Livestock and Meat Commission for Northern Ireland

Annual Report and Accounts
for the year ended 31 March 2010

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

2 July 2010

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Chairman's Statement

I am pleased to present the forty third Annual Report of the Livestock and Meat Commission for Northern Ireland (LMC). This report covers the period 1 April 2009 to 31 March 2010.

The year reported upon has been one of reasonable stability for the Northern Ireland beef and sheep meat industry. However, there are some significant strategic issues emerging that require careful consideration and strategic leadership within the industry. I am of course referring to the twin issues of the carbon footprint of red meat production, processing and distribution, and the counter-debate in regard to sustainability of food supplies for a growing world population.

We have, throughout the year, engaged with a number of parties to encourage, in the first instance, the development of a sound scientific basis for the debates that seem likely to develop over forthcoming years. Our research at this stage tells us that only a small percentage of consumers have an awareness of such issues, with two thirds of respondents unable to recall any recent media reports on the subject, and 90% indicating their attitudes to red meat have not changed. These findings are in line with a GB study, which shows that only 11% of respondents claim climate change has influenced their meat purchases. However, this is likely to change in the future as awareness of these issues grows and we need to ensure that we, and our industry, are prepared for this continuing growth in awareness.

LMC has resolutely defended the validity of beef and sheepmeat production through the use of grass and other feed inputs that cannot be consumed directly by humans in preference to meat produced using cereals and other feed inputs regularly consumed by humans. Grass is a natural food source and grass based beef and sheep meat production utilises this natural resource in the way nature intended without impacting negatively on the environment. We are keen also, to ensure that the carbon sequestration science is adequately researched, understood and presented as part of the debate. There is clearly a significant amount of work yet to be done in this area.

The year saw a continuing work programme with the Northern Ireland Red Meat Task Force. LMC has continued to support and facilitate this industry group, and on their behalf we arranged a very successful conference on 23 September 2009. The conference gave the broader industry an update of the work, and also introduced the issue of the strategic implications for our industry of the further development of the Common Agricultural Policy (CAP). As their work was substantially completed by the year end, I want to take this opportunity to formally acknowledge the achievements of the Northern Ireland Red Meat Task Force and the fact that the industry has decided to form a Strategic Industry Forum to continue working on specific long term red meat issues is a testament to their contribution.

While we have been seeking to engage in support of the industry on these matters, and on others reported throughout this annual report, we have, of course, also been heavily engaged through the year in a fundamental review of LMC. This process has involved a considerable level of consultation with LMC's stakeholders, and LMC Board and Executive Staff have been heavily committed to ensuring that the review focused on the longer term needs of our stakeholders.

Throughout the process we made a major effort to communicate fully all of the issues which we felt pertinent to the debate. The review report was launched by the Minister on 20 January 2010 and the report made a number of recommendations for the future of LMC, including one to privatise the organisation. The LMC Board is strongly supportive of the fundamental review findings and we await the conclusion of the business case (initiated by the Minister) to finally draw conclusions on the review report recommendations. We are enthusiastic to implement the report findings, and to have the opportunity to start planning for a new and dynamic support structure for a critically important industry to the Northern Ireland economy. I should take the opportunity to thank our stakeholders for their massive contribution to the debate on LMC's future, and for their continuing support for LMC as an organisation.

The red meat industry is operating in a changing economy and we must continue to adapt to these changes and be at the forefront in meeting the challenges and new opportunities that arise in the sector. We in LMC are determined to fully support the industry in this.

I would like to thank my fellow Board members for their support to me in my first year as Chairman of LMC, and for their dedication, expertise and commitment to the work of LMC in a year that was challenging and required more of their time and dedication over and above that normally required.

On behalf of the Board I want to express our appreciation to the management and staff of LMC and to the Minister and officials in DARD, who have been very supportive of and responsive to the needs of LMC during the past year.

Finally, it is clear that changes are en route and we hope that whatever new structures emerge, they will command the support of the red meat industry and broader industry interests, while continuing to be supported in an appropriate manner by Government.

Pat O'Rourke

Patrick O'Rourke

Chairman

16 June 2010

Chief Executive's Review

The Year in Review

The year has been characterised by the deep global economic recession which had a significant impact on the red meat sector. Early in the year, our main concern turned from high input costs to weak demand with evidence of consumers in our major markets trading down in terms of both meat types and cuts due to the recession. However, the impact of weaker demand was tempered by an ongoing tightness in global beef supplies and the weak value of sterling, which helped improve the competitive position of NI beef and lamb in both UK and European markets. In the final quarter of the year, while lamb demand remained weak, there was evidence of an improvement in beef demand in the GB market, although the recovery is not assured and the industry remains vulnerable to an appreciation of sterling and a return to rising input costs.

Farmgate Red Meat Prices Remain Firm

Red meat producers benefited from an increase in farmgate prices in 2008, driven to a large extent by a substantial reduction in South American beef imports, reduced production in Australia and New Zealand and the decline in the value of sterling. These factors continued to underpin prices this year and average annual farmgate prime cattle prices were unchanged from the 2008/09 levels at £2.60 /kg carcase weight. Farmgate sheep prices were 14% higher in 2009/10 compared to 2008/09 at £3.33 /kg carcase weight, with reduced supply a significant factor in driving up prices in the domestic and wider European market. In the final quarter of the financial year, while farmgate lamb prices remained consistently strong, beef prices were 4% lower than the previous year, reflecting a wider trend with prices also lower in GB.

Resumption of Rising Input Costs

With farmgate prices holding up for most of the year, a fall in input costs led to improved prospects for profitability in the industry. In August 2009, the Task Force Costs of Production Index showed that input costs for beef production fell by as much as 9% compared to August 2008, while input costs fell by as much as 16% for certain sheep production models. However, in the second half of the year, inflation resumed and between August 2009 and February 2010 input costs increased by up to 4% for beef and sheep producers.

Destocking of the Suckler Herd

Despite the improved prospects for profitability, the gradual destocking of the suckler beef herd and breeding ewe flock continued over the last year. In June, beef cow numbers were 3% lower compared to 2008, and have now fallen by 26% in the 11 years since their peak in 1998. Beef sired calf births were 10% lower in 2009 compared to the previous year.

The decline in breeding ewe numbers has been ongoing since 1998, and we have now seen a decline of 38% in the 11 years since then. The decline accelerated in 2009, and in June breeding ewe numbers were 5% lower than in 2008. Further declines are likely over the coming years and the rate of decline may be influenced by the proposals for CAP reform due to be communicated by the European Commission in autumn 2010.

Increase in Cattle Slaughterings

The gradual liquidation of the beef suckler herd has led to an ongoing decline in the availability of NI produced finished cattle. However, this underlying trend was interrupted by a 6% increase in slaughterings in 2009/10 and as a consequence, NI beef production increased by 6% compared to the previous year.

This increase was largely due to imports from the Republic of Ireland and significant increases in the availability of young bulls and cull cows. Cow slaughterings increased by 10% compared to the previous year, reflecting destocking in the suckler herd and increased culling in the beleaguered dairy industry. Young bull throughput increased by 44% in 2010, a consequence of reduced export opportunities for dairy bull calves. These trends underline the industry's increasing dependence on dairy-origin beef and highlight the need to adapt to this changing environment.

NI lamb slaughterings were 17% lower in 2009/10 compared to the previous year as a result of the decline in breeding ewe numbers and high levels of live exports to ROI. The average sheep carcase weight increased, mainly due to an increase in the proportion of mature sheep in the slaughter mix, and this reduced the impact on overall sheepmeat production, which was down by just over 12% compared to last year.

Consumer Demand Improving

In GB, our principal market, consumer demand for beef held up reasonably well, despite the recessionary environment. Total consumer expenditure on beef was up by 2%, a consequence of a 2% increase in the average retail price per kilogram. Volume demand was unchanged from the previous year. In the final quarter, there were indications of a recovery in demand with the volume of consumer purchases increasing by 4% compared to the same period in the previous year.

By contrast, consumer expenditure on lamb fell by 1% in GB compared to the previous year. This was due to the combined impact of a 5% decline in the volume of lamb purchased by consumers and a 5% increase in average retail prices per kilogram (Kantar data for 52 weeks ending 21 March 2010).

There are indications that the drift toward mince, stewing and casserole products was halted over the course of the year, with slight increases in volume sales of some of the more expensive, frying, grilling and roasting cuts. Greater demand for these higher value cuts has helped to sustain average retail prices in the market.

Increased European Exports

NI processors have continued to diversify away from their dependence on the major GB multiple retailers. With the assistance of a competitive currency, processors have managed to increase the volume of red meat exported to mainland Europe significantly over the last year. This is a welcome development and has the potential to allow processors to realise more value from the carcase through increased sales of fifth quarter products.

LMC Review

As reported in our last two annual reports, there remains a need for significant changes in the structure and operations of LMC. At time of reporting, we still await a ministerial decision following the LMC Review; conducted by PricewaterhouseCoopers on behalf of DARD, and published on 20 January 2010.

The uncertainty in regard to our future role and structure, as highlighted in the review report, creates considerable difficulties in planning our activities generally. Government accounting rules require LMC to operate within a balanced budget and do not permit the use of reserves without resource cover being provided by DARD. LMC's reserves, particularly those attributable to the Northern Ireland Farm Quality Assurance Scheme for beef and lamb, should be available for the purposes for which the funds were collected. However, due to financial constraints within DARD, it was not possible to confirm the availability of resource cover until January 2010. In consequence, despite the best efforts of LMC and DARD, throughout the year we had no certainty in regard to our budgets. This uncertainty inhibited considerably our ability to plan and execute a range of activities, as we sought to balance our budgets, while at the same time not placing constraints upon our farm quality assurance scheme and other commercial activities.

We look forward to early decisions in regard to the outturn of the LMC Review.

