

Hybu Cig Cymru-Meat Promotion Wales  
Company Limited By Guarantee

Annual Report and Financial Statements  
Year Ended 31 March 2022

**Hybu Cig Cymru-Meat Promotion Wales**

**Company Limited By Guarantee**

**Company Registration Number: 4635113**

**Annual Report and  
Financial Statements  
Year Ended 31 March 2022**

## **Contents**

### **Page:**

<b>1-8.</b>	<b>Annual Report</b>
<b>9-16 .</b>	<b>Directors' Report</b>
<b>17-19.</b>	<b>Remuneration Report</b>
<b>20-23.</b>	<b>Auditor's Report</b>
<b>24.</b>	<b>Statement of Comprehensive Expenditure</b>
<b>25.</b>	<b>Balance Sheet</b>
<b>26.</b>	<b>Statement of Cash Flows</b>
<b>27 – 41.</b>	<b>Notes and Accounting Policies</b>

The Directors present herewith their annual report, together with the audited financial statements of the company, for the year ended 31 March 2022. For the purpose of the narrative of this report, ‘HCC’ is used in place of Hybu Cig Cymru-Meat Promotion Wales for brevity.

## Introduction

HCC is the strategic, statutory body for the promotion and development of the Welsh beef, lamb and pork industry and its mission is to develop profitable and sustainable markets for the benefit of all stakeholders in the supply chain in Wales.

HCC undertakes research and development, shares information and supports training relevant to each part of the supply chain, to ensure the Welsh red meat industry is in a position to improve quality, increase cost-effectiveness and add value to Welsh red meat products across the whole of our industry.

At home, HCC works with multiple retailers, independent butchers and foodservice providers undertaking regular promotional programmes for PGI Welsh Lamb, PGI Welsh Beef and pork from Wales. In other countries, it is HCC’s role to develop existing markets and help access new markets for Welsh red meat. HCC also acts as the guardian of the PGI Welsh Lamb and PGI Welsh Beef brands.

HCC is the industry’s ‘Knowledge House’; the centre of information-gathering and dissemination across the industry and government. HCC also informs levy-payers, stakeholders and the Welsh public at large about the positive contribution of the red meat industry to Wales’ society and economy and of HCC’s role in promoting and developing the industry.

This annual report is intended to give a short summary of the current strategic aims of HCC, the key risks to the achievement of those objectives, and its performance against those during the year.

## Chief Executive’s Report

During 2021-22, Covid continued to be a major source of uncertainty, both for the red meat industry in general and operationally for HCC.

The pandemic period saw rising demand for Welsh red meat in the UK retail sector, and consistently high cattle and sheep prices. But Covid also disrupted export markets and foodservice demand, and led to high levels of uncertainty as to how primary producers would react in terms of stocking levels.

The threat of export tariffs to Wales’s largest markets in the EU had thankfully been removed in late-2020. However the longer-term effects of Brexit continued in the shape of additional paperwork, and shortages of labour in the processing and transport sector, although Wales was spared the acute problems seen in the pork industry in other parts of the UK.

The above factors, along with wider global issues such as high import demand in China and disrupted production in some key producing nations, contributed to a situation where the supply of animals – particularly cattle – onto the market was unusually tight.

Annual Report and Financial Statements  
Year Ended 31 March 2022

The year ended with further uncertainty in terms of both supply and demand, with rising inflation causing serious concerns for farmers' input costs, processors' margins and consumers' spending power.

As in 2020-21, HCC responded with speed and flexibility to rapidly changing circumstances. Consumer campaigns were delivered to take advantage of changing consumer behaviour, with particular success seen in joint activity with UK multiple retailers.

In both a consumer and a wider policy context, HCC continued to undertake research work to underpin the sustainability credentials of agriculture and red meat production in Wales. Research showed that our brands are viewed positively in this regard by key consumers, and this will continue to be a strategically vital area of activity.

External reports and audits reaffirmed HCC's reputation for prudent governance and financial management, placing the organisation on the firmest possible footing for responding to a continually changing environment.

HCC therefore continued to deliver against ambitious aims outlined in its Vision 2025 document, in order to provide the best possible value for the Red Meat Levy and public funds invested.

