ireland red meat industry. This has been particularly so in regard to the beef sector where we have

seen farm gate price volatility at levels not experienced recently.

Price volatility has been closely reflective of the ebb and flow of cattle numbers offered to the trade by farmers. As the transition to non-subsidised production has evolved, livestock numbers offered for slaughter have moved from scarcity to surplus and back to scarcity as the year evolved. This volatility of cattle prices was of course not helped by the significant volumes of imported product, mainly from South America, available in the marketplace through the summer of 2005 and on offer through the major multiple retailer sector to a much more significant extent than previously.

However, over the year as a whole, the average farm gate price for prime finished

cattle (steers and heifers) has improved by 5%. The average price paid for prime cattle during the year was £1.82/kg carcass weight compared with £1.74/kg in 2004. This was no doubt helped by the overall decline in the clean cattle kill of 8% compared to 2004. The introduction in November 2005 of older cattle back into the food chain has developed extremely positively. Cow prices for good quality food chain beef cows have increased steadily since the transition and have averaged £1.35/kg carcass weight which represents a 42% increase on the £0.95/kg OTMS price available up until 7 November 2005.

For sheep it was a different story. There was a 21% increase in the total lamb and hogget kill and the average farm gate price fell by 2% to £2.36/kg carcass weight from £2.42/kg in 2004. The home-produced ewe kill showed an even more dramatic increase of 60% and prices fell by 19% to just under £20 per ewe from £23.50 in 2004. While the cattle price increases may provide some encouragement to beef producers, the market price remains a long way short of the total costs of production and must be deemed to represent unsustainability for both cattle and sheep production.

2005 has of course seen some very positive developments. In addition to the aforementioned older cattle being allowed back into the food chain, the final end to the

beef export ban was agreed by the European Commission with the ban finally coming to an end on 3 May 2006. The removal of the ban is expected to allow processors to be able to offer all of the elements of the carcass to the best paying customers wherever they might be across Europe or ultimately elsewhere in the world. The removal of the ban also opens up the possibility of live exports, creating a more transparent opportunity for producers to realise the fullest value for their animals at whatever stage of their production they may choose to sell them. Processors within Northern Ireland will have to ensure that their price offer is sufficient to retain cattle and sheep within the home market so that they remain available for local slaughter and marketing. These major transitions will continue apace for many months to come and LMC will seek to continue to facilitate in every way possible the betterment of the sector, getting access to the best paying customers and through developing the most efficient models of production and processing possible.

In line with our Strategic Plan we have set out a range of core objectives which we report upon in the forthcoming pages.

The Accounts for the year are set out on pages 46 to 70 and the deficit for the financial year of £19,702 is set out in the

income and expenditure account on page 46. This outturn was achieved as a result of positive variances on both income and expenditure in a year when we had budgeted to report a deficit. An increase in livestock slaughterings as compared with our budgets uplifted our income from levies as well as on classification and farm assurance activities. At the same time, expenditure positive variances came about as a result of improved procurement and Government tardiness in achieving state aids clearance for some of our marketing activities. However these variances were wiped out by a notional charge in respect of a deficit in LMC's share of NILGOSC pension scheme, details of which are set out in Note 22.

Following extensive stakeholder consultation, a new strategic plan was published setting out our vision and our key objectives for the future. A summary of this plan is being widely distributed throughout our industry sector and is available on our website.



David Rutledge
Chief Executive

BACKGROUND INFORMATION

The Livestock Marketing Commission for Northern Ireland was established on the 1 August 1967, under the Livestock Marketing Commission Act (Northern Ireland) 1967 (the Act) for the benefit of the livestock and livestock products industries in Northern Ireland.

Under Article 8 of the Agriculture (Miscellaneous Provisions) (Northern Ireland) Order 1994 the Livestock Marketing Commission for Northern Ireland was renamed the Livestock and Meat Commission for Northern Ireland. The Commission is an executive non-departmental public body sponsored by the Department of Agriculture and Rural Development. The Commission was given the general duty of examining and recommending improvements in the marketing of livestock and livestock products. Particular functions were to include the following:

- Examining the structures of the livestock and livestock products industries.
- Encouraging the making of better arrangements for the movements of livestock and products.
- Advising on the classification and grading of carcasses.
- Advising on the characteristics which livestock should possess in order to be readily marketable.
- Advising on the layout and operation of livestock auction markets and slaughter houses.
- Disseminating information within the industries about market prices for livestock and livestock products and about the trends of those prices and the requirements of markets for livestock and livestock products.
- Conducting market research into the requirements of markets (whether in Northern Ireland or elsewhere) for livestock and livestock products.
- Improving and expanding trade in livestock and livestock products.

To defray the expenses of the Commission the Act provided for the imposition of levies in respect of livestock slaughtered in or exported from Northern Ireland.



CORE OBJECTIVES 2005 - 2006

Technical



LMC Technical Manager
Mike Tempest

Objective 1

To seek to ensure that the Northern Ireland Beef and Sheepmeat Industry, at all levels of the supply chain, has the necessary technical credentials to assist it to profitably meet the requirements of the best paying

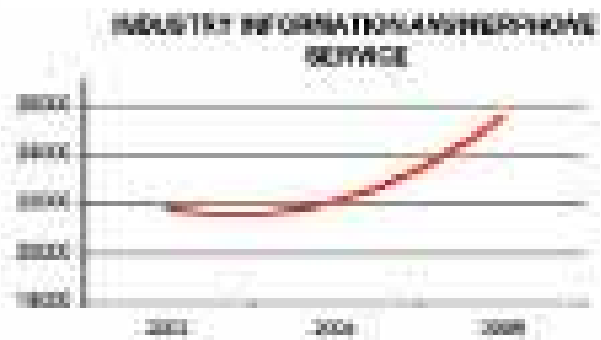
markets for every element of production, including the beef/sheep animal, live exports, carcass meat and by-products (except milk and wool).

Conditions in the industry post de-coupling of direct production subsidies, and the export ban, continued to preoccupy LMC throughout the financial year. During the course of the year the main emphasis was to provide technical information to assist the re-establishment of beef exports, to provide awareness of market conditions and to help the understanding of profitability issues within the industry.

LMC sought to facilitate and encourage the industry and Government to respond

positively to all opportunities to build a sustainable and profitable industry at all levels. This was achieved by:

- Providing market price and technical information: through a daily Answerphone



Service (250 in total), for 50 weekly Bulletins, for 12 monthly Meat Traders, for a Yearbook, in 150 weekly Farm Gate broadcasts and by continual updating of the LMC Website;

- Upgrading the Bulletin with the provision of new GB regional price reporting and new NI cattle and sheep slaughtering and price graphs;

- Providing technical information on profitability for five Special Bulletin editions;
- Providing technical information for press articles on 39 topics that were printed in 106 publications;
- Upgrading LMC's Local Area Network to provide access to slaughtering and price statistics on-line;
- Providing 20 market and technical analyses to industry, including a report on a major study into price reporting in GB and NI;
- Providing speakers for 12 producer meetings and 7 special media broadcasts;
- Introducing an Economics Helpdesk, which dealt with 650 calls in the year and 130 requests for data;
- Attending 20 conferences and meetings to acquire information;
- Appointing a Benchmarking Officer in July 2005, and due to significant demand appointing a second Officer in February 2006, to assist CAFRE Benchmarking of beef and sheep producers;
- Refining the analysis of the impact of labour costs on farm profitability by participating with other Red Meat Levy Bodies to achieve consistency of data and messages;
- Preparing a Business Case for the development of an Industry Strategy through a Task Force and submitting to DARD;
- Assisting in the development of supply chain relationships by hosting from January 2006 tri-partite meetings between LMC, UFU and NIMEA. Bi-monthly meetings are held and LMC provides information and facilitates development of issues raised;
- Constructing a programme and inviting industry 'experts' to address annual LMC conference. This was successfully achieved in February 2006 (judged by the attendance, quality of the presentations, debate and conference feedback);
- Providing conference information for wider distribution throughout the industry, achieved by two Special Bulletins in February and March 2006.