Classification

LMC has provided a classification service to Northern Ireland abattoirs for approximately twenty years. During the course of the year, however, new technology to provide automated classification through the use of computer based Video Image Analysis (VIA) technology was trialled at one of Northern Ireland's abattoirs. The trials culminated in the testing of the machine by European experts, in accordance with European Regulations for the use of such machinery. While, at time of reporting, the formal approval of the equipment is not in place, it is confidently expected by the industry that VIA technology, as tested, will be approved for use throughout the United Kingdom.

While it is ultimately a matter for the Northern Ireland abattoir operators to determine whether they invest in this new technology, it is important that LMC makes plans for this major technology change, which is expected to be introduced over the forthcoming year.

No doubt, there will be much debate across the industry in regard to the merits of manual and automated classification. However, since it seems likely that VIA will be approved; the fact that this technology can reduce classification costs for the industry, (and as an industry cost efficiency is critical to the profitability at all levels of the production chain), there is an inevitability that manual classification will be displaced. LMC's forward plans must reflect the likelihood of such changes.

Outturn for the Year

The accounts for the year are set out on pages 45 to 69. The reported deficit for the year was £20,663, as set out in the income and expenditure report on page 45. A detailed analysis of the individual activities of LMC, before adjustments for notional costs, is shown on page 60 at Note 7. This note highlights the continuing utilisation of the designated FQAS reserves and the surplus balance across LMC's other activities. The statement of financial position on page 46 shows again the massive impact of pension scheme movements. As anticipated, the pension scheme assets have shown a strong recovery over the year reported upon as is demonstrated in Note 14. However, the movement in the scheme liabilities have far outweighed the strong asset performance. The scheme actuaries advise that the major cause of the deterioration in the FRS17 balance sheet entry is associated with a decrease in discount rates due to a considerable fall in corporate bond yields, combined with an increase in the level of inflation expectations. The actuaries also highlight mortality assumptions as exercising a further negative influence.

The overall impact is a massive reduction of LMC's net worth to £728,210. As an organisation we have, excluding our pension scheme liability, a continuing strong balance sheet, but the impact of this issue on a small organisation is so devastating, that it must raise the question of the wider public sector pension provision, and its ultimate impact on the wide range of organisations continuing to provide defined benefit pension schemes.

We have set out, in the following pages, a summary of achievements against our core strategic objectives.

David Rutledge

Chief Executive

16 June 2010

Summary of Achievement of Core Objectives 2009/10

Organisational Purpose

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 (LMC) is an executive non-departmental public body sponsored by the Department of Agriculture and Rural Development (DARD). The Act tasks LMC with the general duty of examining and recommending improvements in the marketing of livestock and livestock products. To defray LMC's expenses, the Act provides for the imposition of levies on livestock slaughtered in or exported from Northern Ireland.

Vision

Our vision is for a sustainable and profitable future for the Northern Ireland beef and sheepmeat industry at all levels of the supply chain.

Mission

LMC serves the Northern Ireland beef and sheepmeat industry.

Values

- LMC will be unequivocally an advocate for the Northern Ireland red meat industry and champion the industry with independence, transparency and integrity
- LMC will employ high calibre staff. We will ensure that every member of staff will have the right skills, training, experience, and resources to deliver on our commitments
- LMC will utilise its resources in a cost-effective and efficient manner through sound governance, accountability and control systems and processes which safeguard levy-payers' funds
- LMC will demonstrate professionalism, openness and a "can do" attitude at all times

Strategic Objectives 2007 - 2010

Highlights in our performance against the year's business objectives in contributing to the achievement of our strategic objectives are set out in the table below.

Summary of Achievement of Strategic Objectives – 2009/10

LMC has five Strategic Objectives. Supporting these are 21 Business Objectives for the financial year 2009/10. In order to monitor these objectives 65 individual targets were identified. Of these, 54 were achieved, seven partially achieved and four were not achieved. Of the targets either not completely achieved or not achieved, none had any material implications for delivery of the LMC business plan, nor did they compromise LMC's legal or legislative obligations. For further information on the monitoring of 2009/10 business objectives please contact LMC.

The table below sets out the performance highlights for the year 2009/10.

Strategic Objectives	Performance Highlights in 2009/10
Assist the industry to achieve sustainable, long-term profitability through all levels of the supply chain	• Chaired and coordinated the meetings of the NI Red Meat Task Force & a Task Force conference • Joint completion of dairy origin beef finishing protocol • Participated in DARD consultation on CAP reform • Submitted paper to FSA on Meat Hygiene Regulations • Full participation in DARD's R&D strategy review • 6 research proposals considered through membership of AgriSearch Beef Advisory Committee • Participation in Devolved Meat Levy Bodies R&D Committee meetings
Develop effective and efficient evidence-based communications with industry stakeholders	• Maintained and developed a knowledge warehouse through the acquisition, interpretation and dissemination of relevant information to the whole supply chain via the LMC Bulletin, LMC websites, press articles and radio interviews • Jointly published initial analysis of combined price reporting/ animal performance database • Met extensively with industry & Government to discuss LMC Strategic Review • Supported a wide and diverse range of industry events • Improved internal communications through staff conferences & newsletters and achieved IIP Certification

Assist the Northern Ireland industry in achieving optimum competitive advantage within domestic and export markets	• Provided trade marketing support for the industry through beef/lamb sampling services in multiple retail outlets. • Assisted the industry to develop export markets through organisation and facilitation of the major international exhibition at Anuga • Participated in joint lamb promotional campaign to drive lamb consumption in France • Provided ongoing monitoring of consumer and market trends through research. • Facilitated the development of niche markets, including live exports (e.g. live cattle and sheep, and breeding stock and other genetic material) through membership of the UK Export Certification Partnership
Provide information support to the Northern Ireland beef and sheepmeat industry	• Engaged with consumers on the benefits of using beef and sheepmeat as part of a healthy and balanced diet through PR campaigns, achieving approx £128,000 publicity, and LMC's consumer website: www.lovebeefandlamb.com • Implemented educational programme of 183 beef & lamb cookery demonstrations in schools, hosted a conference for Home Economics Teachers & relaunched LMC's educational website www.food4life.org.uk • Hosted & judged Sausage/ Burger of the Year Competition to encourage npd & innovation • Provided secretarial support for local butchers' association
Provide an independent support service to Government and industry stakeholders on commercial terms where appropriate	• Continued to provide an independent classification service • Managed, on behalf of industry, the Northern Ireland Beef & Lamb Farm Quality Assurance Scheme • Continued to provide EU price reporting service to RPA

As stated above, 61 of the 65 individual targets were either achieved or partially achieved. The targets not achieved were to co-fund a research project, production of a Yearbook, provision of further support for Greenfields and the development of a SLA with British Livestock Genetics to assist with the export of livestock / genetic material. These activities were not carried out in line with feedback received as part of the LMC Review process.

Marketing Director's Report

Against the backdrop of the LMC Review, the year reported upon saw a number of challenges for the marketing department. Ever tightening European state aid rules dictating how LMC's levy income can be spent continue to severely hamper the effectiveness of LMC's marketing activities on behalf of the industry. Furthermore, the marketing budget for 2009-2010 was approximately 25% of that available in 2006 and less than half of that available in the financial year 2008 – 2009.

In reflection of the reduced budget, there was no major advertising campaign and export development activities were restricted to the successful coordination of the NI red meat industry stand at the international food fair Anuga in October.

However, the red meat industry continues to face an increasing number of attacks in the media concerning the impact of red meat on the environment. Respected broadsheets have moved away from balanced thoughtful editorial to sensationalist coverage claiming that beef production is much more harmful to the planet than cars due to the CO2 equivalent emissions produced.

Inevitably, celebrities have come on board bringing the debate into the mainstream. Musician and well-known vegetarian Sir Paul McCartney recently joined Dr Rajendra Pachauri the Chairman of the Intergovernmental Panel on Climate Change to make a joint presentation to the European Parliament, urging legislators to fight climate change by encouraging people to have "Meat Free Mondays". In response, LMC wrote to every UK Member of the European Parliament highlighting the fact that the debate needs to be carried out from a sound scientific evidence base, not simply as a result of activism or lobbying. We were extremely encouraged by the number of supportive replies received.

Against this background of ill-informed claims based on inconsistent science grabbing media headlines, LMC continued to work to educate consumers about the importance of beef and lamb within a balanced diet and the benefits of quality, safety & traceability delivered by the Northern Ireland Farm Quality Assurance Scheme.

LMC carried out 183 school beef & lamb cookery demonstrations throughout the year and held a successful conference for Home Economics teachers in January at which LMC's redesigned educational website, wwwfood4life.org.uk, and research findings highlighting the importance of grass fed beef and lamb to the Northern Ireland population's intake of omega 3 were launched.

LMC also carried out a programme of retail sampling in 30 stores across Northern Ireland which was timed to coincide with Love Beef Week activity. Love Beef Week & lamb public relations campaigns together generated approximately £128,000 of positive publicity on behalf of the industry for a very limited spend. A series of recipe leaflets & posters was also distributed across butcher's shops in Northern Ireland, highlighting the versatility of Northern Ireland Farm Quality Assured beef and lamb.

As indicated in last year's Annual Report, the weekly LMC Bulletin is no longer posted but instead distributed electronically and through the farming press over the year. We have received an increasing number of subscribers for the free services of emailing the Bulletin and the twice weekly text message of prices. LMC's marketing department also continued to provide industry information through the coordination of a NI Red Meat Task Force Conference and the LMC stand at Balmoral Show.

Industry feedback received from the LMC Review indicates a lack of clear industry consensus regarding the future role of marketing to be carried out by LMC or a successor organisation. Generally, NI processors do not see a need for marketing or promotional activities given their already significant inhouse resources. In contrast, producers do see a role in educating consumers on the role of red meat in the diet & promoting Northern Ireland beef & lamb outside the restrictions of state aid rules. Whatever activities are deemed required by the industry, either from LMC or a successor organisation, it will be essential that they are supported by a realistic level of funding and associated performance expectations.