**Gwyn Howells**

## Context

The strategic aims of HCC were reviewed in the 2017-18 year, resulting in the launch of a new 'Vision 2025' document. Within an unchanged statutory remit, the organisation's key goals were defined as follows:-

1. Positioning red meat from Wales as a premium product.
2. Developing EU trade opportunities for Welsh red meat.
3. Optimising domestic (GB) consumption of red meat from Wales.
4. Seeking new consumers for Welsh red meat in established global markets.
5. Securing a greater percentage of Welsh red meat exports outside the EU.
6. Developing a competitive Welsh red meat industry.
7. Reducing the impact of Welsh red meat production and processing on the climate, the environment and waste.
8. Contingency planning in terms of future trade, production and processing post-Brexit.
9. Effective communication throughout the industry to ensure unity of purpose

Red Meat Levy rates were unchanged for the year but there was a decrease in levy income due to the difficult trading conditions for processors.

This year saw the inauguration of the long-awaited Levy Repatriation arrangements, which enabled HCC to gain additional income from the producer levy on animals which were reared in Wales but slaughtered in England or Scotland.

This replaced the interim Ring-Fenced Fund arrangement – a fund spent on joint projects by HCC, QMS and AHDB which existed within the budget of AHDB.

The mechanism for transferring funds under Levy Repatriation were reviewed regularly through the year and found to be operating satisfactorily.

HCC also has significant Welsh Government funding through the Welsh Government Rural Communities – Rural Development Programme 2014-2020, which is funded by the European Agricultural Fund for Rural Development and the Welsh Government, towards the achievement of industry development and sustainability objectives. The final funding from the Enhanced Export Programme was also received in this period.

### **Key issues and risks**

HCC maintains a risk register which is reviewed regularly. As was the case in the previous year, the 2021-22 year necessitated revisiting this document frequently in the light of COVID guidance, the impact of the pandemic on the food and farming sector, and other external issues.

COVID posed continuing challenges for all aspects of HCC's operations. Meetings of the Board were held over Teams for most of the period, moving to more hybrid and in-person arrangements towards the end of the year. Evolution in methods of operational delivery and KPIs resulting from COVID restrictions were discussed in full.

The largest threat from uncertainty over Brexit – a disorderly 'No Deal' outcome at the end of the transition period followed by WTO tariffs of between 40-90% on beef and lamb exports - was avoided towards the end of the previous year. However issues arising from Brexit, notably increased administrative burdens on exporters and shortages of labour, continued to create difficulties within the trading environment.

Uncertainty over the new UK Geographical Indication (GI) scheme to replace PGI in the domestic market was largely resolved with the implementation of a parallel system, with guidance issued to processors, however there is no certainty on how European funding for the promotion of Geographical Indications may be replaced. The future farm payments and rural development regime also remains to be decided.

The political focus shifted to post-Brexit trading arrangements. For the red meat sector, the Free Trade Agreements (FTAs) struck with Australia and New Zealand carry few opportunities and significant long-term risks in terms of increased competition from imports to the domestic market. While no FTAs were agreed which offered significant export opportunities, this period did see the long-term moves to remove the barriers to export lamb to the USA come to a successful conclusion.

Sterling continued to be relatively weak which helped our competitiveness abroad, and the impact of African Swine Fever in China continued to focus some of our major international competitors' efforts towards the Asian market.

Covid continued to ameliorate some of the long-term challenges for HCC during this year, with strong domestic retail sales of red meat during 2021 as consumers continued to cook more family meals at home.

However, towards the end of the period, pre-Covid trading patterns began to re-emerge, alongside a significant rise in inflation (exacerbated by conflict in Ukraine) which threatened to lead to recessionary buying patterns among consumers. The impact of this was unclear, however there existed the possibility of a move away from purchasing relatively premium proteins such as Welsh Lamb and Welsh Beef.

Heightened concern around sustainability and the environment is a consistently prominent issue, to which HCC has continued to respond with consumer marketing campaigns and a programme of communication and stakeholder engagement, backed up with independent scientific analysis, in order to provide leadership to the industry and evidence on the positive story of the sustainability of Welsh red meat production.

Long-term challenges relating to the structure of the industry continued; these include a large number of very small businesses as primary suppliers and challenges to the viability of smaller processors.

## **Performance Analysis**

In its business planning process, HCC develops a three-year Corporate Plan in line with its over-riding Vision. Key performance indicators (KPIs) are developed to measure progress against these objectives, and reported on regularly to the Board of Directors and Welsh Ministers. Some of these KPIs were adjusted during the year in the light of Covid-related uncertainty, including restrictions on the foodservice trade in many markets, the cancellation of events, social distancing requirements and changes in the public consumption of various types of media.

Consumer marketing strategies in the UK market continued to be digital-led. This approach had proved successful during the previous year, and was refreshed and intensified in 2021-22, taking advantage of an increase in people cooking at home from scratch due to Covid restrictions. Work included video and other content featuring prominent chefs.