Benchmarking Officers Donna Brock and Pat Hilley

Objective 2

To ensure that the Northern Ireland Beef and Sheepmeat Industry, at all levels of the supply chain, has the necessary technical credentials to enable it to promote its products to the next customer in the supply chain, taking into account at all times the requirements of the eventual consumer.

The main emphasis was to provide technical information to assist the understanding of red meat in a balanced diet for a modern lifestyle. This was achieved by:

- Providing technical information for 24 press articles on a range of nutritional topics;
- Liaising with home economists, school teachers, community groups and health professionals in Northern Ireland, and health and nutrition professionals and scientists globally, through attendance at 43 conferences and networking events;
- Making presentations to 7 nutrition meetings and 2 special media broadcasts;
- Co-ordinating the technical content and arranging speakers for the 8th LMC Professional Development Event;
- Developing nutrition services to industry by contributing to industry processor workshops on lowering salt content of sausages and the implications of traffic light labelling of nutritional content of foods.

The Commission does not directly undertake research and development, but supports projects which may prove to have a positive benefit to the industry. This was implemented for both Objectives 1 and 2 by:

- Membership of AgriSearch Beef Advisory Committee;
- Assisting an academic partner (University of Ulster) in the preparation of a proposal to the Department of Education and Learning (DEL) for a CAST (Co-operative Award in Science and Technology) award to study the role in the diet of the NI population of omega-3 fatty acids provided by beef and lamb. The proposal was successful and an award made by DEL for a 3-year programme, with a successful bid made to AgriSearch for the industry funding contribution.

Objective 3

To be an authoritative and reliable source and provider of technical services to the Farm Quality Assurance Scheme, to all sectors of the industry and to the wider general public, in order to meet the requirements of all customers in the supply chain. This was achieved by:

- Continuing to facilitate the Northern Ireland Beef & Lamb Farm Quality Assurance Scheme (FQAS) by employing an assurance manager;
- Extending the FQAS Helpline Service by appointing a full-time Farm Liaison Officer;
- Communicating news to FQAS members by producing two FQAS Newsletters and increasing the FQAS Corner in the Bulletin to monthly (13 in total);
- Developing a more user-friendly FQAS Veterinary Medicines Record Book;
- Agreeing with other UK Beef & Lamb Schemes a common wording for a core UK Standard;
- Distributing promotional material relating to beef assurance for cows and 'Are you assured?' recruitment leaflets;
- Completing development of on-line membership checker;
- Assisting in the establishment of other assurance schemes in NI for which there is a requirement in FQAS e.g. Animal Feed, Cereals, OTM dairy cows, Transport, Livestock Markets. Agreement for the administration of the NI Farm Quality Assured Cereals Scheme by Northern Ireland Food Chain Certification (NIFCC) was achieved by the end of the financial year. Publication of the NI membership of UFAS assisted a high level of participation by NI compounders and merchants in that scheme. Progress, albeit slow, was made with implementation of the ABM Transport Assurance Scheme to assist abattoirs in complying with assurance. Discussions were pending with the marts;
- Implementation of password access for a niche producer group (Aberdeen Angus Quality Beef) to a sub-section of FQAS data for its members;
- Implementing performance monitoring of the Certification Body which recorded that the contracted number of inspections in Year 1 of the contract was achieved;



- Maintaining LMC's contribution to UK assurance considerations by membership of ABM's Farm and Feed Technical Advisory Committees and the UK Beef and Lamb Assurance Council;
- Representing FQAS at 13 meetings, making 2 presentations and providing information for 8 media articles;
- Determining producer views on FQAS was achieved by employing a market research company (Ipsos Mori), which reported to the LMC Board in December 2005 and communicated the results to industry stakeholder organisations in March 2006.



Farm Liaison Officer Linda Dougan providing advice on farm

Marketing & Communication



LMC Head of Marketing
Naomi Waite

Objective 4

To ensure that Northern Ireland beef and lamb and all related products are sold in the very best markets. Achieving unrestricted access to beef export markets is a prerequisite for maximising the value of our beef industry.

During the course of the financial year, the beef export ban remained in place, although announcements of its imminent lifting in March laid down an extremely encouraging platform for next year.

In preparation, LMC focussed its activities on gaining insight into the future market opportunities and developing existing business under the Greenfields brand:

- LMC launched Greenfields lamb and Greenfields mince beef in the Netherlands.
- Promoted 8 lamb recipe pages in the major Dutch consumer magazine, *Allerhande*.

- Participated in the international trade show Anuga, with post evaluation indicating satisfaction levels in excess of 80% from the representatives of the NI red meat industry who took part.
- Commissioned research into the market opportunities in 5 major European countries: France, Denmark, Sweden, Italy and Spain, and hosted a seminar for the industry to showcase the findings, allowing one to one consultations between the industry and market analysts.
- Maintained office support in Brussels, delivering daily written communication on topical issues.



David Rutledge with Arno Boon of Hilton Meats examining the Greenfields Brand in the Netherlands

Objective 5

To enable consumers of beef and lamb to understand and appreciate the benefits of our industry's products in a healthy diet while fitting into the demands of a modern lifestyle.



LMC Naturally Nutritious Lamb TV Campaign

Whilst NI remains a static market, it remains one where we can exercise the greatest influence with our resources. During the year, LMC coordinated the following activities:

- Operated a lamb television and outdoor promotional campaign which achieved the following results:
 - 42% prompted advertising awareness
 - 85% recognition of the importance that lamb plays in a balanced diet – outstripping the targeted 75%



'Junking the food' at the 2005 Professional Development Event are Sean Greer W5 Dr Geraldine Cuskelly LMC Nutritionist and Jenny Bristow

- Commissioned qualitative research into consumer perceptions of red meat and Farm Quality Assurance.
- Secured EU funding towards a beef information programme. However, this was confirmed at such a late stage in the financial year, that this activity is now planned for the following year.
- Provided 196 school and 78 community cookery demonstrations to teach the skills necessary to use red meat and highlight the importance of red meat in the diet. This number represents a 10% increase on last year.
- Provided meat for schools vouchers to schools teaching home economics to ensure they have sufficient budget to use red meat in class.
- Organised Professional Development Event for home economics teachers and health education coordinators, with a post evaluation survey recording that 100% of attendees found the event beneficial, 99% believed they would attend a similar event again, and 80% felt it could not be improved.

- Commenced work on the further development of the Food 4 Life website to ensure it continues to meet needs of the NI school curriculum. During 2005 – 2006 the site achieved 215,397 page impressions – an increase of 37% over last year.



Salon Culinaire Competitors 2006

- Continued to lobby school caterers to include beef and lamb in imaginative ways in the school menu and sponsored NI school cook of the year competition.
- Purchased TNS research on a monthly basis for benchmarking analysis and understanding of the key market drivers at a consumer level.

Objective 6

To develop communication to the industry and public in regard to LMC activities and our industry's products to improve knowledge and understanding of our work, particularly in the farming community. Industry communications will include distribution through a range of media all relevant market, legal and other information and the inclusion of such information or informed comments and judgements that might assist the industry in its planning and maximisation of returns throughout the chain.