Technical Director's Report

The role of the Technical Department is in essence to provide technical information and support to the beef and sheepmeat industry through (1) economic analysis of the market and prices; (2) technical analysis and support to facilitate strategic development across the industry (for example the Red Meat Industry Task Force, the use of Video Image Analysis for Beef Carcase Classification); (3) management of the Northern Ireland Beef & Lamb Farm Quality Assurance Scheme; and (4) provision of information and analysis for communication to stakeholders in publications such as the LMC Bulletin and LMC's Monthly Economic Review. In providing these services the Technical Department has to be, and is, independent of sectoral interests and acts as an 'honest broker' between producers and processors.

Economic Activity

The Technical Department has played a key role in the development and enhancement of the Price Reporting Database which was brought in-house from 1 January 2009. This has not only allowed efficiency savings to be made, but has substantially improved the performance of LMC's service to the Rural Payments Agency in regard to the EU price reporting function, and has also increased the power of the data-handling and analytical functions, enabling authoritative reporting to industry stakeholders on prices.

Continued purchase of Kantar (formerly TNS) Market Research data has enabled further market intelligence to be reported to industry on consumer demand trends in terms of volume, value and expenditure.

The Technical Department continued to provide most of the content of LMC's Bulletin and Monthly Economic Review for the communication of economic and technical information and analyses to stakeholders. Both publications are available in hard copy and are also posted on the LMC website. Further to stakeholder views summarised in the recommendations of the LMC Review, the Yearbook and other technical publications have been discontinued.

Technical Activity

The Technical Department has played a key role in taking the industry strategy forward through assisting in a number of primary initiatives arising mainly from the Red Meat Industry Task Force. These are:

- The completion of production protocols with "Dairy-origin Beef Finishing" having been finalised.
- Developing proposals for lifelong learning programmes for farmers on 'the language of Dry Matter' and 'grass budgeting' in order to improve grassland management on beef and sheep farms.
- Arising from the Best Practice Mission to New Zealand, collaborative initiatives with CAFRE and AFBI Hillsborough on
    - the 'language of dry matter' in relation to grass production and utilisation;
    - the grass-clover initiative;
    - the development of CAFRE's Abbey Farm to demonstrate low cost beef and sheep systems using grass, clover and brassicas;
    - the development of Monitor Farms;
    - collaboration with the Irish Cattle Breeders Federation to enable sheep breeders to participate in the 'Sheep Ireland' genetic improvement programme;
    - developing the BOVIS initiative to link slaughter grades with genetics;
    - implementation of Video Image Analysis for beef carcase classification, and the provision of analyses for the industry of the impact of this on grades and prices.

- Beginning the transition of the Red Meat Industry Task Force to a Red Meat Strategic Forum with stakeholder consultation on strategic priorities.
- Subsequent to the Dioxin incident, the Technical Department facilitated an Industry Feed Assurance Group, which involved not only beef and sheep industry participation, but also the other livestock and poultry production sectors and the feed supply industry. Assisted by Dr. Patrick Wall, Associate Professor of Public Health at University College Dublin, the project is now approaching its final stages of producing an Industry Risk Management Programme, which will be discussed with regulators to show the 'self-management' that the industry will be taking, in the hope that this will constrain the regulatory burden.
- The Technical Department continues to participate in the debate on climate change, and to raise issues, such as on the methodology of carbon footprint calculations, on carbon sequestration and on the sustainability of food production.
- Following stakeholder consultations, the Technical Department began the transition of the 'Industry Development' function to the 'Intelligent Customer' Function, the purpose of which is 'to deliver sufficient technical knowledge, expertise and experience to support the delivery of services' as recommended in the LMC Review.

Research Activity

In line with the recommendations of the LMC Review that LMC's technical research activity should cease, the Technical Department has begun to withdraw its provision of technical research services. This was only on a modest scale costing £7,500 in the year reported on, and for this small contribution LMC was able to participate in large UK-wide projects. No new co-funding was undertaken, with only commitments to existing projects being met. In the year these were:

- The effect of TM-QTL and other QTLs on lean meat yield and meat quality in sheep and its evaluation using VIA. (cost in the year £3,400, due to end 30 September 2010)
- The genetic improvement and development of productive and persistent high quality forage grasses and clovers to improve nitrogen and phosphorus use efficiency and reduce losses to water courses from grassland, and improve nitrogen use in the rumen, thereby benefiting beef and sheep farmers (cost in the year £2,000, due to end 31 March 2013)
- The effects of grazing chicory on sensory meat quality in lambs (cost in the year £850 – now completed)
- The sheep foot disorder known as 'Shelly Hoof' (cost in the year £500 – now completed)

The Technical Department also facilitated a research project, and arranged the industry contribution to its funding from AgriSearch, on 'The contribution of meat from grass-fed ruminants to total dietary intake of long chain n-3 polyunsaturated fatty acids in humans'. This project was completed in the year, and a PhD thesis and four published papers have been delivered. (Research conducted at the University of Ulster Northern Ireland Centre for Food and Health and jointly funded by a Co-operative Award in Science and Technology from the Department for Employment and Learning).

More information on these projects and the ten previously completed projects can be found on the LMC website www.lmcni.com .

None of the projects that LMC has co-funded overlapped with research being done by other organisations in Northern Ireland.

LMC has also continued to assist in the identification and development of research projects through membership of AgriSearch's Beef and Sheep Advisory Committees. In the year reported on consultation began with AgriSearch on how it might replace LMC on the UK Devolved

Bodies Joint R&D Committee, for which LMC's share of the administration costs was £750 in the year.

Farm Quality Assurance Scheme Activity

Total participation in the NI Farm Quality Assurance Scheme (FQAS) continues to decrease. In the year under review, there was a contraction of 2.4% and at the end of the year the number of participating beef and sheep farmers stood at 10,082. However there appears to be a revival of interest in joining with a 30% increase in the number of new applicants.

In the 2009-10 financial year 7,829 surveillance inspections were conducted by the Certification Body NIFCC, which represents an average surveillance inspection interval of 17.5 months against a maximum target of 18 months. There were 925 spot-check inspections, representing 9.2% of scheme members against a minimum target of 10%. Combined, the surveillance and spot-check inspections represent an overall average inspection frequency of 15.5 months.

Despite the decreases in participation, the calendar year 2009 set a new record high for the percentage of slaughtered domestic clean beef that was farm assured at 92.4%. The previous highest year was 2004 at 91%. The highest category was steers at 94%, and cull cows and bulls reached a very respectable 70% assured.

In the absence of individual and computerised recording of the lamb kill, it is difficult to be as precise. The best estimate based on the proportion of sheep farmers that are in the scheme is that two-thirds of domestic lamb is farm assured. The introduction of EID and electronic batch recording in 2010 should enable an accurate figure to be produced.

Following the Dioxin incident, the FQAS Board agreed that the previous derogation to allow warranty declarations for feed sourced from non-assured merchants would end. The requirement to source feedstuffs from assured merchants or assured manufacturers was implemented in full from 1 May 2009, and is intended to reduce the risks associated with external sourcing of animal feed materials, which was a very necessary response to the Dioxin incident of December 2008. A complete new Product Standard was finalised at year end.

Funding and Audit

Funding

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 the Rural Payments Agency (RPA).

<u>Levies</u>

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.

	Maximum 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 to be put in place for the collection of levies on live exports, which is provided for under the Act by which LMC was established.

<u>Classification Fees</u>

Classification fees, payable by processors, are currently set at sheep £0.21 per head and for cattle £1.40 per head subject to a minimum charge per classification officer per day.

<u>Northern Ireland Beef & Lamb Farm Quality Assurance Scheme (NIFQAS)</u>

Under funding arrangements for NIFQAS, 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 of £400 for a slaughterer/processor, £250 for a secondary processor and £100 for a butcher.

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 reports his findings to the Northern Ireland Assembly.

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 2009/10 resulted in an audit fee of £12,000 and this 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 Report

LMC is pleased to advise that its efforts to improve overall business performance were recognised by achievement of Investors in People (IIP) status during the year. It was particularly encouraging to note the positive feedback from our staff in regard to their experience of working with LMC and their awareness of the need for change – whether as long standing members of staff or from those who have recently joined us.

With the LMC Review ongoing, it is recognised that whilst it has not been possible to provide definitive answers to many questions we have endeavoured to keep staff fully informed of progress at all stages. A decision was also taken, pending the outturn of the Review and generally declining income, to freeze future recruitment beyond the second quarter. It is appreciated that incumbent staff have willingly filled gaps or taken on additional duties in the interim.

Work continued through the year to review and re-issue a number of staff policies. This included Child Protection, Health and Safety, NILGOSC Employers Discretions and the introduction of Gifts and Hospitality Guidance.

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

	2008/2009	**2009/2010**
Percentage days lost through sickness absence	2.51%	2.06%
Cost of absence	£24,991	£21,473
Percentage of annual staff costs	1.7%	£1.69%

This continues the trend of reducing absence, and control of costs, over a three year period. 2.06% overall equates to an average of 3.7 days lost per employee.

Equality Policy

It is LMC policy in carrying out its activities, both as an employer and as a provider of services to the industry, 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 disability; and between persons with dependants and persons without dependants.

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

Charitable donations

It is not LMC policy to make charitable donations.

Environmental sustainability

LMC provides services for the largest private sector industry in Northern Ireland; by assisting towards achieving sustainability of the beef and sheepmeat industry, we contribute to the social betterment of the rural community. Part of this contribution is through assisting all elements of the food chain, both producer and processor, to deliver their end products as efficiently and effectively as possible.

LMC has set in place good environmental practices such as maintaining a contract to recycle various waste products (cans, paper, card and plastic). The table below shows the level of recycling for the last two years. The reduction in the volume recycled can be related to a reduction in paper based activity and more efficient use of resources.

Material	Tonnes 08/09	Tonnes 09/10	% change
Paper	2.49	2.03	-19
Card	1.82	1.17	-36
Plastic	0.09	0.07	-
TOTAL	4.40	3.27	-26

Commission Membership

The table below sets out the attendance of Commission Members at Board and Audit Committee meetings where applicable.