A number of specific seasonal promotions took place, including joint UK-wide activity around Love Lamb Week in early September, and specific bursts of promotion around the Welsh brands, notably 'Lamb Day' on August 1, beef advertising connected to the popular steak sandwich competition, and Porc from Wales Week in early 2022.

Promotional materials continued to be produced for independent butchers, and specific social media channels for the HCC Butchers' Club recorded much increased traffic over the year.

While partnerships with multiple retailers were difficult in 2020-21 due to a reluctance to introduce point-of-sale advertising in store during Covid restrictions, such activities proved very successful in 2021-22.

A major premium retailer stocked PGI Welsh Lamb throughout its English stores during the height of seasonal production, with several strands of accompanying marketing activity with HCC support. This resulted in a very significant sales uplift, with a return on levy investment of 19:1.

Another premium multiple retailer promoted Welsh Lamb through its in-house magazines, while one of the UK's largest retailers included Welsh Lamb advertising on its online pre-Christmas promotions, and a nationwide chain worked with HCC on a Welsh Beef promotion in late-2021 and early-2022.

Support was provided to several foodservice companies as the sector began to emerge from Covid restrictions.

As Covid restrictions began to ease in the second half of the period, face-to-face promotional events were again possible. HCC deployed its new mobile cooking theatre to events including the Abergavenny Food Festival and the Countryfile at Christmas event, to target key demographics.

Physical events and retailer co-promotions both offered opportunities to increase the database of email contacts. The 'Welsh Lamb Family' email list stood at over 30,000 subscribers by the end of the period, offering a very cost-effective method of contacting key consumers regularly.

Research into consumer perceptions of the Welsh Lamb brand showed encouraging insights. In general, English shoppers' views of Welsh Lamb were that it is natural, fresh and uncompromised from a clean rural setting, with high welfare standards. The brand was associated with high quality and good standards of sustainability by English consumers.

A significant investment was made by HCC in producing and disseminating a new suite of educational resources, encompassing cooking skills, the origin of food, nutrition and sustainability. The resources included lesson-ready packs, activities, videos and books, and were developed in conjunction with teachers so as to be appropriate for the curriculum taught in schools for ages 3 to 16. A new website was launched to be the home of resources for education and health professionals – [redmeathub.wales](http://redmeathub.wales) / [hwbcigcoch.cymru](http://hwbcigcoch.cymru)

Retail trade data for red meat showed a continuing buoyant demand in the 2021 calendar year. Volume sales were somewhat lower than the bumper lockdown-affected year of 2020, with GB lamb sales for instance down 3%, the figures were nevertheless higher than 2019, helped by strong Christmas sales and a strong performance among younger families compared to recent norms.

Beef sales showed a similar pattern of being somewhat lower than 2020, but higher than the longer-term average. In the case of beef, sales data showed an encouraging trend in terms of carcass balance, with less of the carcass sold as mince and more sold as premium cuts, thereby reversing concerning patterns of consumption towards the end of the 2010s.

At the end of the financial year, however, rapidly rising inflation and a return to pre-pandemic shopping patterns threatened these gains for the premium red meat sector.

The disruptive impact of Covid can be seen clearly in Welsh red meat's export performance during this period. However, the impact on exports was not as great as may have been the case, thanks to a continuation of tariff-free trade with Europe, and favourable exchange rates.

The value of red meat exports continued to be over £200m during the 2021 calendar year. Exports to Europe were robust in line with previous years' value; trade with France, for instance, rebounded after a disrupted 2020. Sales to some further afield and emerging markets were lower, however. This is due to the importance of the foodservice trade to Welsh red meat exports in those markets, meaning that Covid disruption to the hospitality sector was keenly felt. Also, strong domestic demand and a tight supply of animals meant that less product was available to service markets outside of the UK and EU.

Trade events continued to be severely limited by Covid restrictions, however HCC continued to undertake successful export marketing programmes, delivering value for both levy money invested and the Welsh Government's Enhanced Export Programme.

HCC's campaigns in key export markets therefore continued to be more digital in focus with videos produced in several languages, albeit with some physical promotion where local circumstances allowed, for instance through the sponsorship of a series of golfing events in Belgium and the Netherlands.

Towards the end of the period events began to resume. HCC had a significant presence in the Gulfood trade show in the UAE, which was part of a concerted campaign of activity which also included events at the Dubai Expo and PR activity. The aim of this promotion was to ensure that Welsh Lamb was well-placed to take advantage of the reopening of the hospitality sector in the Middle East and the resumption of growth to this region which had been buoyant in 2019-20.