- Exhibited at Balmoral Show – a key event for stakeholders.
- Produced the Annual Report and Yearbook.
- Published and distributed 14,500 Bulletins weekly on 50 weeks of the year.
- Developed the LMC website attracting 1.4 million page impressions over the year – an increase of 70% compared to the previous year.
- Developed and ran an industry conference examining future profitability in the industry.
- Generated over a quarter of a million pounds' worth of positive press coverage through public relations activity.



LMC website homepage

Field Services

Objective 7

To provide commercial services to Government and industry where this can be done at a sensible commercial margin. These services will relate primarily to the supervision of schemes and activities relating to market support and the supervision of industry controls.

- Administered the Over Thirty-Month Scheme (OTMS).

The Over Thirty Month Scheme ended in January 2006 following the introduction of the OCDS (see below). BSE tested animals over thirty months and born after 1 August 1996 were allowed into the food chain. During the year, 99,593 animals were presented to the OTMS.

- Administered the Older Cattle Disposal Scheme (OCDS)

The Older Cattle Disposal Scheme replaced the Over Thirty Month scheme for animals born before 31 July 1996 and commenced operating in January 2006. Two designated deadweight centres participate in the scheme – Lisburn Proteins' and Langford Processors. From the commencement of the OCDS to the 31 March 2006 the total numbers of animals presented were 4,357.

Sixteen centres and the three markets ceased operating as liveweight collection centres for the OTMS following the introduction of the OCDS.

- Provided commercial services to Government and industry.

Despite limited activity during the year, LMC continued to retain its readiness to act as the Rural Payments Agency's (RPA) agent in the control and supervision, within Northern Ireland, of the following market support activities.

- Support buying, acceptance and boning supervision of intervention beef.
- Transfers and sales of intervention beef.
- Beef Import Tariff Quota (ITQ).
- Sheepmeat and Pigmeat Private Storage Aid (PSA).
- Special Export Refund.

These activities were reviewed through the Service Level Agreement with the Rural Payments Agency and reduced LMC's role in "readiness to act" during 2005 - 2006.

LMC continued to provide for RPA an EU weekly report on classification and prices.



Objective 8

To continue involvement in the provision of a Classification Service to the industry until new technology replaces licensed officers. To lead the industry in the deployment of new technology in a manner that fits with the stakeholder requirements.

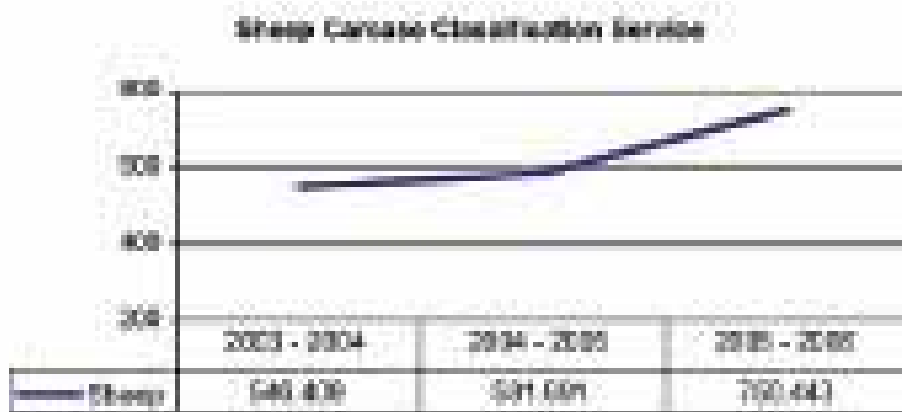
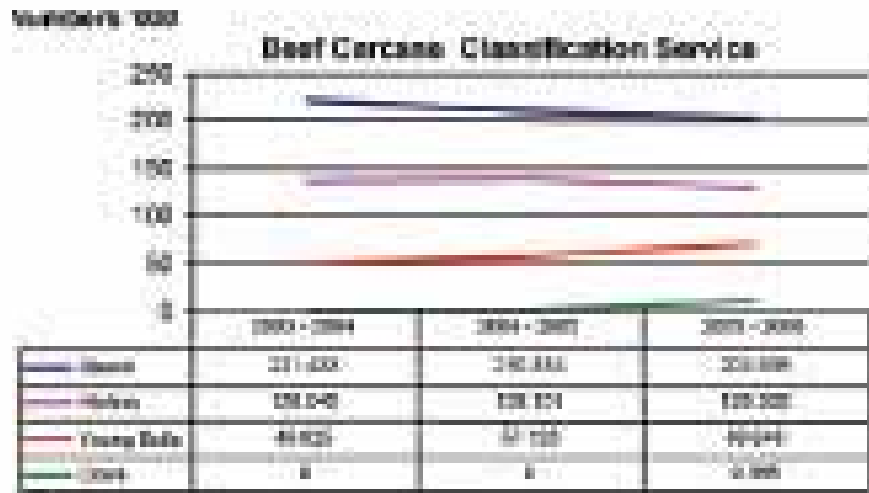
LMC's management of scheme activities and beef and sheep carcase classification has continued to deliver value for money in the past year. This will remain a major objective for the incoming year and it is LMC's intention that this will be achieved in an efficient and professional manner that recognises the need to continuously improve the quality of the services being delivered.

- Carried out the following carcase classification service on behalf of processors.

A total of 412,332 cattle were classified by LMC staff during 2005 – 2006. Participated along with EBLEX, HCC, QMS, and in partnership with Welsh Country Foods in a research project on Sheep Video Image Analysis System (VIA) for predicting carcase classification and meat yield. The completion of the project and report is due in May 2006.



Terry White LMC Classification Manager



Corporate

Objective 9

To provide advice to Government on all matters which might affect or impact upon our beef and sheepmeat industry at any point in the chain of production and distribution.

During the year, LMC contributed advice to Government on a range of matters. Throughout the year, much of the contribution we have made on behalf of industry has been inputted proactively by LMC on matters that have arisen, including contributions on issues as diverse as the Farm Nutrient Management Scheme and the "status cattle" dilemma. During the year we further contributed through responding to eleven formal consultations, on matters

where we perceived an impact on the Northern Ireland beef and sheepmeat industry might be involved. Foremost amongst these were consultations in regard to the inclusion of over thirty month cattle in the food chain and the lifting of the export ban.

Increased dialogue with Government was initiated in regard to the fundamental un-profitability of red meat production in Northern Ireland in the absence of subsidies. This dialogue/advice to Government is a continuing theme through the year end.

FUNDING AND AUDITORS

Funding



LMC Accountant
Suzanne Blain

LMC's main funding comes from a statutory levy on livestock slaughtered within Northern Ireland. Commercial income is also generated by the provision of a Classification Service to Northern Ireland processors and the provision of Agency Services to Rural

Payments Agency (RPA). LMC has been able to avail of EU finance under promotion and information schemes in recent years.

Levies

Under the Livestock and Meat Commission Regulations (Northern Ireland) 2003 the maximum sums payable by way of levy and the actual levies charged are set out as follows.

	Max Statutory Levy	Actual Levy	
		Producers	Processors
Sheep	£1.00	£0.20	£0.10
Cattle	£6.00	£1.00	£1.00

LMC continues to seek from DARD the mechanism through which to provide the functionality for the collection of live exports levies.

Classification Fees

Classification fees, payable by processors, are currently set at sheep £0.20 per head and for cattle £1.25 per head subject to a minimum charge per classification officer per day.

Farm Quality Assurance Scheme

Under funding arrangements for the Farm Quality Assurance Scheme, producers pay a £50 joining and a £35 annual membership fee. Processors who wish to participate in the scheme pay a fee of £1.00 per bovine animal and £0.10 per sheep slaughtered, plus an annual licence fee.