NAME	BOARD MEETINGS	AUDIT COMMITTEE
Patrick O'Rourke	10/10	-
Mary McCormack	10/11	4/4
John McGaughey	10/11	-
Jim Noble	8/11	4/4
Phelim O'Neill	11/11	3/4
Kenneth Sharkey	11/11	-
Campbell Tweedie	10/11	-

Patrick O'Rourke joined the Board in May 2009.

The Minister for Agriculture and Rural Development appoints the chairman and members of the LMC Board for three-year terms. As of 31 March 2010 there are seven members on the Commission ("the Board"), one was appointed during the year.

- Patrick O'Rourke (Chairman)
- Mary McCormack
- John McGaughey
- Jim Noble
- Phelim O'Neill
- Kenneth Sharkey
- Campbell Tweedie

The role of the Board is to act effectively as Non-Executive Directors of LMC and to exercise the ultimate control on policy. Management of LMC 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 LMC affairs and the development and implementation of the policies determined by the Board. The Board meets routinely once per month, with additional meetings on an ad hoc basis when circumstances require.

Patrick O'Rourke – Chairman

Patrick O 'Rourke was appointed as Chairman of LMC in May 2009. In his first year, he has been involved in the major review of the organisation in order to make it more effective and responsive to the needs of the sector.

Prior to joining LMC, Patrick was Marketing and Public Relations Manager for the Irish Concrete Federation, responsible for the development and implementation of a nationwide industry marketing strategy involving the New Building Energy Rating system introduced by the E.U.

Patrick served as President of the Irish Creamery Milk Suppliers Association (ICMSA) from 1999 to 2006. During his term of office, he was a member of the Irish delegation at the World Trade Talks in both Cancun, Mexico in 2002 and Hong Kong in 2005 and has experience of negotiating at EU level with Commissioners Fischler, Byrne and Fischer Boel on agricultural issues including dairy, beef, environmental and CAP rural development plans.

He is a former director of Bord Bia, The Irish Dairy Board, The National Dairy Council, and The National Forum on Europe. He is currently a member of the local County Development Board, The Local Leader Board and a Director of Parkinson's Association of Ireland.

He is also a Director of O'Rourke & Moore Associates Ltd providing consultancy services to the Construction industry.

Mary McCormack

Mary McCormack was appointed to the Board in January 2009. She is a farmer's wife and has a Diploma of Agriculture from Loughry College. Mrs McCormack is currently studying at Queens University for a Foundation degree in Land Use, Environment and Sustainability. She co-ordinates Camowen Farmers Group which provides advocacy and facilitation support to the farming community, is vice chair of Northern Ireland Agricultural Consultants Association, a trustee with the Agrisearch Board, a committee member of the Producer Committee of Lakeland Dairies for a number of years and secretary of Northern Ireland Charolais Club.

John McGaughey

John McGaughey was appointed to the Board in October 2006. He studied agriculture at Kings College, The University of Newcastle Upon Tyne where he specialised in animal production. He worked for many years for the Department of Agriculture and is well known for his practical development work within the beef and sheep sectors. He was a founder member of the

National Sheep Association in Northern Ireland and a past chairman. He is a member of a wide range of professional and agricultural organisations and is a Fellow of the Royal Agricultural Societies (FRAS). John now works as an industry consultant.

Jim Noble

Jim Noble was appointed to the Board in February 2008. He brings to LMC knowledge derived from a farming background and a career in the food industry. He studied food processing and agriculture at Loughry College and industrial engineering at Queens University. Most of his career was spent in the local dairy industry where he gained a wide experience of processing, product development and marketing. Mr Noble has extensive knowledge of directing and managing customer facing organisations in the private and public sectors; he was Managing Director of Dromona Quality Foods for 12 years and is a past Board member and Chairman of the Safety Committee of the Northern Ireland Transport Holding Company. He has served on a number of industry representative bodies and is currently a Board member of the Agri-Food and Biosciences Institute.

Phelim O'Neill

Phelim O'Neill was appointed to the Board in January 2009. He comes from a farming background in Co Tyrone; graduated from Queen's University with an honours degree in Law and later obtained a Masters in Business Strategy from the University of Ulster. His entire career has been spent in various roles in the red meat industry and currently is the Chief Executive of the Northern Ireland Meat Exporters' Association. He is a regular contributor to the print and broadcast media on the industry and holds a number of other industry related board positions.

Kenneth Sharkey

Kenneth Sharkey was appointed to the Board in January 2009. He is a progressive beef and sheep farmer and ex-President of the Ulster Farmers' Union who has significant personal experience of the agri-food industry and related issues. This includes fulfilling a representational role, engagement with the different parts of the food supply chain and developing policy. He is also a Director of Countryside Services, Glenfarm Holdings and the NFU Mutual.

Campbell Tweedie

Campbell Tweedie was appointed to the Board in July 2007. He has been in the vanguard of the Northern Ireland meat processing industry for the past five decades, beginning in the offal department of the old Belfast Abattoir. Throughout his career Campbell has developed many business interests in the meat processing industry and successfully built trading relationships with all of the major retail and food service customers of our industry today, both in the UK and mainland Europe. He is current President of the Northern Ireland Meat Exporters' Association and vice-chair of Safefood NI. He farms outside Newtownards and is active in Church and charity activities.

Remuneration Report

The detail regarding Board Members' remuneration is set out in their contracts on appointment. This is subject to annual review in line with awards made by the Senior Salaries Review Body. The Department of Finance and Personnel (DFP) instructs LMC when an annual review has been approved.

DFP operates a control on the review of employees' remuneration, and all reviews are subject to a pay remit approval process. A remuneration committee of the board approves all remuneration reviews. LMC makes new appointments based on market rates as appropriate to the role.

Service Contracts

Appointments made by LMC are in accordance with approved policy and procedures which are continually updated to reflect best practice.

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

Salary and pension entitlements (audited)

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

	2009-2010		2008-09	
Name	Salary £'000	Benefits in kind (to nearest £100)	Salary £'000	Benefits in kind (to nearest £100)
Mr P O'Rourke *Chairman* (from 7 May 2009)	15-20 (Full year equivalent 15-20)	-	-	-
Mr J McGaughey *Board Member*	5-10	-	5-10	-
Mr J Noble *Board Member*	5-10	-	5-10	-
Mr C Tweedie *Board Member*	5-10	-	5-10	-
Mr P O'Neill *Board Member* (from 1 January 2009)	5-10	-	0-5 (Full year equivalent 5-10)	-

Mrs M McCormack *Board Member* (from 1 January 2009)	5-10	-	0-5 (Full year equivalent 5-10)	-
Mr K Sharkey *Board Member* (from 1 January 2009)	5-10	-	0-5 (Full year equivalent 5-10)	-
Mr O Brennan *Chairman* (until 31 March 2009)	-	-	15-20	-
Mr G McCollum *Board Member* (until 31 December 2008)	-	-	0-5 (Full year equivalent 5-10)	-
Mr N McLaughlin *Board Member* (until 31 December 2008)	-	-	0-5 (Full year equivalent 5-10)	-
Mr R Watson *Board Member* (until 31 December 2008)	-	-	0-5 (Full year equivalent 5-10)	-
Mr D Rutledge *Chief Executive*	85-90	-	85-90	-
Dr M Tempest *Technical Director*	55-60	-	65-70	-
Mrs N Waite *Marketing Director*	50-55	-	55-60	-

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. The Chief Executive received an additional mileage payment of £863 (2009: £1,042), which was reported on a P11D form.

NILGOSC Pensions (audited)

Name	Accrued pension at age 65 as at 31/3/10 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/3/10	CETV at 31/3/09	Real increase in CETV	Employer contribution to partnership pension account
	£'000	£'000	£'000	£'000	£'000	Nearest £100
Mr D Rutledge *Chief Executive*	10-15 plus lump sum of 35-40	0-2.5 plus lump sum of 0-2.5	307	272	31	-
Dr M Tempest *Technical Director*	25-30 plus lump sum of 75-100	0-2.5 plus lump sum of 0-2.5	603	554	22	-
Mrs N Waite *Marketing Director*	0-5 plus lump sum of 5-10	0-2.5 plus lump sum of 0-2.5	44	33	10	-

Pension benefits are detailed in Note 14 to the accounts.

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
16 June 2010

Corporate Governance

The Minister for Agriculture and Rural Development is accountable to the Northern Ireland Assembly for the activities and performance of LMC. The Management Statement and Financial Memorandum, created by DARD in 2005, defines the accountability arrangements of LMC to DARD (Food Policy Branch being LMC's sponsors within DARD). LMC is reviewed periodically, in accordance with the business needs of DARD and LMC. A fundamental review of LMC took place in 2009.

LMC Board

The LMC Board meets once a month and comprises a chairman[1] and six non-executive[1] members. The appointments are made under section 1 of the Livestock Marketing Commission Act (Northern Ireland) 1967, and are made in accordance with the Commissioner of Public Appointments for Northern Ireland Code of Practice.

The Board has corporate responsibility for ensuring that LMC fulfils the aims and objectives that are approved by DARD, and for prompting the efficient, economic and effective use of staff and other resources by LMC. To this end, and in pursuit of its wider corporate responsibilities, the Board:

- Establishes the overall strategic direction of LMC within the policy and resources framework determined by DARD and its Minister

- Ensures that DARD and its Minister are kept informed of any changes which are likely to impact on the strategic direction of LMC or on the attainability of its targets, and determines the steps needed to deal with such changes

- Ensures that any statutory or administrative requirements for the use of public funds are complied with, that the Board operates within the limits of its statutory authority and any delegated authority agreed with DARD and in accordance with any other conditions relating to the use of public funds, and that, in reaching decisions, the Board takes into account guidance issued by Government

[1] All Board members are independent from the day to day running of LMC.