Work with the UK Export Certification Partnership continued, in order to raise restrictions on market access to a number of countries. Barriers to export lamb to the USA were finally removed, with plant inspections scheduled to take place later in 2022.

Resources continued to be prioritised into communicating, mainly by digital means, with the industry and stakeholders in order to keep people informed of market intelligence. Information was provided to media spokespeople from other industry organisations as well as HCC taking opportunities to inform the broader public of the challenges of the pandemic for the industry.

When Covid restrictions eased, HCC held five regional on-farm meetings to engage directly with levy-payers in the autumn of 2021. This provided an opportunity for face-to-face dialogue which had not been possible for over 18 months, in order to gauge the opinion of producers and inform HCC strategy in terms of marketing, market intelligence and research.

HCC continued to ensure audits to underpin the integrity of the PGI Welsh Lamb and PGI Welsh Beef brands. During the year, the forensic science available to support the Welsh Lamb traceability system was extended to include Welsh Beef. The systems were tested in the autumn of 2021 with a well-publicised case of mislabelling, during which HCC and local trading standards officers co-operated effectively to deliver a rapid and satisfactory solution.

Following the launch of HCC's blueprint for sustainable farming – The Welsh Way – in late 2020, a practical guide for farmers was developed, entitled Perfecting the Welsh Way. This contained advice on on-farm methods to reduce emissions, based on independent research. This was communicated through a number of channels, including both earned and paid media, and formed the centrepiece of HCC's stand presence at the Royal Welsh Winter Fair.



To reinforce its work on sustainability and communicate Perfecting the Welsh Way, HCC took part in a number of activities surrounding the COP26 conference. This included a panel discussion as part of COP Cymru, press activity, and submitting evidence through the Global Roundtable on Sustainable Beef and Global Meat Alliance. An ongoing series of meetings and engagement opportunities with policy-makers in the sustainability field were held.

During the year HCC, sometimes alone and sometimes in concert with other levy bodies, took up various issues where red meat and sustainability had been misrepresented in the media.

Sustainability was again a central theme of the HCC annual conference. This was held as a hybrid virtual and in-person event in November 2021. The event was successful with significant technical and logistical challenges overcome.

In terms of HCC's work to equip the industry for future challenges, the EU and Welsh Government-funded Red Meat Development Programme progressed positively, despite adjustments in modes of delivery due to Covid restrictions.

This Programme involves three strategic projects designed to increase efficiency and sustainability within the industry as well as enhance the public perception of Welsh Lamb and Welsh Beef. These are; Stoc+, a project to promote pro-active flock and herd health planning; the Hill Ram Scheme to use technology to encourage performance-recording in the hill sheep sector; and the Welsh Lamb Meat Quality project, which will study practices at all stages of the supply chain with the aim of establishing a blueprint of taste quality and consistency.

Over 50 flocks are now involved with the Hill Ram Scheme, and TSU sampling was carried out in order to continue the research through the breeding season. Encouragingly, there has been an increase in interest in performance recording within the industry, with a 140% rise in the numbers of performance-recorded rams sold.

Work on the Stoc+ project continued to focus on bringing farmers and vets together to encourage proactive animal health planning. Common themes have been identified, and particular strands of work developed to trial methods of reducing conditions such as scab and lameness, improving the fertility of flocks and herds, and improving diagnostic testing.

Covid restrictions have been a particular challenge for the consumer taste panel element of the Welsh Lamb Meat Quality Project, however a successful phase of panels were held at various venues in England.

Scientific analysis of lamb samples fed on various different finishing diets suggested that largely grass-fed lambs had higher levels of essential amino acids.

Publications were produced related to strands of the RMDP in order to help communicate the findings of the work, and communications outputs such as farmer case-studies and project outcomes continued to be issued regularly.

Related to the Welsh Lamb Meat Quality Project, long-term work to enhance the shelf-life of Welsh Lamb to improve its market competitiveness by addressing issues at all stages of the supply chain continued to show gains. With selection for slaughter training at abattoirs not being possible due to Covid, such training was adapted to be delivered virtually in partnership with processors.

The BeefQ project, also funded by the Rural Development Programme and led by IBERS at Aberystwyth University in collaboration with HCC and other stakeholders, also progressed. Its aim is to test Welsh Beef production and processing systems using the Meat Standards Australia (MSA) grading system.