Auditors

The financial statements are audited by the Comptroller and Auditor General for Northern Ireland (C&AG) in accordance with the Livestock Marketing Commission Act (Northern Ireland) 1967. He is head of the Northern Ireland Audit Office and he and his staff are wholly independent of the Livestock and Meat Commission for Northern Ireland and report his findings to Parliament.

The Accounting Officer has taken steps to make himself aware of any relevant audit information and to establish that the C&AG is informed of that information. So far as he is aware, there is no relevant audit information of which the C&AG is unaware.

The audit of the financial statements for 2005/6 resulted in an audit fee of £7,000 and is included in the other operating charges in the Income and Expenditure account. The C&AG did not provide any non-audit services during the year.

HUMAN RESOURCES

Employee involvement



LMC HR Manager
Norah Whittaker

The Commission is a small organisation in which all employees are in constant contact with management.

Since 2004 LMC has known there would be changes to the volume of work undertaken on behalf of the Rural Payments Agency (RPA) at some future date.

However, it was November 2005 before the Government announced the cessation of the Over Thirty Month Scheme (OTMS) with effect from January 2006 and the introduction of the replacement Older Cattle Disposal Scheme (OCDS). The RPA has also reviewed and discontinued its requirement for LMC to maintain the capacity to implement intervention purchasing in the event of that market support scheme being necessary. In addition, LMC has also been advised that the contract for supply of personnel to undertake SRM Supervision on behalf of DARD is not being renewed beyond 31 March 2006.

It is regrettable that LMC has therefore had to announce a number of staff redundancies within its Field Services Department. A consultation process was undertaken with the Union, NIPSA, as to the potential for volunteers, alternative work, ways of avoiding redundancies and criteria for selection. Before this first process was complete our customer, RPA, advised us of the need to further reduce the staff complement arising from a review of the implementation of OCDS in its first three months of operation. Despite having maintained very careful and tight control of our employment numbers in recent times, for example by not replacing staff that have departed, we have had to reduce the staff complement by seventeen in total, covering both permanent and casual staff.

Staff

The Commission would like to thank all staff for their continued support and hard work throughout the year and in particular those that have left our employment arising from the above changes. We wish them well for the future.

During the year Phelim O'Neill, a well respected figure in the industry, left LMC to pursue other interests. We extend our thanks to him for his expertise during the last eight

years. In his place we welcome Mrs Naomi Waite as Head of Marketing. She has strong Marketing credentials gained both through her professional studies and prior employment in the food supply sector, having particular knowledge of retailing.

Work has continued during the year on the review and re-issue of a number of policies and an Employee Handbook has been compiled and distributed to staff. As part of the on-going implementation of the LMC Equality Scheme an Equality Impact Assessment (EQIA) has been conducted on the Recruitment, Selection and Promotion Policy. The consultation period is due to finish at the end of June 2006 after which the findings will be considered and decisions made regarding any additional impacts identified.

The record of staff absence for the last two years is shown below:

	2004/2005	2005/2006
Percentage days lost through sickness absence	2.04%	3.13%
Cost of absence	£13,996	£38,429
Percentage of annual staff costs	0.88%	2.3%

The overall absence level has increased by just over 1% with absence of Office based staff being slightly lower than the previous year, but with a significant increase in Field based staff absence. The latter has been exaggerated by some unfortunate long term circumstances.

Charitable donations

It is not the policy of the Commission to make charitable donations.

Equality policy

It is the policy of the Commission in carrying out its activities, both as an employer and as a provider of services to the industry, including its interface with the general community, to have due regard to the promotion of equality of opportunity:

- between persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
- between men and women generally;
- between persons with a disability and persons without; and
- between persons with dependants and persons without dependants.

In addition, without prejudice to its obligations under the above, LMC shall in carrying out its functions have regard to the desirability of promoting good relations between persons of different religious belief, political opinion or racial group. The outworking of this policy is aimed at growing the relationships and structures for our sector that seek to promote respect, equity and trust, and embrace diversity as appropriate to the industry we seek to serve.

Acknowledgements

The Commission acknowledges help received from many public and private sector organisations and individuals not mentioned elsewhere in this Report. It would like to thank all those who have helped and

supported the Industry in various aspects – Ministers, MPs and other political figures, DARD staff, the media etc. The Commission would like in particular to thank all those individuals and Industry bodies who have participated in various meetings and consultation exercises.

Environmental Sustainability

LMC provides services for the largest Private Sector industry in Northern Ireland, by assisting in the sustainability of the beef & sheepmeat industry we contribute significantly to the social betterment of the rural community.

LMC continues to promote the nutritional value of beef and sheepmeat as part of a balanced and healthy diet, to students and home economics teachers and other health education coordinators throughout Northern Ireland.

We have set good environmental practices throughout our organisation such as changing communications from paper based to electronic means wherever possible and recycling waste paper and plastic.



COMMISSION MEMBERSHIP

Members are appointed by DARD (which also appoints the Chairman) for three-year terms. There are seven members on the Commission with the following having served during the year:

- Owen Brennan
- Colin Duffy (until 31 December 2005)
- Pamela Kane
- Gordon Orr
- Greer McCollum
- Nigel McLaughlin
- Martin White
- Richard Watson (from 1 January 2006)

The role of the Commission members is to act effectively as Non-Executive Directors of LMC and to exercise the ultimate control on policy. Management of the Commission is delegated by the Board to the **Chief Executive and a Management Team**. The Chief Executive, having responsibility also as Accounting Officer, is responsible to the Board for the proper conduct of the affairs of the Commission and the development and implementation of the policies determined by the Commission. Commission members meet routinely once per month, with additional meetings on an ad hoc basis when circumstances so require.



Owen Brennan - Chairman

Owen Brennan's appointment as LMC Chairman began on 1 November 2002 and will run until 31 October 2005. He is currently the

Managing Director of Devenish Nutrition. He was previously Managing Director of Nutec Ireland and has a strong marketing background in agri-business.

Mr Brennan is a past President of the Northern Ireland Grain Trade Association.

He is now serving a second term which is due to run to October 2008.



Pamela Kane

Pamela Kane has served on the LMC's Board since 2002 and was re-appointed for three years in February 2005. She was educated at Cookstown High School and

Queen's University, Belfast, graduating with a BSc (Hons) Degree and a postgraduate Diploma in Business Administration.

She has worked for 11 years in the pork and bacon industry as Key Accounts Manager with responsibility for the UK and European retailers, thereby gaining considerable knowledge and experience of the agri-food Industry and the interests of the producer, processor, retailer and consumer.

In addition, she brings to the Commission the knowledge derived from a farming background, while as a wife and mother of two young sons, Daniel and David, her consumer interests are sharpened by her hobbies of cooking and entertaining.

As a member of the Fire Authority for Northern Ireland for six years, she gained valuable experience in the area of public bodies.



Gordon Orr

Gordon Orr was appointed to the Commission in October 2000. He was educated at Loughry College, Harper Adams University College and the University of Ulster.

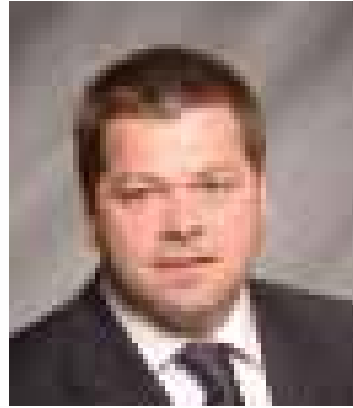
Gordon, who is an independent Management Consultant, is qualified as a Chartered Marketer and specializes in strategic marketing planning and promotion, mentoring and training in the agri-food and other industries.