- Ensures that it receives and reviews regular financial information concerning the management of LMC, is informed in a timely manner about any concerns about the activities of LMC and provides assurances to DARD that appropriate action has been taken on such concerns

- Demonstrates high standards of corporate governance at all times

- Appoints, with DARD's approval, a Chief Executive to LMC and, in consultation with DARD, sets performance objectives and remuneration terms for the Chief Executive, which gives due weight to the proper management and use of public monies.

Evaluation of Board Performance

DARD is responsible for the evaluation of LMC's overall performance. The senior management of DARD's Food, Farm and Environmental Policy Division assess the LMC Chairman annually. The LMC Chairman assesses individual Board members annually.

Committees of the Board

The Board has established and delegated powers to an Audit Committee (see page 36) and a Remuneration Committee (see page 28)

Planning, **Budgeting and Control**

The Strategic Plan

The strategic plan provides an overview of the statutory purpose of LMC. It identifies the major factors influencing LMC's strategy and formalises the major inputs from its stakeholder consultation process. The strategic plan outlines LMC's strategic objectives over a rolling three year period and associated business objectives for the next year.

LMC submits a draft of its updated strategic plan to DARD annually. DARD, once they have agreed the plan, submit it to the Department of Finance and Personnel (DFP) for their agreement. The main elements of the plan, including the key performance targets, are agreed in the light of DARD's decisions on policy and resources, taken in the context of the Government's wider policy and spending priorities and decisions.

The Business Plan

The first year of the strategic plan, amplified as necessary, forms the business plan, which includes key targets and milestones for the year immediately ahead, and is linked to budgeting information so that resources allocated to achieve specific objectives can readily be identified by DARD.

Financial Budgets

Financial budgets are produced annually for the forthcoming 12-month period and underpin the three-year strategic plan and annual business plans. Preliminary budgets are consolidated and presented to the Board during January of each year.

Reporting Performance to the Sponsor Department

LMC operates management information and accounting systems which enable it to review, in a timely and effective manner, its financial and non-financial performance against the budgets and targets set out in its agreed strategic and business plans.

LMC informs DARD of changes in external conditions, which make the achievement of objectives more or less difficult, or which may require a significant change to the budget or objectives as set out in the strategic or business plans.

LMC's performance in helping to deliver DARD policies, including the achievement of key objectives, is reported to DARD on a quarterly basis. Performance is formally reviewed twice yearly by DARD. The Minister or his/her nominated representative meets the Board formally each year to discuss LMC's performance, its current and future activities, and any policy developments relevant to those activities.

LMC's performance against key targets is reported in this annual report and accounts (pages 11 to 13). The annual report offers a review of LMC's performance in the financial year, together with comparable outturns for the previous year.

Internal Audit

LMC has a service level agreement with DARD’s Internal Audit Branch to ensure that it meets its internal audit requirements fully. External Audit has a right of access to all documents prepared by LMC’s internal auditor. In addition, DARD has a right of access to all LMC records, other information, personnel and systems for purposes such as sponsorship audits and operational investigations.

External Audit

The Comptroller and Auditor General (C&AG) audits and certifies LMC’s annual accounts, after which LMC gains ministerial approval to lay them before the Northern Ireland Assembly. For the purpose of audit, the C&AG have a statutory right of access to relevant documents as provided for in Articles 3 and 4 of the Audit and Accountability (Northern Ireland) Order 2003. The C&AG shares with DARD information identified during the audit process and the audit report at the end of the audit.

The C&AG may carry out examinations into the economy, efficiency and effectiveness with which the LMC has used its resources in discharging its functions.

LMC Audit Committee Roles and Responsibilities

The Audit Committee supports the Board in their responsibilities for issues of risk, control and governance, by reviewing the comprehensiveness of assurances in meeting the Board and Accounting Officer's assurance needs, and reviewing the reliability and integrity of these assurances.

Membership

The members of the Audit Committee in 2009/2010 were:

- Mr David Gray (Chair): independent, external member appointed by the Board in April 2007, for an initial one year period, renewable for up to two further years
- Mr Jim Noble: non-executive Board member appointed by the Board in May 2008 for the duration of his membership of the Board
- Mr Phelim O'Neill: non-executive Board member appointed by the Board in February 2009 for the duration of his membership of the Board
- Mrs Mary McCormack: non-executive Board member appointed by the Board in February 2009 for the duration of her membership of the Board

Reporting

The Audit Committee meets at least three times a year, and reports formally to the Board after each meeting. It also provides the Board and Accounting Officer with an Annual Statement, timed to support finalisation of the accounts and the Statement on Internal Control, summarising its conclusions from the work it has done during the year.

Responsibilities

The Audit Committee advises the Board and Accounting Officer on:

- The strategic processes for risk, control and governance and the Statement on Internal Control

- The accounting policies, the accounts, and the annual report of LMC, including the process for preparation of the accounts for audit, levels of error identified, and management's letter of representation to the external auditors
- The planned activity and results of both internal and external audit
- Adequacy of management response to issues identified by audit activity, including External Audit's management letter
- Assurances relating to the corporate governance requirements for LMC
- Anti-fraud policies, whistle-blowing processes, and arrangements for special investigations
- The Audit Committee also periodically reviews its own effectiveness and its independent chair reports the results of that review to the chair of the commission.

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

In preparing the accounts LMC is required to:

- Observe the accounts direction issued by DARD including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis

- Make judgments 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 DARD has designated the LMC Chief Executive as the LMC Accounting Officer. 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 DFP.

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 auditor's report properly present the original certified statements.

Statement on 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 Managing Public Money.

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 that Committee producing Stewardship Reports in regard to their particular functional responsibilities. The Audit Committee, which met four times during the year, comprises three members of the Board and is chaired by an independent, external member (appointed by the Board) who brings expertise in financial and accounting matters to the Audit Committee. During the year, no executive management served 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, their 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 2010 and up to the date of approval of the annual report and accounts, and accords with DFP guidance.

Internal audit services for the year were provided by the Internal Audit Branch of DARD. Internal audit work was carried out during one planned visit (February / March 2010), and the strategy and programme of work was approved by the Audit Committee. The Internal Auditors gave an overall "Satisfactory" assurance in respect of the internal control systems for the year.

Capacity to Handle Risk - Leadership

Leadership is given to the risk management process via the Board, the Audit Committee and the Executive Committee. The Executive Committee monitors and reviews the Risk Register, revising it to reflect evolving risk issues routinely. The Risk Register is reviewed at all meetings of the Audit Committee and the Risk Management Plans for each functional area are updated and approved by the Board (through the Audit Committee) as appropriate and at least annually.

The Risk and Control Framework

Risk Management Policy

LMC's risk management policy constitutes a key element of its internal control and corporate governance framework and covers its approach to risk management, roles and responsibilities, and key aspects of the risk management process.

Risk Appetite

LMC's risk appetite is determined by the extent to which the tolerance of risk is embedded within LMC's overall risk management framework. In broad terms, all currently identified controllable risks are considered to be within the risk appetite of the business.

Risk Register

Within each functional area, the Risk Register is maintained by the responsible manager. These risks are discussed at least quarterly by the Executive Committee and from these functional risks are drawn the Corporate Risk Register. During 2009/10, the main and significant risk area which occurred was that of the uncertainties arising from:

- The LMC Review process.
- Potential delays in receiving approval for our budget from the sponsoring department.

(i) Throughout the majority of the year a fundamental review of LMC, undertaken by PricewaterhouseCoopers (PWC) on behalf of DARD, LMC's sponsoring department was underway. A report recommending the wind-up of LMC and its replacement by a new commercial organisation was published by the DARD Minister on 20 January 2010.

Throughout the process leading up to the publication of the review, LMC was heavily involved in dialogue with the principal stakeholders of the organisation - seeking to ensure that those who provide the funds to LMC, through levies and commercial charges, are appropriately responded to in the activities of LMC.

Following publication of the review report, and the Ministerial decision to prepare a business case for implementation of the findings, there has been particular difficulty within LMC of knowing how to balance between recognising the expectation of the industry, expressed through the review process, while seeking, as far as possible, to continue with "business as usual", as requested by DARD.

(ii) Due to financial constraints, DARD was not in a position to make available "resource cover" until January to facilitate the use of FQAS reserves for the purpose for which they were collected.

Unfortunately, budget approval was too late to facilitate the earlier planned expenditure.

The Risk Register and the specific dominating issues referred to above were disseminated throughout the organisation. 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 a levy to LMC. Frequent meetings with all of the key stakeholders seek to ensure that the risks facing the industry and LMC are debated fully to reach appropriate conclusions for LMC and the industry we serve. The current LMC Risk Register was approved by the Board on 17 February 2010.

Reputational Risk

In compliance with Government accounting rules, LMC was required to operate a 'balanced budget' in the 2009/10 year. Considerable operational steps had to be taken to reduce costs as LMC is not permitted to use reserves without resource cover from DARD. The reserves in question primarily were funds collected from the industry in previous years to ensure funding was in place for the industry's Farm Quality Assurance Scheme. The inability to fund the Farm Quality Assurance Scheme adequately represents a potential risk to LMC of breaching its contract with the scheme's Certification Body.

Information Risk

Following a review of information risks, and supported by internal audit findings, minor changes were made to safeguard our information. This included the sub-contracting of the holding of back-up computer tapes to a reputable sub-contractor.

Business Continuity Plan

LMC has a comprehensive Business Continuity Plan (BCP), the purpose of which is to identify ways and means for LMC to continue to operate its core activities should a major disruption occur at its head office. Our current BCP was revised in January 2009 and communicated to key staff in February 2009.

Anti-Fraud Policy

LMC is committed to ensuring that the risk of fraud in all its forms is minimised. An important part of this approach is our Anti-Fraud Policy, which informs staff of LMC's approach to the serious issue of fraud and incorporates a Fraud Response Plan. This policy was updated in June 2008.

Whistle-Blowing Policy

The LMC Whistle-blowing Policy provides workers who report wrongdoing ('whistle blowing') with statutory protection against dismissal or detriment where they make certain disclosures of information in the public interest if that disclosure is made in accordance with procedures specified in the policy. LMC has defined its policy and procedure through this policy, which was revised in May 2010.