A number of strands of research and development were pursued during the year, often co-funded with others. This included continued work with Bangor University on the environmental sustainability of livestock farming in Wales, and with Aberystwyth University on a study into the development of high value non-food products from processor waste streams.

Long-established collaborative research activity continued, such as supporting the Recommended Grass and Clover List and joint initiatives with other UK levy boards such as GrasscheckGB and RamCompare project.

Covid restrictions meant that the HCC travel scholarship was suspended for a further year, however plans were in place to relaunch during 2022.

Over the year, HCC contributed expert advice to governments and parliamentarians on a number of key issues for the industry. A large number of submissions were made to enquiries on issues of future trade agreements and their potential impact on the red meat sector in Wales. HCC also contributed evidence on sustainability, and on post-Brexit issues such as labour shortages and post-EU funding.

## Directors' Report

The Directors present herewith their report, together with the audited financial statements of the company, for the year ended 31 March 2022.

### 1. Results

The result for the year was a deficit of £76,084 (2021 surplus: £217,437).

### 2. Principal Activity and Strategic Report

The company's principal activity during the year was that of the development and promotion of Welsh red meat.

HCC has worked towards targets contained in the Corporate Plan for 2019-22 and the objectives of Vision 2025. These are as set out in the Annual Report on pages 1 to 8.

The result for the year can be found in the Statement of Comprehensive Income on page 24 and the position of the company at the year end in the Balance Sheet on page 25.

Key performance indicators for the company are:

	2022	2021
	£	£
Levy income	4,286,603	3,461,289
Grant income	2,122,651	2,537,084
Operating (deficit)/surplus	(62,269)	227,929

Levy income generated through Welsh processors decreased by 10% due to lower throughputs. However, this year was the first year of levy being re-patriated between the GB levy Boards. This contributed to the increase in levy compared to the previous year.

Grant income decreased due to a Welsh Government capital grant for central point recording centres, which was administered by HCC, finishing during the year and direct funding for export activities also ceasing.

The 2021 surplus included a surplus of £194,487 arising from the revaluation of the property. As this did not arise in 2022 current year costs will be higher plus increased corporate costs has resulted in a deficit.

A market valuation of the office building was carried out at 31 March 2021 at a value of £600,000. It is not the intention of the Board of HCC to move from the premises for the foreseeable future. As per the company's accounting policy, the building will be valued again in March 2024.

### Environmental Policy

HCC is committed to minimising the impact of its activities on the environment. The key points of its strategy to achieve this are:

- Minimise waste by evaluating operations and ensuring they are as efficient as possible;
- Minimise toxic emissions through the selection and use of its vehicles and the source of its power requirement;
- Actively promote recycling;
- Source and promote a product range to minimise the environmental impact of both production and distribution;

## Directors' Report (continued)

### 2. Principal Activity and Strategic Report (continued)

#### Environmental Policy (continued)

HCC monitors the effectiveness of its policy through regular submission of information to the Welsh Government carbon reduction programme.

#### Employees

HCC believes that all employees (or potential employees) can contribute fully and effectively to the goals of the organisation and is committed to making full use of the talents and resources of all. As such no-one will receive less favourable treatment on the grounds of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex or sexual orientation.

At the year end, the analysis by gender of the full time staff was as follows:

	Female		Male	
	2022	2021	2022	2021
Staff	26	28	8	7

The gender balance of the Board Of Directors, who are all non executive, was as follows:

	Female		Male	
	2022	2021	2022	2021
Directors	4	4	6	6

No information is provided in respect of social and community issues.

### 3. Principal Risks and Uncertainties

The company's risk framework is outlined on page 14. This ensures that HCC's internal systems identify, monitor and respond to risks.

The principal risk to the business is cash flow in relation to grant expenditure. HCC is reliant upon the prompt settlement of grant claims. Where there are delays in the payment of claims HCC has to seek alternative arrangements in order to meet its obligations.

In previous years HCC's principal risk was the level of levy income. From 1 April 2021 the total GB levy was repatriated according to the breeding population of the respective countries. This saw HCC's levy income increase by £825,314 and reduces the financial risk of lost levy income.

The COVID pandemic posed challenges for all aspects of HCC's operations and these have been covered in depth in the annual report on pages 1 to 8. The risk to the company has been identified and recorded in the risk register and the business implementation plan has been followed.

## Directors' Report (continued)

### 4. Future Developments

The company will continue to develop and promote Welsh red meat through its levy income and any available grant income.