A recipient of the CIM President's Award, he is a past Regional Chairman of the Chartered Institute of Marketing and of the Northern Ireland Agri-food Group. Gordon was a member of the launching board of NIFDA and is a director of MIANI. Gordon chairs the LMC Audit Committee and represents the commission as an NIFCC stakeholder. With farming roots, Gordon has been involved with producers and processors in the agri-food Industry for most of his career. His consultancy work has included clients from a wide range of industries at home and abroad. Married with a family of three, his main recreational activities include rugby and outdoor activities. He is the incoming President of Lisburn RFC.

**Greer McCollum**

Greer McCollum OBE, is a beef, sheep and cereal farmer and ex-President of the UFU in which he is still actively involved, being a current member of the UFU Council

and UFU Executive. He is a member of the Northern Ireland Food Chain Certification Committee, is on the Management Board of Greenmount Agricultural College and is a Board Member of Coleraine Local Action Group for Enterprise Ltd.

**Nigel McLaughlin**

Nigel McLaughlin is a beef and sheep farmer and former Chairman of the North West UFU Group. He is also a board member of Roe Valley Leader, and Technical Adviser on the

Farm Quality Assurance Scheme and Northern Ireland Food Chain Certification Committee. He is former Vice-Chairman of NIAPA and was a member of the Agri-Food Vision Foot and Mouth Sub-Group. Nigel is a founder member of two lamb producer groups and provides business support for Highlands Ltd.



Martin White

Martin was educated at Abbey Christian Brothers School Newry and Queen's University Belfast. He graduated with an Honours Degree in Economic History and Business

Administration. Martin has worked in the meat industry for over thirty years during which time he co-founded Eurostock in 1985, initially as a commercial de-boning plant. However, Martin subsequently identified a marketing opportunity in France for processed beef and veal offals. This led to the company becoming the first meat processor in N.Ireland to receive a Queen's Award for Exports in 1996.

Since then Martin has successfully managed and grown the business through has extensive experience of exporting and sourcing product in world markets. He brings to the Board a wealth of experience of the problems and opportunities faced by small businesses in dealing with retailers at home and abroad in today's multi national environment. Martin likes to travel and is keen on most sports but especially greyhound racing.



Richard Watson

Richard was appointed to the commission in January 2006 and previously served on the Board for three years from 1999 - 2001. He was educated at Portora Royal

School and continued his industry development through the Institute of Meat. Richard was appointed as CEO of the Foyle Food Group in 2005 and is involved in many areas of the Northern Ireland Meat Industry.



REMUNERATION REPORT

Board Members are appointed by the Department of Rural Development and detail regarding remuneration is set out in their contracts. This is subject to annual review in line with awards made by the Senior Salaries Review Body. Department of Finance and Personnel (DFP) instruct the Commission when an annual review has been approved.

A remuneration committee was formed in July 2005, which has responsibility for senior managers' remuneration. The members of the remuneration committee are Mr O Brennan, Mrs P Kane and Mr G Orr. No performance related payments were made during the year.

Service Contracts

Commission appointments are made in accordance with approved policy and procedures which are continually updated to reflect best practice.

Unless otherwise stated, the officials covered by this report hold appointments, which are open-ended until they reach the normal retiring age of 65. Policy relating to notice periods and termination payments is contained in each individual's contract of employment.

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the Board Members and senior managers of the Commission.

Name	2005-06		2004-05	
	Salary £'000	Benefits in kind (to nearest £100)	Salary £'000	Benefits in kind (to nearest £100)
Mr O Brennan Chairman	15-20	-	15-20	-
Mrs P Kane Board Member	5-10	-	5-10	-
Mr G Orr Board Member	5-10	-	5-10	-
Mr N McLaughlin Board Member	5-10	-	5-10	-
Mr G McCollum Board Member	5-10	-	5-10	-
Mr M White Board Member	5-10	-	5-10	-
Mr R Watson Board Member (From 1 January 2006)	0-5 (Full year equivalent 5-10)	-	-	-
Mr C Duffy Board Member (Until 31 December 2005)	Consent not received		Consent not received	

Mr D Rutledge Chief Executive	Consent Withheld	-	Consent Withheld	-
Dr M Tempest Technical Manager	Consent Withheld	-	Consent Withheld	-
Mrs N Waite Head of Marketing (From 16 January 2006)	Consent Withheld	-		-
Mr P O'Neill Marketing Manager (Until 26 August 2005)	Consent Withheld	-	Consent Withheld	-

Salary

'Salary' includes gross salary and any allowances to the extent that it is subject to UK taxation. This report is based on payments made by the Commission and thus recorded in these accounts.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument.

NILGOSC Pensions

Name	Accrued pension at age 65 as at 31/3/06 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/3/06	CETV at 31/3/05	Real increase in CETV	Employer contribution to partnership pension account
	£'000	£'000	£'000	£'000	£'000	Nearest £100
Mr D Rutledge Chief Executive	Consent Withheld	-	-	-	-	-
Dr M Tempest Technical Manager	Consent Withheld	-	-	-	-	-
Mrs N Waite Head of Marketing (From 16 January 2006)	Consent Withheld	-	-	-	-	-
Mr P O'Neill Marketing Manager (Until 26 August 2005)	Consent Withheld	-	-	-	-	-

Pension benefits are detailed in Note 22 to the accounts on page [65].
No pension benefits accrue to Board Members.

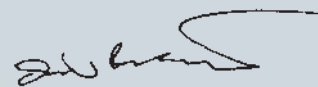
Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures and the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the NILGOSC

pension arrangements and for which the NILGOSC has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.



D Rutledge
Accounting Officer
6 July 2006

STATEMENT OF INTERNAL CONTROL

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of LMC's policies, aims and objectives, whilst safeguarding the public funds and Commission assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting Northern Ireland.

The current accountability arrangements in LMC were instigated in March 2005 with the appointment of the undersigned as Accounting Officer and the implementation of a Management Statement and Financial Memorandum defining the accountability arrangements to our sponsor Department, the Department of Agriculture and Rural Development. As Accounting Officer I am supported by monthly Board Meetings, by an Audit Committee and by an Executive Committee, with members of the Committee producing Stewardship Reports in regard to their particular functional responsibilities. The Audit Committee is made up of members of the board. No executive or independent members serve on the Audit Committee.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of LMC's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in LMC for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with DFP guidance.



Capacity to handle risk

The Executive Committee monitors and reviews the Risk Register which is revised to reflect evolving risk issues. The Risk Register and the Risk Management Plans for each functional area are updated and approved by the Board as appropriate and at least annually.

The risk and control framework

Within each functional area, the Risk Register is maintained by the responsible Manager. These risks are discussed half-yearly by the Executive Committee and from these functional risks are drawn the corporate Risk Register. During 2005/2006, risk priorities were:

- Implement the requirements of the Management Statement and Financial Memorandum.
- Risks arising from external economic circumstances.
- Risks arising from external Government actions.

The Risks Register is disseminated throughout the organisation and Managers seek to develop and embed risk management in all aspects of the management process. The key stakeholders of LMC are the beef and sheepmeat farmers and processors who pay levy to LMC together with the sponsoring department, DARD. Frequent meetings with all of the key stakeholders seek to ensure that the risks facing the industry and LMC are widely disseminated and fully debated to reach appropriate conclusions for LMC and the industry which we serve.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within LMC who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the board, and the Audit Committee. A plan to address weaknesses and ensure continuous improvement of the system is in place.

LMC's system of internal control continues to be strengthened as outlined above and we seek to continue to develop controls where appropriate. In particular, in the incoming year LMC plans to:

- Ensure the completion of the implementation of minor matters arising from the internal Audit report.

