



**Correspondence from the Chief Executive of the Home-Grown Cereals Authority (HGCA)
to the Chairman of the Environment, Food and Rural Affairs Select Committee**

HGCA levy & implications for HGCA'S work

Thank you for your letter dated 22 January 2003 referring to the HGCA Board decision not to recommend a levy increase for the year 2003/04. Before answering the specific points that you raise, I feel it may be helpful to provide a little background regarding levy rates and the unrestricted reserves, which are required to accommodate the annual fluctuations in income arising from unpredictability of crop area and yield.

The grower levy was set at the current rate of 40p per tonne in July 1996 and apart from one year at 38p per tonne in 1997/98 the levy has been at 40p per tonne ever since. Following the levy increase in July 1996 there were several good harvests and this increased the level of reserves. The Quinquennial Review of HGCA in 1998 noted these levels of reserve and requested that deficit budgets be set to achieve a progressive reduction in our reserves. This was undertaken, but the very poor harvest of 2001 resulted in an operating deficit of £2.4 million, accelerating the reduction in reserves to the extent that we are predicting that our working reserves will fall to £1.5 million by June 2003. This level is the minimum set by the Board and means that HGCA would have to operate to a balanced budget from 2003/04 onwards. The Board initially concluded that to continue to deliver the level of service currently supplied by HGCA a levy increase was required to balance the budgets of future years.

Responses to your specific requests are as follows:

1. HGCA's work programme

The work programme for the 1 July 2003 onwards is based on the current 5 year Corporate Plan, which sets out a series of specific activities under the headings of Planning, Producing, Marketing, Processing, Consuming, Managing and Communicating. In line with the Corporate Plan, an Annual Business Plan for July to June is prepared each year following the November Board meeting when preliminary budgets are discussed. Therefore, the Annual Business Plan for 2003/04 had not been finalised at 19 November 2002, although the range of activities expected would be similar to and developed from

those which were described in the Annual Business Plan for 2002/03. I have enclosed copies of the Corporate Plan and current Annual Business Plan for your reference.

2/3.Changes to the work programme and details of cutbacks of £800k

Originally, the Board had identified that a 5p increase was required but, during informal discussions, was asked to consider a smaller increase. Based on the information available and our normal forecasting procedures, a compromise of 3p was proposed which would require

cutbacks of about £800k from projected expenditure. These would be required in order to ensure a balanced budget, to maintain acceptable levels of reserves. The result of consultations held up to 20 November 2002 indicated that if cutbacks were required then these should be from Cereals Research & Development (R&D) projects and project management costs, and not activities relating to market information and marketing of grain and related products.

4. Changes made due to no levy increase

Accepting the need for a balanced budget with no levy increase, the cutbacks required have been estimated at £1.5 million. While small reductions can be made in other areas, it is clear that the major cutback will be on Cereals R&D projects amounting to about £1 million in the year commencing July 2003. The effect of this reduction is that expenditure on Cereals R&D for this year will be about £4 million, which will just cover existing contractual commitments.

5. Implications for HGCA's financial position

The planned cutbacks are expected to enable HGCA to operate a balanced budget for 2003/04 and this will keep reserves at about £1.5 million. As indicated earlier, the Board considers that this level of reserves is not adequate, in the longer term, to cope with fluctuations in income occurring as a result of the weather, MTR etc. This is because a large proportion of HGCA's expenditure is committed to 2-3 year projects and consistent commitment is essential to secure satisfactory completion.

6. Summary of comments received

Comments were received through discussions with Stakeholder groups and Stakeholder representatives as well as via letters and emails. Broadly the comments fell into two categories.

First, support for the levy increase recognising the need for the industry to invest in its future. In particular, the need for R&D to maintain the industry's ability to access new technologies in order to maintain its competitiveness. These comments also recognised that the 3p increase represented 10p/acre, at average yields.

Second, opposition to the levy increase based on the fact the industry was experiencing very difficult circumstances and many of the growers were making losses. In a small number of cases levy-payers queried the need for any levy in support of the industry.

As part of the consultation process following the Board's proposal for a 3p levy increase, the Chairman and I had been involved in an extensive series of presentations and discussions with stakeholder representatives and their committees. The balance of views from our consultations with the majority of stakeholder organisations and a significant number of grower regions was an acceptance of an increase but ultimately organisations representing over 70% of the income decided they could not support the recommendation. Consequently, at the HGCA Board meeting in January 2003 the Board reluctantly accepted that it was not possible to recommend a levy increase if a major stakeholder was clearly opposed.

7. Implications for the cereal industry

As you know HGCA collects levy from growers, grain dealers, feed processors, maltsters and

millers and, as a result, operates effectively along the grain chain. The need for a thorough understanding throughout the grain chain with the ultimate focus on the end customer was a key component of the recommendations of the Curry Commission Report. Although the major part of the cutbacks will be in Cereals R&D, as indicated earlier, all activities will be reduced to some extent. Consequently, the services we had expected to provide for the industry will have to be reduced and modified to meet these budgetary constraints.

In Cereals R&D, the major implication will be that no new projects will be started in 2003/04, although existing commitments can still be funded. Recognising, that research is a long-term investment, it is unlikely that growers will notice an immediate difference in the flow and quality of R&D information but the effects will certainly be evident in 2-3 years time. Another implication associated with the provision of R&D information will be the reduction of HGCA funding of research contractors. This lack of new funding for a year and potentially reduced funding thereafter could undermine the stability of the research teams that conduct the research programmes on behalf of the levy-payer and the industry.

I trust that the information provided addresses the specific points that were requested. You will appreciate that one of the problems we faced was requesting an increase in levy after consistently improving the delivery of services for a considerable period without any increase. This is because at the time of the proposed increase, the immediate short-term problems tend to overshadow the wider long-term needs of the industry. This dilemma has led us to consider the need for alternative ways of securing a reasonably consistent income for HGCA such that we are able, with some certainty, to commit to long-term projects and combat the inevitable short-term fluctuations in income due to crop area and yield.

Thank you for your interest and concern in HGCA's activities and if you think it would be helpful, the Chairman, Mr Tony Pike, and I would welcome the opportunity to meet you to discuss the future situation.

Dr Paul Biscoe
Chief Executive, HGCA
3 February 2003