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 report to those charged with governance 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 continues to strengthen its system of internal control and to develop controls where appropriate. In particular, in the incoming year, LMC plans to implement any matters arising from the Internal Audit report, the External Auditor's report to those charged with governance and other reports.

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

D Rutledge
Accounting Officer
16 June 2010

The Certificate and Report of the Comptroller and Auditor General to the Northern Ireland Assembly

I certify that I have audited the financial statements of the Livestock and Meat Commission for the year ended 31 March 2010 under the Livestock and Marketing Commission Act (Northern Ireland) 1967. These comprise the Income and Expenditure Account, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Reserves 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 Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Livestock and Meat Commission's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Livestock and Meat Commission; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view, of the state of the Livestock and Meat Commission's affairs as at 31 March 2010 and of its deficit for the year, cash flows and changes in reserves for the year then ended; and
- the financial statements have been properly prepared in accordance with the Livestock and Marketing Commission Act (Northern Ireland) 1967 and the Department of Agriculture and Rural Development's directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Department of Agriculture and Rural Development's directions issued under the Livestock and Marketing Commission Act (Northern Ireland)1967; and

- the information given in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or

- the financial statements are not in agreement with the accounting records; or

- I have not received all of the information and explanations I require for my audit; or

- the Statement on Internal Control does not reflect compliance with Department of Finance and Personnel's guidance.

Report

I have no observations to make on these financial statements.

Kieran J Donnelly

KJ Donnelly
Comptroller and Auditor General
Northern Ireland Audit Office
106 University Street
Belfast
BT7 IEU

25 June 2010

Income and expenditure account for the year ended 31 March 2010

	Notes	**2010**	2009
		£	£
Income - continuing operations			
Income from activities	2	**2,930,796**	3,552,836
Expenditure			
Staff and related costs	3	**1,272,046**	1,473,683
Depreciation (net of deferred grant release)		**49,376**	81,516
Other operating charges	4	**1,597,768**	2,131,146
		2,919,190	3,686,345
Operating surplus/(deficit)	2	**11,606**	(133,509)
Finance income	5	**44,688**	98,485
Finance costs	5	**(67,573)**	(130,364)
Finance costs - net	5	**(22,885)**	(31,879)
Deficit before income tax		**(11,279)**	(165,388)
Income tax charge	6	**9,384**	20,682
Deficit for the year		**(20,663)**	(186,070)

Statement of financial position as at 31 March 2010

	Notes	**2010** £	2009 £	1 April 2008 £
Assets				
Non-current assets				
Property, plant and equipment	8	**1,488,184**	1,936,182	1,893,131
		1,488,184	1,936,182	1,893,131
Current assets				
Trade and other receivables	9	**584,636**	673,821	786,346
Cash and cash equivalents	10	**908,506**	1,897,991	1,394,800
Short term bank deposits		**1,561,073**	354,702	1,429,438
		3,054,215	2,926,514	3,610,584
Total assets		**4,542,399**	4,862,696	5,503,715
Current liabilities				
Trade and other payables	11	**292,805**	384,931	957,940
Income tax liabilities		**9,384**	20,682	22,598
		302,189	405,613	980,538
Non-current assets plus net current assets		**4,240,210**	4,457,083	4,523,177
Non-current liabilities				
Pension liabilities	14	**3,512,000**	1,324,000	240,000
		3,512,000	1,324,000	240,000
Assets less liabilities		**728,210**	3,133,083	4,283,177
Reserves				
Income and expenditure account		**(1,522,080)**	367,965	1,460,255
Revaluation reserve		**684,315**	1,094,397	1,110,514
Designated reserves		**1,565,975**	1,670,721	1,712,408
		728,210	3,133,083	4,283,177

The notes on pages on pages 49 to 69 are an integral part of these financial statements.

The financial statements on pages 45 to 69 were authorised for issue by the Board on 16 June 2010 and were signed on its behalf by:

D Rutledge
Accounting Officer

Statement of Cash Flows for the year ended 31 March 2010

	Notes	**2010** **£**	2009 £
Cash flows from operating activities			
Operating deficit after cost of capital and interest		**(11,279)**	(165,388)
Adjustments for:			
Depreciation of property, plant and equipment		**54,680**	86,821
Movement in trade and other receivables		**89,185**	112,525
Actuarial (loss) recognised		**(2,043,000)**	(1,110,000)
Movement in trade and other payables		**2,095,874**	510,990
Notional charges		**68,807**	133,887
Profit on disposal of property, plant and equipment		**-**	-
Income tax paid		**(20,682)**	(22,597)
Net cash used in operating activities		**233,585**	(453,762)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(16,699)**	(117,783)
Proceeds from sale of property, plant and equipment		**-**	-
Movement in short-term deposits		**(1,206,371)**	1,074,736
Net cash used in investing activities		**(1,223,070)**	956,953
Movement in cash and cash equivalents		**(989,485)**	503,191
Cash and cash equivalents at the beginning of the year	10	**1,897,991**	1,394,800
Cash and cash equivalents at the end of the year	10	**908,506**	1,897,991

Statement of Reserves for the year ended 31 March 2010

	Designated reserves			
	Farm quality assurance scheme £	**Classification service £**	**Total designated reserves £**	**Income and expenditure account £**
Balance at 31 March 2008	769,389	950,504	1,719,893	1,469,174
Changes in Accounting Policy	(1,011)	(6,474)	(7,485)	(8,919)
At 1 April 2008	768,378	944,030	1,712,408	1,460,255
Deficit for the year				(186,070)
Actuarial loss on retirement benefit obligations				(1,110,000)
Notional cost of capital				130,364
Other notional charges				3,523
Transfer from unrealised revaluation reserve to income and expenditure account				28,206
Transferred to other designated reserves	(137,718)	36,463	(101,255)	101,255
Allocation of notional cost of capital	24,944	34,624	59,568	(59,568)
At 31 March 2009	**655,604**	**1,015,117**	**1,670,721**	**367,965**
Deficit for the year				**(20,663)**
Actuarial loss on retirement benefit obligations				**(2,043,000)**
Notional cost of capital				**67,573**
Other notional charges				**1,234**
Transfer from unrealised revaluation reserve to income and expenditure account				**65**
Transferred to other designated reserves	**(196,816)**	**35,428**	**(161,388)**	**161,388**
Allocation of notional cost of capital	**19,849**	**36,793**	**56,642**	**(56,642)**
At 31 March 2010	**478,637**	**1,087,338**	**1,565,975**	**(1,522,080)**

	Unrealised revaluation reserves £
At 1 April 2008	1,110,514
Surplus on revaluation of property, plant and equipment	12,089
Transfer from unrealised revaluation reserve to income and expenditure account reserve	(28,206)
At 31 March 2009	**1,094,397**
Deficit on revaluation of property, plant and equipment	(410,017)
Transfer from unrealised revaluation reserve to income and expenditure account reserve	(65)
At 31 March 2010	**684,315**

Notes to the financial statements for the year ended 31 March 2010

1 Accounting policies, financial risk management & critical accounting estimates/judgements

General information

The entity's principal activities during the year are detailed on pages 11 to 13. The entity is domiciled in Northern Ireland. The financial statements are presented in Sterling. All of the entity's assets and liabilities are denominated in Sterling.

Statement of accounting policies

These financial statements have been prepared in accordance with the 2009-10 Government Financial Reporting Manual (FReM) issued by DFP Northern Ireland. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the entity for the purpose of giving a true and fair view has been selected. The particular policies adopted by the entity [for the reportable activity] are described below. They have been applied consistently in dealing with items that are considered material to the accounts. These accounts have been prepared on the going concern basis, under the historical cost convention modified to account for the revaluation of property, plant and equipment. This treatment is felt to be appropriate by the Board as DARD has advised LMC to continue with business as usual.

Standards, amendments and interpretations effective in the year ended 31 March 2010 but not relevant

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2010 but they are not relevant to the entity's operations:

		Effective date
International Accounting Standards (IAS/IFRSs)		
IAS 32	Amendment to financial instruments: presentation	1 January 2009
IAS 39	Amendment to financial instruments: eligible hedged items	1 January 2009
IAS 23	Borrowing costs (revised)	1 January 2009
IFRS 2	Amendment to share based payments	1 January 2009

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

IFRS 1	Amendment to first time adoption of IFRS	1 January 2009
IAS 27	Amendment to consolidated and separate financial statements	1 January 2009
IAS 1	Presentation of financial statements (revised)	1 January 2009
IFRS 8	Operating segments	1 January 2009

International Financial Reporting Interpretation Committee (IFRIC)

IFRIC 13	Customer loyalty programmes	1 July 2008
IFRIC 15	Agreements for the construction of real estate	1 January 2009
IFRIC 16	Hedges of a net investment in a foreign investment	1 October 2008

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted

During the year, the IASB and IFRIC have issued the following accounting standards and interpretations with an effective date after the date of these financial statements (i.e. applicable to accounting periods beginning on or after the effective date). The Board do not anticipate that the adoption of these standards and interpretations will have a material impact on the entity's financial statements in the period of initial application:

		Effective date
International Accounting Standards (IAS/IFRSs)		
IAS 27	Consolidated and separate financial statements (revised)	1 July 2009
IFRS 3	Business combinations (revised)	1 July 2009

International Financial Reporting Interpretation Committee (IFRIC)

IFRIC 17	Distributions of non-cash assets to owners	1 July 2009
IFRIC 18	Transfer of assets from customers	1 July 2009

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Amendments to the following current accounting standards will be applicable for periods commencing on or after 1 January 2010 arising from the IASBs May 2009 Annual Improvements process: IFRS 5, IAS 1, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41. The Board are currently considering the implications of these amendments for future accounting periods.

Amendments to the following current accounting standards will be applicable for periods commencing on or after 1 January 2010 arising from the IASB's April 2010 Annual Improvements process: IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16. The Board are currently considering the implications of these amendments for future accounting periods.