I am unaware of any other significant internal control weaknesses that need to be addressed.



D Rutledge
Accounting Officer
6 July 2006

STATEMENT OF THE COMMISSION AND ACCOUNTING OFFICER'S RESPONSIBILITIES

In accordance with the Livestock Marketing Commission Act (Northern Ireland) 1967 the Livestock and Meat Commission for Northern Ireland is required to prepare a statement of accounts in the form and on the basis determined by the Department of Agriculture and Rural Development with the approval of the Department of Finance and Personnel. The accounts are prepared on an accruals basis and must give a true and fair view of the Livestock and Meat Commission for Northern Ireland's state of affairs at the year end and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Commission is required to:

- observe the accounts direction issued by the Department of Agriculture and Rural Development 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 financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the entity will continue in operation.

The Accounting Officer for the Department of Agriculture and Rural Development has designated the Chief Executive as the Accounting Officer for the Livestock and Meat Commission for Northern Ireland. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum, issued by the Department of Finance and Personnel.

The Accounting Officer is responsible for the maintenance of the LMC's website, and establishing suitable security procedures and controls to prevent unauthorised amendment and to ensure the integrity of the website. He is also responsible for ensuring that electronic publication of the financial statements and auditors report properly presents the original certified statements.



THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS AND THE NORTHERN IRELAND ASSEMBLY

I certify that I have audited the financial statements of the Livestock and Meat Commission for Northern Ireland for the year ended 31 March 2006 under the Livestock Marketing Commission Act (Northern Ireland) 1967. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Commission, the Accounting Officer and auditor

The Commission and Accounting Officer are responsible for preparing the Annual Report and the financial statements in accordance with the Livestock Marketing Commission Act (Northern Ireland) 1967 and Department of Agriculture and Rural Development's directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Commission and Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements 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 Livestock Marketing Commission Act (Northern Ireland) 1967 and Department of Agriculture and Rural Development directions made thereunder. 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. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Commission 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 relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 37 and 39 reflect the Commission's compliance with the Department of Finance and Personnel's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Commission'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 Chairman's Statement, Chief Executive's Review, Background Information, Objectives, Funding and Auditors, Human Resources, Commission Membership 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 opinion

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

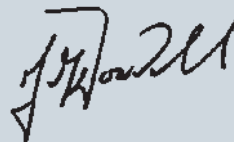
I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, 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.

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Livestock Marketing Commission Act (Northern Ireland) 1967 and directions made thereunder by Department of Agriculture and Rural Development, of the state of the Commission's affairs as at 31 March 2006 and of its deficit for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Livestock Marketing Commission Act (Northern Ireland) 1967 and Department of Agriculture and Rural Development directions made thereunder; and
- 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.



JM Dowdall CB
Comptroller and Auditor General
Northern Ireland Audit Office
106 University Street
Belfast BT7 1EU

7 July 2006



INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2006

	Notes	2006 £	2005 (restated) £
Income			
Income from activities	2	3,793,586	3,714,125
Expenditure			
Staff and related costs	3	1,856,450	1,755,372
Depreciation (net of deferred grant release)		72,978	71,864
Other operating charges	4	1,823,412	1,523,360
	2	3,752,840	3,350,596
Operating surplus	2	40,746	363,529
Income from investments	5	76,718	65,933
Notional cost of capital	1 & 12	(122,635)	(103,855)
(Deficit)/Surplus on ordinary activities before taxation		(5,171)	325,607
Taxation	6	14,531	12,572
(Deficit)/Surplus for the financial year	12	(19,702)	313,035
Transfer to designated reserves	12	(95,332)	(205,063)
Transfer (from)/to reserves		(115,034)	107,972

All amounts above relate to continuing operations of the commission.

The notes on pages 50 to 70 form part of these accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2006

	2006	2005 (restated)
	£	£
(Deficit)/Surplus for the financial year after notional cost of capital	(19,702)	313,035
Actuarial (loss)/gain in respect of defined benefit pension scheme	(168,000)	12,000
Prior year adjustments	(1,400,000)	(1,239,000)
Unrealised surplus on revaluation of property	180,000	484,334
Total (losses) recognised since last annual report	(1,407,702)	(429,631)

NOTE OF HISTORICAL COST SURPLUS AND DEFICITS FOR THE YEAR ENDED 31 MARCH 2006

	2006	2005 (restated)
	£	£
Reported (deficit)/surplus on ordinary activities before taxation	(5,171)	325,607
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	20,743	15,763
Historical cost surplus on ordinary activities before taxation	15,572	341,370
Historical cost surplus for the year after taxation	1,041	328,798

BALANCE SHEET AS AT 31 MARCH 2006

	Notes	2006 £	2005 (restated) £
Fixed assets			
Tangible assets	7	1,691,213	1,564,407
Current assets			
Debtors	9	660,674	627,031
Investments	10	1,285,054	1,226,721
Cash at bank and in hand		1,998,709	1,643,277
		3,944,437	3,497,029
Current liabilities			
Creditors: amounts falling due within one year	11	392,361	236,080
Net current assets		3,552,076	3,260,949
Total assets less current liabilities		5,243,289	4,825,356
Creditors: amounts falling due after more than one year			
Pension scheme creditor	22	1,700,000	1,400,000
Total assets less liabilities		3,543,289	3,425,356
Reserves			
Income and expenditure account	12	877,583	1,074,398
Revaluation reserve	12	869,117	709,860
Designated reserves	12	1,796,589	1,641,098
		3,543,289	3,425,356

The notes on pages 50 to 70 form part of these accounts.

D Rutledge
Accounting officer
 6 July 2006

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

	Notes	2006 £	2005 (restated) £
Net cash inflow from operating activities	13	372,034	948,643
Returns on investments			
Interest received		74,042	61,200
Taxation			
United Kingdom tax paid		(12,527)	(7,774)
Capital expenditure			
Purchase of tangible fixed assets		(19,784)	(36,697)
Sale of tangible fixed assets		-	-
Net cash outflow from capital expenditure		(19,784)	(36,697)
Increase in cash in the year	14	413,765	965,372

The notes on pages 50 to 70 form part of these accounts.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

1 Accounting policies

These financial statements are prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, and in accordance with applicable accounting standards. The significant accounting policies adopted are set out below. The members of the Commission consider that these accounting policies are suitable, have been consistently applied and are supported by reasonable and prudent judgements and estimates.

Accounting and disclosure requirements

Without limiting the information given, the financial statements meet requirements equivalent to those of the Companies (Northern Ireland) Order 1986 and the Statements of Standard Accounting Practice

and Financial Reporting Standards issued or adopted by the Accounting Standards Board and accounting and disclosure requirements issued by the Department of Finance and Personnel, so far as those requirements are appropriate.

The guidance on the annual reports and accounts of Executive Non-Departmental Public Bodies requires fixed assets to be reflected in the financial statements at current cost.

Tangible fixed assets

The cost of fixed assets is restated annually to reflect their replacement cost, using the relevant price indices at the financial year end. The revaluation surplus, net of the corresponding adjustment to accumulated depreciation, is credited to revaluation reserve. The freehold property was valued 31 March 2005 at current market value for existing uses by the Valuation and Lands Agency. Depreciation is calculated so as to write off the cost, or revalued amount, of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used are as follows:

	%
Freehold property	- 2.32
Exhibition equipment	- 20.00
Office furniture, fixtures and fittings	- 20.00

Income

All income represented by Levies, Classification, FQAS and RPA fees are accounted for on a receivable basis. Income is stated after deduction of value added tax, where applicable.