### 5. Directors and Their Interests

The Directors of the company throughout the period and up to the date of signing of the financial statements were as follows:

#### Chair

C M Smith Red Meat Sector Consultant;

#### Directors

M J Chapman	Director of Fortress Womens Counselling And Coaching Limited;
D D H Davies	Farmer; Director of Llandre Limited, ANTS (Against Nantyrast Turbines) Limited, NFSCO CIC; Member of NFU Cymru Less Favoured Areas Board,
G R Davies	Chief Executive Farmers Marts (R G Jones) Limited; Director Welsh Lamb and Beef Producers Limited, Lleyn Sheep Society Limited, Farmers Marts (R G Jones) Limited, Partner Vale Vineyard – Gwinllan Y Dyffryn
G W Davies	Chief Executive, Wynnstay Group PLC; Director of Banbury Farm and General Supplies Limited, Bibby Agriculture Limited, Glasson Grain Limited, Glasson Group (Lancaster) Limited, Grainlink Limited, Humphrey Feeds Limited, Humphrey Pullets Limited, Humphrey Poultry (Holdings) Limited, Shropshire Grain Limited, Stanton Farm Supplies Limited, Welsh Food Producers Limited, Woodheads Seeds Limited, Wrekin Grain Limited, Wynnstay Group PLC, Wynnstay (Agriculture Supplies) Limited, Wyro Developments Limited, Youngs Animal Feeds Limited
J T Davies	Farmer; Director of Cwmbetws Limited , The Royal Welsh Agricultural Society Limited
A J P Evershed	Farmer
R L J Madeley Davies (resigned 8 August 2022)	Agricultural Consultant
D P Morgan	Procurement Director, Kepak; Farmer; Director of Ffrydilan Limited
R E Roberts	Farmer; Director Heidro Harnog Cyf, Clwb Rygbi Dolgellau Cyf; Member NFU Cymru Less Favoured Areas Board;
C Williams	Farmer

## Directors' Report (continued)

### 6. Share Capital

The company is limited by guarantee and does not have any share capital. The liability of the member is limited to £100.

### 7. Auditors

The Auditor General for Wales is the company's auditor in accordance with paragraph 18(1) of schedule 8 to the Government of Wales Act 2006.

### 8. Governance Statement

#### Governance Framework

The Directors are responsible for the company's corporate governance and have adopted the practices set out in the UK Corporate Governance Code, where this is relevant and practical. The Chief Executive has responsibility as Accounting Officer for maintaining a sound system of internal control that supports the achievement of HCC's policies, aims and objectives whilst safeguarding the public funds and organisational assets in accordance with the responsibilities set out in "Managing Welsh Public Money".

HCC is funded by grant income, invoiced sales and levy. The Welsh Ministers have the power to impose a levy under the Red Meat Industry (Wales) Measure 2010. The functions under the Measure are delegated to HCC through a delegation agreement.

#### *The Board of Directors*

The Board of Directors has a number of key roles in the management of risk, including setting the tone and influencing the culture of risk management within HCC and determining the level of risk that is acceptable in specific areas of activity. It does this by its policy and overall approach.

The Board are aware of and have adopted an Anti-Bribery and Corruption policy.

#### *HCC's Audit and Risk Committee*

The remit of the Audit and Risk Committee is defined to include considering the planned activity and results of both internal and external audit. The composition of the Committee during the year to 31 March 2022 was as follows:- G W Davies (Chair); J Davies; G R Davies; A J Evershed

#### *HCC's Remuneration Committee*

The Remuneration Committee of the Board of Directors recommends the remuneration of the Chief Executive.

## Directors' Report (continued)

### 8. Governance Statement (continued)

#### Review of effectiveness

HCC has conducted its own review of the effectiveness of the system of internal control which was overseen by the Audit and Risk Committee. The implications of the review of the effectiveness of the system of internal control have been advised to the Board of Directors. The company's systems are under constant review.

In reviewing the effectiveness of HCC's system of internal control the Audit and Risk Committee has undertaken the following key activities:

- *Financial Reporting*  
Gained an understanding of the current areas of greatest financial risk and how management is managing them effectively.
- *Annual Financial Statements*  
Reviewed the annual financial statements and determined whether they are complete and consistent with the information known to committee members; assessed whether the financial statements reflect appropriate accounting principles; met with management and the external auditors to review the financial statements and the results of the audit.
- *Internal Audit*  
The Committee reviewed the internal auditors' reports on the areas covered in the year,
- *External Audit*  
Reviewed the external auditors' proposed audit scope and approach and ensured no unjustified restrictions or limitations had been placed on the scope.

#### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than 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 HCC's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place for the year ended 31 March 2022 and up to the date of approval of the financial statements and accords with Treasury guidance.