Income

Income comprises the fair value of the consideration received or receivable in respect of levies, classification, NIFQAS and RPA fees. Income is shown net of value-added tax. Income is recognised over the period for which services are provided, using a straight line basis over the term of the service. The entity recognises income when the amount of income can be reliably measured and it is probable that future economic benefits will flow to the entity.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board.

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Property, plant and equipment

In line with the LMC policy to have quinquennial valuations of land and buildings, the freehold property was valued externally on 31 March 2010 at existing use value by Land and Property Services, less subsequent depreciation for buildings. In intervening years these valuations are subject to annual indexation using relative price indices. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment, with the exception of freehold property, is stated at cost less depreciation and accumulated impairment losses due to the short life and low value of the individual assets. The initial cost of an asset comprises cost plus any costs directly attributable to bringing the asset into operation and an estimate of any decommissioning costs.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The charge for depreciation is calculated so as to write off the depreciable amount of assets over their estimated useful economic lives on a straight line basis. The lives of each major class of depreciable asset are as follows:

Land	-	NIL
Buildings	-	2.50%
Office furniture, fixtures and fittings, computers	-	20.00%

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. An asset is derecognised upon disposal or when no future economic benefit is expected to arise from the asset.

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Impairment of non-financial assets

The entity assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the entity makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

Loans and receivables (financial instruments)

(a) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade and other receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'operating costs'. When a trade and other receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against 'other operating costs' in the income and expenditure account.

(b) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Deposits with banks that have original maturities of greater than three months are classified as short-term bank deposits.

Other financial liabilities at amortised costs (financial instruments)

Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date. Income tax is charged or credited directly to reserves if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income and expenditure account.

Pension liabilities

The entity provides a defined benefit pension scheme for employees through NILGOSC. The assets of the scheme are held separately from those of the entity. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to reserves in the Statement of Reserves in the period in which they arise.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Designated reserves

Income and expenditure arising in respect of designated purposes is credited or debited to the income statement on recognition and subsequently transferred from the income and expenditure account reserve to the designated reserve.

Cost of capital

A charge, reflecting the cost of capital utilised by the entity, is included in the income and expenditure account. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average carrying amount of all assets less liabilities, except for:

(a) property, plant and equipment and intangible assets where the cost of capital charge is based on opening values, adjusted pro rata for in-year:

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

• additions at cost

• disposals as valued in the opening statement of financial position (plus any subsequent capital expenditure prior to disposal)

• impairments at the amount of the reduction of the opening statement of financial position value (plus any subsequent capital expenditure)

• depreciation of property, plant and equipment and amortisation of intangible assets;

(b) donated assets, and cash balances with the Office of the Paymaster General, where the charge is nil;

(c) additions to heritage collections.

This charge is added back through reserves.

Financial risk factors

(a) Market risk

The entity has no interest rate risk as it has no borrowings nor does it have any exchange rate risk as all of its transactions are denominated in Sterling.

(b) Credit risk

The entity has limited exposure to credit risk. The entity's trade and other receivables are not impaired or past due and management does not expect any losses from non-performance by its customers.

(c) Liquidity risk

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

1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)

Capital risk management

The entity has no obligation to increase reserves as the entity is a public sector body.

Fair value estimation

None of the entity's financial instruments are traded in active markets. Accordingly, the fair value of the entity's financial instruments is determined by discounting future cash flows using a suitable discount rate.

Critical accounting estimates and judgements

There are no critical accounting estimates and judgements.

2 Income and expenditure by activity

	Income from activities £	**Expenditure £**	**Operating surplus £**	2009 Total £
Levy and other income	1,198,114	1,068,993	**129,121**	(66,926)
Rural payments agency	122,249	114,153	**8,096**	14,528
Classification service	739,546	681,235	**58,311**	50,806
NIFQAS income	870,887	1,054,809	**(183,922)**	(131,917)
Total	**2,930,796**	**2,919,190**	**11,606**	(133,509)

Notes to the financial statements for the year ended 31 March 2010

3 Employee benefit expense

	Permanently employed staff	**Others**	**2010**	2009
	£	**£**	**£**	£
Wages and salaries	963,566	109,984	**1,073,550**	1,248,634
Social security costs	69,325	9,436	**78,761**	94,870
Pension costs – defined benefit plans	81,632	0	**81,632**	120,090
Reorganisation costs	38,103	0	**38,103**	10,089
	1,152,626	**119,420**	**1,272,046**	1,473,683

Average numbers of persons employed by the Commission during the year were:

	Permanently employed staff	**Others**	**Number**	Number
Commission members	7	0	**7**	7
Classification/Agency	17	2	**19**	23
Administration (including levy collection)	19	4	**23**	29
	43	**6**	**49**	59

4 Other operating charges

	2010	2009
	£	£
Information services	**13,826**	285,674
Market development and advertising	**1,110,301**	1,527,993
Administration costs:		
Office expenses	**414,415**	233,083
Aggregate travelling and subsistence	**59,226**	84,396
	1,597,768	2,131,146

Office expenses include:

	2010	2009
	£	£
Notional charges	**1,234**	3,523
Auditors' remuneration - for audit	**9,000**	8,500
- for other services	**3,000**	-
Travel and subsistence of Board Members	**6,868**	2,177

5 Finance income and costs

	2010	2009
	£	£
Interest income:		
Short-term bank deposits	**44,688**	98,485
Interest expense:		
Notional cost of capital	**(67,573)**	(130,364)
Finance costs - net	**(22,885)**	(31,879)

Short-term bank deposits

Short-term bank deposits earned interest at a rate of 2.75% to 3.00% over the financial year.

Notional cost of capital

The accounts make provision for the notional cost of capital employed by the entity, calculated as 3.5% (2009: 3.5%) of the average capital employed over the financial year.

6 Income tax charge

	2010	2009
	£	£
Current income tax:		
Current UK corporation tax at 21% (2009: 21%)	**9,384**	20,682
Income tax charge	**9,384**	20,682

The income tax charge in the income and expenditure account for the year differs from the standard rate of corporation tax in the UK of 21% (2009: 21%). The differences are reconciled below:

	2010	2009
	£	£
Deficit before income tax	**(11,279)**	(165,388)
Tax calculated at the UK standard rate of corporation tax of 21% (2009: 21%)	**(2,368)**	(34,731)
Effect of:		
Deficit not taxable	**11,752**	55,413
Income tax charge	**9,384**	20,682

The entity is only subject to income tax on its interest income.

7 Segment information

Management has determined the operating segments based on the reports reviewed by the Board that are used to make strategic decisions.

The Board considers the operations from both a geographic and operational perspective. The entity has one geographical segment, Northern Ireland. The entity has four reportable operational segments, levy funded activities, NIFQAS, agency services and classification.

The segment information provided to the Board for the reportable segments for the year ended 31 March 2010 is as follows:

	Levy Funded Activities	NIFQAS	Rural Payments Agency	Classification	Other	Total
	£	£	£	£	£	£
Income from external parties	**1,133,678**	**879,690**	**122,249**	**757,154**	**82,713**	**2,975,484**
Expenditure	**(840,047)**	**(1,054,808)**	**(114,153)**	**(681,235)**	**(82,713)**	**(2,772,956)**
Operating surplus/(deficit) before tax	**293,631**	**(175,118)**	**8,096**	**75,919**	**-**	**202,528**
Income tax expense	**(3,837)**	**(1,849)**	**-**	**(3,698)**	**-**	**(9,384)**
Surplus/(deficit) before notional costs and after tax	**289,794**	**(176,967)**	**8,096**	**72,221**	**-**	**193,144**
Adjustments in respect of notional costs:						
Internal audit and cost of capital						**(68,807)**
Actuarial costs of pension scheme						**(145,000)**
Total deficit reported for year						**(20,663)**
Total assets less liabilities	**(2,285,485)**	**478,637**	**1,447,720**	**1,087,338**	**-**	**728,210**

The entity is domiciled in Northern Ireland and all income is derived from operations in Northern Ireland. All of the entity's income is derived from external parties and no one external party accounts for 10% or more of the entity's total income.

8 Property, plant and equipment

	Freehold property £	Exhibition equipment, office furniture, fixtures and fittings £	Computers £	Total £
Cost or valuation				
At 1 April 2008	1,891,814	273,426	200,962	2,366,202
Additions	17,896	20,147	79,740	117,783
Disposals	-	(2,814)	(46,257)	(49,071)
Indexation	(34,052)	-	-	(34,052)
At 31 March 2009	**1,875,658**	**290,759**	**234,445**	**2,400,862**
Depreciation				
At 1 April 2008	46,141	246,753	180,177	473,071
Provided during the year	46,891	13,193	26,737	86,821
Eliminated in respect of disposals	-	(2,814)	(46,257)	(49,071)
Indexation	(46,141)	-	-	(46,141)
At 31 March 2009	**46,891**	**257,132**	**160,657**	**464,680**
Net book amount				
At 31 March 2009	**1,828,767**	**33,627**	**73,788**	**1,936,182**
At 31 March 2008	1,845,673	26,673	20,785	1,893,131

	Freehold Property				
	Land	Buildings			
Cost or valuation					
At 1 April 2009	703,372	1,172,286	290,759	234,445	**2,400,862**
Additions	-	-	4,470	12,229	**16,699**
Disposals	-	-	(26,711)	(13,697)	**(40,408)**
Revaluation	(53,372)	(422,286)	-	-	**(475,658)**
At 31 March 2010	**650,000**	**750,000**	**268,518**	**232,977**	**1,901,495**
Depreciation					
At 1 April 2009	-	46,891	257,132	160,657	**464,680**
Provided during the year	-	18,750	13,799	22,131	**54,680**
Eliminated in respect of disposals	-	-	(26,711)	(13,697)	**(40,408)**
Revaluation	-	(65,641)	-	-	**(65,641)**
At 31 March 2010	**-**	**-**	**244,220**	**169,091**	**413,311**
Net book amount					
At 31 March 2010	**650,000**	**750,000**	**24,298**	**63,886**	**1,488,184**
At 31 March 2009	-	1,828,767	33,627	73,788	1,936,182

8 Property, plant and equipment (continued)

Depreciation expense of £54,680 (2009: £86,821) has been fully charged to expenditure.