Payment to suppliers

The Commission is committed to the prompt payment of bills for goods and services received in accordance with the Better Practice Prompt Payers Code. Unless otherwise stated in the contract, payment is due within 30 days of the receipt of the goods or services, or presentation of a valid invoice or similar demand, whichever is later. During the year 95% of bills were paid within this standard.

Notional costs

The accounts make provision for the notional cost of capital employed by the Commission, calculated as 3.5% of the average capital employed over the financial year.

FRS 17 'Retirement Benefits'

LMC provides a defined benefit pension scheme for employees through NILGOSC. The assets of the scheme are held separately from those of the Commission. The pension scheme liabilities are measured on an actuarial basis using a projected unit method and are discounted to their present value using appropriate rates.

The adoption of FRS 17 has resulted in a change in accounting policy in respect to defined pension schemes. The pension scheme deficit is now recognised in full on the balance sheet as a liability and as a pension scheme reserve. Contributions paid during the year are shown as movements in the liability. Other finance costs and current service costs associated with the pension scheme are recorded in the profit and loss account. Any deferred tax relating to a defined benefit liability is offset against the defined benefit liability and not included with other deferred tax assets or liabilities. The financial effect of this change in accounting policy has resulted in a prior year adjustment in accordance with FRS 3, as set out in note 23.

2 Income and net operating expenses by activity

	Levy and other income £	Rural Payments Agency £	Classification Service £	FQAS income £	2006 Total £	2005 Total (restated) £
Income from activities	1,241,598	942,788	702,233	906,967	3,793,586	3,714,125
Net operating expenses	1,402,490	865,570	561,809	922,971	3,752,840	3,350,596
Operating surplus	(160,892)	77,218	140,424	(16,004)	40,746	363,529

3 Employee information

	2006	2005 (restated)
	£	£
Staff costs		
Salaries	1,460,344	1,440,392
Social security costs	103,291	102,495
Pension costs	214,927	212,485
Reorganisation costs	77,888	-
	1,856,450	1,755,372

	Number	Number
Average number of persons employed by the commission during the year were:		
Commission members	7	7
Classification/Agency	39	39
Administration (including levy collection)	33	34
	79	80

4 Other operating charges

	2006	2005 (restated)
	£	£
Information services	201,025	194,753
Market development and advertising	1,258,823	923,695
EC Promotions expenditure	-	48,938
EC Promotions grant income	(1,264)	(26,830)
Administration costs:		
Office expenses	237,833	246,828
Aggregate travelling and subsistence	126,995	135,976
	1,823,412	1,523,360

Office expenses include:

Notional charges	3,000	2,900
Auditors' remuneration – for audit	7,000	6,850
– for other services	-	500
Travel and subsistence of Commission Members	6,111	3,535

5 Income from investments

	2006	2005 (restated)
	£	£
Interest on short term deposits	76,718	65,933

6 Taxation

	2006	2005 (restated)
	£	£
UK corporation tax at 19% (2005 – 19%) Based on investment income receivable during the year	14,531	12,572

7 Tangible fixed assets

	Freehold land and buildings	Exhibition equipment, office furniture, fixtures and fittings	Computers	Total
	£	£	£	£
Cost or valuation				
At 1 April 2005	1,500,000	247,572	182,824	1,930,396
Additions	-	17,294	2,490	19,784
Disposals	-	-	-	-
Indexation	180,000	-	-	180,000
At 31 March 2006	1,680,000	264,866	185,314	2,130,180
Depreciation				
At 1 April 2005	-	234,720	131,269	365,989
Charge for the year	39,070	11,040	22,868	72,978
Eliminated in respect of disposals	-	-	-	-
At 31 March 2006	39,070	245,760	154,137	438,967
Net book value				
At 31 March 2006	1,640,930	19,106	31,177	1,691,213
At 31 March 2005 (restated)	1,500,000	12,852	51,555	1,564,407

8 Capital commitments

	2006	2005 (restated)
	£	£
Capital expenditure		
Contracted for but not provided in the financial statements	Nil	Nil

9 Debtors: amounts falling due within one year

	2006	2005 (restated)
	£	£
Levies-Statutory	196,581	209,431
Rural Payments Agency debtor	93,818	110,253
Classification debtors	143,466	93,382
Farm Quality Assurance Scheme debtors	90,696	84,924
Corporation tax recoverable	807	807
Other debtors	72,490	17,091
Prepayments and accrued income	62,816	93,143
EC Promotions	-	18,000
	660,674	627,031

10 Investments

	2006	2005 (restated)
	£	£
Short-term deposits	1,285,054	1,226,721

11 Creditors: amounts falling due within one year

	2006	2005 (restated)
	£	£
Corporation tax	14,576	12,572
Accruals	265,341	132,711
Other taxation and social security	112,444	90,797
	392,361	236,080

12 Reserves

Designated reserves				
	Farm Quality Assurance Scheme	Classification Service	Total Designated Reserves	Income and Expenditure Account
	£	£	£	£
At 1 April 2005 - as previously stated	1,092,070	549,028	1,641,098	2,474,398
Prior Year Adjustment - Note 23				(1,400,000)
At 1 April 2005 - restated	1,092,070	549,028	1,641,098	1,074,398
Deficit for the financial year				(19,702)
Actuarial loss on pension scheme liability				(168,000)
Notional cost of capital				122,635
Other Notional charges				3,000
Transfer from unrealised revaluation reserve to income and expenditure account				20,743
Transferred to other designated reserves	(33,188)	128,520	95,332	(95,332)
Allocation of notional cost of capital	38,312	21,847	60,159	(60,159)
At 31 March 2006	1,097,194	699,395	1,796,589	877,583
				Unrealised revaluation reserves
				£
At 1 April 2005 - restated				709,860
Surplus on revaluation of fixed assets at year end				180,000
Transfer from unrealised revaluation reserve to income and expenditure account				(20,743)
At 31 March 2006				869,117

13 Reconciliation of operating surplus to net cash inflow from operating activities

	2006	2005 (restated)
	£	£
Operating surplus	40,746	363,529
Depreciation charge	72,978	71,864
Actuarial (loss)/gain recognised	(168,000)	12,000
(Increase)/Decrease in debtors	(30,966)	393,318
Increase in creditors	454,276	105,032
Notional charge	3,000	2,900
Profit on disposal of tangible fixed assets	-	-
Net cash inflow from operating activities	372,034	948,643

14 Reconciliation of net cash flow to movement in net debt

	2006	2005 (restated)
	£	£
Increase in cash for period	413,765	965,372
Net fund at 1 April 2005	2,869,998	1,904,626
Net fund at 31 March 2006	3,283,763	2,869,998

	At 1 April 2005 (restated)	Cash flow	At 31 March 2006
	£	£	£
Cash at bank and in hand	1,643,277	355,432	1,998,709
Investments	1,226,721	58,333	1,285,054
	2,869,998	413,765	3,283,763

15 Corporate financial targets

The Commission receives no government funding and no financial targets are set by the Department of Agriculture and Rural Development.

16 Losses and special payments

There were no losses or special payments in the year.

17 Related party transactions

The Department of Agriculture and Rural Development is regarded as a related party. During the year, the Commission has had various material transactions with the Department. The Commission has also had a number of material transactions with the Rural Payments Agency.

In addition the Commission is a one-eighth owner of Northern Ireland Food Chain Certification and is represented on the board of directors. During the year the Commission provided accounting, administration and human resources services to the company valued at £82,700. Northern Ireland Food Chain Certification provided the Commission

with inspection services and marketing information during the year valued at £723,750. The amount due to NIFCC at 31 March 2006 was nil.

During the year, none of the Commission members, members of key management staff or other related parties has undertaken any material transactions with the Commission.