#### Capacity to handle risk

Leadership is given to the risk management process through the Board of Directors and Audit and Risk Committee.

HCC's executive management are the company's risk management team and are responsible for disseminating good practice throughout the organisation. Training is provided to the executive team to enable them to fulfil this role.

## Directors' Report (continued)

### 8. Governance Statement (continued)

#### **The Risk Framework**

The company's risk management policy is a key element within its internal control and corporate governance framework. It covers HCC's approach to risk management, roles and responsibilities, risk management process and its review.

HCC's risk appetite is determined upon the assessed impact the risk has on the goals, objectives and financial resources of the company.

The following items are key elements in the system of internal control:

#### *Framework agreement*

A framework agreement has been established between HCC and the Welsh Government. This agreement details the governance arrangements between Welsh Government, being the sole member, and HCC.

#### *Risk Register*

A Risk Register is in existence, identifying risks and ranking them for risk and effect. The register is examined regularly by the executive team and reviewed by the Audit and Risk Committee. Risks are ranked according to likelihood and impact. 13 strategic risks and 17 operational risks have been identified. 7 of the strategic risks were ranked as critical after residual measures were assessed. These relate to:

- global economic recession as a result of a financial crisis or pandemic
- disruption of trade due to closure of, or disruption in, existing export markets
- reduction in livestock numbers arising from Government policy;
- availability of skilled staff across the supply chain
- supply chain being less competitive in response to UK internal market bill

HCC have ongoing relationships with officials at Welsh and UK level to enable them to keep abreast of developments.

- public perception of red meat is adversely affected being influenced by health and consumer demands.

- Increasing imports of lower standards reduces trade demand for Welsh red meat

HCC's communications department have a communications plan to counter these

Business interruption due to unplanned events.

HCC has an established business interruption plan which was in use for the Covid-19 pandemic. The plan is still being referred to as staff begin working under new arrangements.

#### *Business Continuity Plan*

A Plan has been prepared to consider ways and means for HCC to continue to operate its core activities should a disaster occur.

#### *Business Plan*

Under new governance arrangements, HCC has prepared a Business Plan 2022-2026 covering the term of Government.

#### *Operational Plan*

An Annual Operational Plan and Budget is presented to the Board. The Plan for 2022/23 was approved at the March 2022 Board meeting.

#### *Financial Reporting*

Financial reports are regularly presented to the Board.



## **Directors' Report (continued)**

### **8. Governance Statement (continued)**

#### *Non Financial Reporting*

HCC has developed a Monitoring and Evaluation System which monitors outcomes and outputs against targets set in the Operational Plan. Regular reviews are undertaken by each department and the executive team to ensure that outcomes are being achieved, resources are applied in appropriate areas and that HCC is delivering value for money for its levy payers.

### **9. Sickness Absence**

During the year, HCC's sickness absence rate amounted to 1.1% (2021: 0.82%).

### **10. Statement As To Disclosure Of Information To Auditors**

The Directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the Directors have confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the Auditor.

### **11. Statement Of Directors' Responsibilities**

The Directors are responsible for preparing the Directors' Report, the Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements of the company in accordance with International Financial Reporting Standards ("IFRS").

The financial statements are required by law and IFRS to present fairly the financial position and performance of the company. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the surplus or deficit of the company for that period.

In preparing the financial statements, the Directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and accounting estimates that are reasonable and prudent;
- c. state whether they have been prepared in accordance with IFRS as adopted by the EU;
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

## **Directors' Report (continued)**

### **11. Statement Of Directors' Responsibilities (continued)**

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the HCC website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**By Order of the Board.**



T G Howells  
Company Secretary

17 November 2022

## Remuneration Report

### Remuneration Committee

The Remuneration Committee of the Board of Directors recommends the remuneration of the Chief Executive. The composition of the Committee during the year to 31 March 2022 was as follows:- R L J Madeley-Davies (Chair), J T Davies, C Smith.

### Statement Of Remuneration Policy

All Directors of the company are non-executive and, in view of the company being limited by guarantee, have no share interest in the company.

C Smith was appointed as Chair from 1 April 2021 for a term of 3 years. Her remuneration is set at £350 per day for the duration of her term of office.

5 Directors were re-appointed by the Cabinet Secretary for Environment and Rural Affairs from 1 April 2020 for a further three year period, 3 Directors were appointed from 9 April 2020 until 31 March 2023 and 2 Directors were appointed from 1 April 2021 for a period of 3 years. The remuneration of the non-executive Directors was set at £300 per day plus expenses.