The entity's freehold property was last revalued on 31 March 2010 by Land and Property Services. Valuations were made on the basis of existing use value. The revaluation deficit was charged to unrealised revaluation reserves.

9 Trade and other receivables

	2010	2009
	£	£
Levies (statutory)	**156,302**	138,704
Rural payments agency receivable	**13,810**	131,095
Classification receivables	**147,030**	128,484
Farm quality assurance scheme receivables	**109,748**	121,497
Other receivables	**102,452**	122,493
Prepayments and accrued income	**55,294**	31,548
	584,636	673,821

None of the entity's trade and other receivables are impaired or past due. The entity has no history of default in respect of its trade and other receivables. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The fair value of the entity's trade and other receivables is not materially different to their carrying values.

10 Cash and cash equivalents

	2010	2009
	£	£
Cash at bank and on hand	**908,506**	1,897,991

11 Trade and other payables

	2010	2009
	£	£
Accruals	**199,627**	281,583
Deferred income	**15,915**	21,220
Other taxation and social security	**77,263**	82,128
	292,805	384,931

12 Related party transactions

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

The entity is a one-eighth owner of Northern Ireland Food Chain Certification (NIFCC) and is represented on the board of directors. During the year the entity provided accounting, administration and human resources services to NIFCC valued at £82,713 (2009: £86,750). NIFCC provided the entity with inspection services and marketing information during the year valued at £764,864 (2009: £764,864). The amount due to NIFCC at 31 March 2010 was £42(2009: £nil). NIFCC is operated as a not-for-profit organisation and therefore no NIFCC reserves are recorded in LMC’s financial statements.

In addition the entity provided office space and administration services to Northern Ireland Meat Exporters Association valued at £6,936 (2009: £5,990). NIMEA provided the entity with price reporting information during the year valued at £22,000 (2009: £22,000). The amount due to NIMEA at 31 March 2010 was £nil (2009: nil).

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

As at 31 March the entity had the following balances with government entities

12 Related party transactions (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	**13,810**	**-**	**86,648**	**-**
Balances with local authorities	**-**	**-**	**-**	**-**
Balances with NHS trusts	**-**	**-**	**-**	**-**
Balances with public corporations and trading funds	**-**	**-**	**-**	**-**
Balances with bodies external to government	**570,826**	**-**	**215,541**	**3,512,000**
At 31 March 2010	**584,636**	**-**	**302,189**	**3,512,000**

	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	131,095	-	102,810	-
Balances with local authorities	-	-	-	-
Balances with NHS trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Balances with bodies external to government	542,726	-	302,803	1,324,000
At 31 March 2009	673,821	-	405,613	1,324,000

13 Financial instruments

The entity's financial instruments are classified as follows:

Assets and liabilities	**Category of financial instrument**
Trade and other receivables	Loans and other receivables
Cash and cash equivalents	Loans and other receivables
Short-term bank deposits	Loans and other receivables
Trade and other payables	Other financial liabilities at amortised cost

14 Pension liabilities

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 eighty-five thousand members. It provides a final salary (i.e. 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. As from 1 April 2009 benefits accrue at a rate of 1/60th of pensionable pay for each year of reckonable service. Employees pay contributions of between 5.5% and 7.5% of pensionable earnings depending on the pay band the pensionable pay falls into. All pensions are reviewed annually in April under the Pension Increase Legislation and increased in line with inflation. On death of a member, surviving spouses, civil partners or , subject to certain qualifying conditions, nominated co-habiting partners pension and pensions for eligible children are payable. In addition, on death in service, there is a lump sum payment due to employee's estate of three years' pensionable pay. To finance these benefits, assets are accumulated in the scheme and are held separately from the assets of the employers.

The last full actuarial valuation of the scheme was carried out as at 31 March 2007. 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 2011 will increase annually to 15%, 16% and 17% respectively.

An actuarial valuation of the scheme using the projected unit basis was carried out at 31 March 2010 by Hymans Robertson LLP. The principal assumptions used were as follows:

14 Pension liabilities (continued)

	2010	2009	2008
	%	%	%
Future salary increases	**5.3**	4.6	5.1
Discount rate	**5.5**	6.9	6.9
Inflation rate	**3.8**	3.1	3.6
Future pension increases	**3.8**	3.1	3.6

The mortality assumptions used were as follows:

	2010	2009
	years	years
Longevity at age 65 for current pensioners		
- Men	**20.8**	19.6
- Women	**24.1**	22.5
Longevity at age 65 for future pensioners		
- Men	**22.3**	20.7
- Women	**25.7**	23.6

The Commission's share of the assets in the scheme and the expected rates of return were:

	Long term rate of return expected 2010	**Value at 2010**	Long term rate of return expected 2009	Value at 2009	Long term rate of return expected 2008	Value at 2008
	%	**£**	%	£	%	£
Equity	**7.8**	**4,605,000**	7.0	3,065,000	7.7	4,287,000
Bonds	**5.0**	**837,000**	5.4	588,000	5.7	630,000
Property	**5.8**	**359,000**	4.9	294,000	5.7	441,000
Cash	**4.8**	**179,000**	4.0	252,000	4.8	84,000
Total market value of assets		**5,980,000**		4,199,000		5,442,000
Present value of scheme obligations		**(9,492,000)**		(5,523,000)		(5,682,000)
Deficit in scheme		**(3,512,000)**		(1,324,000)		(240,000)

14 Pension liabilities (continued)

Reconciliation of fair value of the Commission's share of scheme assets

	2010	2009
	£	£
At 1 April	**4,199,000**	5,442,000
Expected return on scheme assets	**274,000**	399,000
Contributions by members	**56,000**	59,000
Contributions by employer	**134,000**	140,000
Actuarial gains/(losses)	**1,480,000**	(1,683,000)
Benefits paid	**(163,000)**	(158,000)
At 31 March	**5,980,000**	4,199,000

Reconciliation of present value of the Commission's share of scheme liabilities

	2010	2009
	£	£
At 1 April	**5,523,000**	5,682,000
Current service cost	**90,000**	120,000
Interest cost	**383,000**	393,000
Contributions by members	**56,000**	59,000
Actuarial gains	**3,523,000**	(573,000)
Past Service Costs	**53,000**	-
Losses on Curtailments	**27,000**	-
Benefits paid	**(163,000)**	(158,000)
At 31 March	**9,492,000**	5,523,000

Analysis of amount recognised in the income and expenditure account

	2010	2009
	£	£
Current service cost	**90,000**	120,000
Interest cost	**383,000**	393,000
Expected return on pension scheme assets	**(274,000)**	(399,000)
Past Service Costs	**53,000**	-
Losses on Curtailments	**27,000**	-
Total operating charge	**279,000**	114,000

14 Pension liabilities (continued)

Analysis of amount recognised in the statement of recognised income and expenses

	2010	2009
	£	£
Actual return less expected return on pensions scheme assets	**1,480,000**	(1,683,000)
Changes in assumptions underlying the present value of the scheme liabilities	**(3,523,000)**	573,000
Actuarial losses recognised in the statement of recognised income and expenses	**(2,043,000)**	(1,100,000)
Cumulative actuarial losses recognised in the statement of recognised income and expenses	**(2,603,000)**	(560,000)

History of experience gains and losses

	2010	2009	2008	2007	2006
	£	£	£	£	£
Defined benefit obligation	**(9,492,000)**	(5,523,000)	(5,682,000)	(7,194,000)	(5,600,000)
Plan assets	**5,980,000**	4,199,000	5,442,000	5,544,000	5,200,000
Deficit	**(3,512,000)**	(1,324,000)	(240,000)	(1,650,000)	(400,000)
Experience adjustments on plan assets	**1,480,000**	(1,683,000)	(453,000)	(62,000)	781,000
Experience adjustments on plan liabilities	**-**	-	805,000	(100,000)	8,000
Total amount recognised in the statement of recognised income and expenses	**(2,043,000)**	(1,100,000)	1,469,000	(1,129,000)	106,000

Analysis of projected amount to be charged to operating profit for the year to 31 March 2011

	£	% of pay
Projected Current Service Cost	185,000	22.8%
Interest on Obligation	523,000	64.4%
Expected Return on Plan Assets	(431,000)	(53.1)%
Past Service Cost	-	-
Losses/(Gains) on Curtailments and Settlements	-	-
Total	**277,000**	**34.1%**

15 First time adoption of IFRS

(a) Reconciliation of UK GAAP reported reserves to IFRS at the date of transition 1 April 2008

	Income and expenditure account £	Revaluation reserve £	Designated reserve £	Total £
Reserves at 31 March 2008 under UK GAAP	**1,469,174**	**1,110,514**	**1,719,893**	**4,299,581**
Adjustments for:				
IAS 19 Employee Benefits	**(8,919)**	**-**	**(7,485)**	**(16,404)**
Reserves at 1 April 2008 under IFRS	**1,460,255**	**1,110,514**	**1,712,408**	**4,283,177**

(b) Reconciliation of UK GAAP reported reserves to IFRS at the end of final UK GAAP reporting period 31 March 2009

	Income and expenditure account £	Revaluation reserve £	Designated reserve £	Total £
Reserves at 31 March 2009 under UK GAAP	**371,418**	**1,094,397**	**1,683,985**	**3,149,800**
Adjustments for:				
IAS 19 Employee Benefits	**(3,453)**	**-**	**(13,264)**	**(16,717)**
Reserves at 1 April 2009 under IFRS	**367,965**	**1,094,397**	**1,670,721**	**3,133,083**

(c) Reconciliation of UK GAAP reported net operating cost to IFRS for year ended 31 March 2009

	£
Deficit for the year (under UK GAAP)	**(185,757)**
Adjustments for:	
IAS 19 Employee Benefits	**(313)**
Deficit for the year (under IFRS)	**(186,070)**

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