18 Post balance sheet events

There are no significant post balance sheet events arising.

19 Contingent liabilities

Due to the continuing staff re-organisation described in the annual report a further liability regarding redundancy and other associated costs will arise. The approximate cost to LMC at the date of signing the accounts is estimated to be in the region of £35,000.

20 Intra Government Balances

	Debtors: amounts falling due within one year	Debtors: amounts falling due after more than one year	Creditors: amounts falling due within one year	Creditors: amounts falling due after more than one year
	£	£	£	£
Balance with other central government bodies	94,625	-	127,020	-
Balances with local authorities	-	-	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Balances with bodies external to government	566,049	-	265,341	1,700,000
At 31 March 2006	660,674	-	392,361	1,700,000

20 Intra Government Balances (continued)

	Debtors: amounts falling due within one year	Debtors: amounts falling due after more than one year	Creditors: amounts falling due within one year	Creditors: amounts falling due after more than one year
	£	£	£	£
Balance with other central government bodies	129,060	-	103,369	-
Balances with local authorities	-	-	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Balances with bodies external to government	497,971	-	132,711	1,400,000
At 31 March 2005 (restated)	627,031	-	236,080	1,400,000

21 Financial instruments

FRS 13, Derivatives and 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 largely non-trading nature of its activities and the way in which it is financed, LMC is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. LMC has very limited powers to borrow or invest surplus funds and except for relatively insignificant forward purchases of foreign currency, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing LMC in undertaking activities.

As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months of the balance sheet date have been omitted from the currency profile.

21 Financial Instruments (continued)

Liquidity risk

LMC is financed primarily by levy and commercial income. The extent to which levy may be raised and retained for use in operations is set out in statute. LMC is not exposed to significant liquidity risks.

Interest rates and foreign currency risks

All LMC's material assets and liabilities are denominated in sterling, so it is not exposed to interest rate risk or foreign currency risk.

Fair values

There is no material difference between the book values and fair values of LMC's financial assets and liabilities as at 31 March 2006.

22 Pension Scheme Information

Pension benefits are provided through the Northern Ireland Local Government Officers' Superannuation Committee Scheme (the NILGOSC Scheme). This scheme is a 'multi-employer' pension scheme with some sixty-five thousand members. It provides a final salary (ie.defined benefits) pension scheme for eligible employees and other members of the scheme. This is a tax approved scheme which provides benefits on reckonable service and the pensionable pay in the year to retirement or either of the two previous years if higher, at a normal retirement age of 65. Benefits accrue at a rate of 1/80th of pensionable pay for each year of reckonable service and a lump sum retiring allowance at a rate of 3/80ths of pensionable pay for each year of reckonable service. Employees pay contributions of 6% of pensionable earnings. All pensions are reviewed annually in April under the Pension Increase Legislation and increased in line with inflation. On death of a member, widows receive a pension paid at a rate of one half of the husband's pension at the date of death. Widowers receive a pension paid at a rate of one half the proportion of pension at the date of death which related to the wife's post 5 April 1988 service. On death in service, there is a lump sum payment due to employee's estate of two years' pensionable pay. If the employee has at least 2 years service, the surviving husband or wife will receive a short- and long-term pension. To finance these benefits, assets are accumulated in the scheme and are held separately from the assets of the employers.

An actuarial valuation of the scheme was carried out as at 31 March 2004. At that date there was a deficit in the scheme, which will require to be recovered by increasing the employers' contribution rates. The contribution rates set by the Actuary for the three years to 31 March 2008 will increase annually to 8.5%, 11% and 13% respectively. However, these rates increases will not recover any part of the deficit and its recovery is therefore delayed until next three-year period from 1 April 2008. A target rate of 17.3% is currently anticipated but will be recalculated and confirmed at the next valuation.

The principle assumptions used by the independent qualified actuaries in updating the valuation to 31 March 2006 for FRS17 purposes were:



22 Pension Scheme Information (continued)

	2006	2005	2004
	%	%	%
Rate of salary increases	4.6	4.4	4.4
Discount rate	4.9	5.4	5.5
Inflation assumption	3.1	2.9	2.9
Pension increases	3.1	2.9	2.9

22 Pension scheme information (continued)

LMC's share of assets and liabilities in the scheme and the expected rates of return were:

	Long-Term rate of return expected at 31 March 2006	Value at 31 March 2006	Long-term rate of return expected at 31 March 2005	Value at 31 March 2005	Long Term rate of return expected at 31 March 2004	Value at 31 March 2004
	%	£	%	£	%	£
Equities	7.4	4,100,000	7.7	3,100,000	7.7	2,807,000
Bonds	4.6	600,000	4.8	500,000	5.1	592,000
Property	5.5	400,000	5.7	400,000	6.5	269,000
Cash	4.6	100,000	4.8	100,000	4.0	65,000
Total market value of assets		5,200,000		4,100,000		3,733,000
Present value of scheme liabilities		6,900,000		5,500,000		4,972,000
Deficit in scheme		(1,700,000)		(1,400,000)		(1,239,000)
Net pension deficit		(1,700,000)		(1,400,000)		(1,239,000)

22 Pension scheme information (continued)

Analysis of the amount charged to operating charges

	2006 £	2005 £
Current service cost	216,000	212,000
Past service cost	-	-
(Gains)/losses on settlements and curtailments	-	-
Total operating charge	216,000	212,000

Analysis of the amount charged to operating charges

	2006 £	2005 £
Expected return on pension scheme assets	(293,000)	(267,000)
Interest on pension scheme liabilities	304,000	278,000
Total operating charge	11,000	11,000

Analysis of the amount recognised in the statement of total recognised gains and losses

	2006 £	2005 £
Actual return less expected return on pension scheme assets	781,000	109,000
Experience (losses)/gains arising on scheme liabilities	(19,000)	13,000
Losses arising from changes in assumptions underlying the present value of scheme liabilities	(930,000)	(110,000)
Actuarial (loss)/gain recognised in the statement of total recognised gains and losses	(168,000)	12,000

22 Pension scheme information (continued)

History of the amount recognised in the statement of total recognised gain and losses

	%	2006 £	%	2005 £
Actual return less expected return on pension scheme assets	14.9	781,000	2.7	109,000
Experience (losses)/gains arising on scheme liabilities	(0.3)	(19,000)	0.2	13,000
Actuarial (loss)/gain recognised in the statement of recognised gains and losses	(2.4)	(168,000)	0.2	12,000

22 Pension scheme information (continued)

Analysis of movements in deficit during the year

	2006 £	2005 £
At beginning of year	(1,400,000)	(1,239,000)
Current cost service	(216,000)	(212,000)
Employers' contributions	95,000	50,000
Impact of settlements and curtailments	-	-
Net return on assets	(11,000)	(11,000)
Actuarial loss	(168,000)	12,000
At end of year	(1,700,000)	(1,400,000)

23 Prior year adjustment

As disclosed in Note 22, FRS 17 "Retirement Benefits" has been adopted in full for the period ended 31 March 2006. The financial effect of this is as follows:

Prior year opening reserves have been reduced by £1,239,000, being the pension scheme liability at that date. The prior year profit has been decreased by £127,000, being the removal of pension scheme contributions of £50,000 less the current service cost of £212,000, the net loss on pension scheme assets of £11,000 and the decrease in the notional cost of capital by £46,000.

Opening reserves in the current year have been reduced by £1,400,000 being the pension scheme liability at 31 March 2005. In the current year pension scheme contributions of £95,000 have been posted to the opening creditor and current service cost of £216,000 and net loss on assets of £11,000 have been posted to the income and expenditure account.

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