### Attendance Records

The Board met 6 times during the period April 2021 to March 2022. The number of Board meetings attended by the Directors are as follows:

	2021/2022	2020/2021
M Chapman	6	6
D D H Davies	2	6
G R Davies	6	6
G W Davies	4	5
J T Davies	6	6
A J Evershed	6	-
R L J Madeley Davies	6	6
D P Morgan	5	6
R E Roberts	6	-
C M Smith	6	6
C Williams	6	6

In addition to the above, Directors attend meetings of Sub Committees of the Board as well as industry events during the course of the year.

A J Evershed and R E Roberts were appointed on 1 April 2021. N Porter resigned on 4 November 2020 and R L J Madeley Davies resigned on 8 August 2022.

## Remuneration Report (continued)

### This section of the Remuneration Report is auditable

#### Directors Emoluments

Emoluments of the Directors who served throughout the year to 31 March 2022 are as follows:

	2022	2021	2022	2021
	£	£	£	£
	Remuneration		Expenses	
Chair				
K Roberts (Chair to 31-3-21)	-	25,200	-	-
C Smith (Chair from 1-4-21)	20,825	3,900	794	-
Other Directors				
M Chapman	3,450	3,450	101	-
D D H Davies	1,050	3,450	-	-
G R Davies	3,900	3,600	88	-
G W Davies	2,700	3,000	-	-
J T Davies	6,000	3,900	38	-
A J Evershed	4,200	-	83	-
R L J Madeley Davies	5,550	3,900	144	-
D P Morgan	3,450	3,600	85	-
N Porter	-	1,800	-	-
R E Roberts	4,200	-	138	-
C Williams	4,350	3,450	68	-

The Remuneration of the Board members is in respect of attendance at Board meetings, sub-committees of the Board and industry events.

None of the Directors received any benefits in kind or were eligible for membership of the company pension scheme. Expenses were incurred in respect of their duties as Directors and any mileage incurred on company business was reimbursed at HM Revenue & Customs approved rates.

In addition to the Directors, the emoluments of the Chief Executive, T G Howells, were as follows:

	2022	2021
Remuneration	£110,001 - £115,000	£110,001 - £115,000
Benefits in kind	£4,961	£3,652
Pension contributions	£27,247	£26,323
Pension contributions – additional years	£60,000	-

The Chief Executive was a member of the Meat and Livestock Pension Scheme which ceased to future accrual as at 31 March 2022. Contributions for additional years for the 3 members of the scheme were made in lieu of the early closure of the scheme of which the contribution for the Chief Executive amounted to £60,000.

## Remuneration Report (continued)

### This section of the Remuneration Report is auditable

#### Fair Pay Disclosures

		2022		2021
	Ratio to highest paid employee	Remuneration	Ratio to highest paid employee	Remuneration
25 <sup>th</sup> percentile pay ratio	4.18	£27,349	4.57	£24,137
50 <sup>th</sup> percentile pay ratio	2.97	£38,452	3.27	£33,782
75 <sup>th</sup> percentile pay ratio	2.81	£40,627	2.83	£38,957
Range of staff remuneration		£19,710-£76,063		£19,419 - £74,940

The remuneration of the highest paid employee increased by 3.6%, as determined by the Remuneration Committee.

The 50% percentile pay figure rose due to the mid point falling at a change in grade.

The average percentage change in staff remuneration amounted to 1.5%.



T G Howells  
Company Secretary

17 November 2022

## **Independent Auditor's Report to the Member of Hybu Cig Cymru – Meat Promotion Wales**

### **Opinion on financial statements**

I have audited the financial statements of Hybu Cig Cymru – Meat Promotion Wales for the year ended 31 March 2022 which comprise the Statement of Comprehensive Expenditure, the Balance Sheet, the Statement of Cash Flows and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its deficit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards;
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on regularity**

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

### **Basis of opinion**

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the company in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinions.

### **Conclusions relating to going concern**

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the body's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## **Independent Auditor's Report to the Member of Hybu Cig Cymru – Meat Promotion Wales (continued)**

### **Other information**

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The directors are responsible for the other information contained within the annual report. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon. My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### **Report on other requirements**

#### **Opinion on other matters prescribed by the Companies Act 2006**

In my opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In my opinion, based on the work undertaken in the course of my audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the annual and directors' reports have been prepared in accordance with applicable legal requirements.

### **Matters on which I report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, I have not identified material misstatements in annual report or the directors' report.

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to report to you, if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by my team;
- the financial statements are not in agreement with the accounting records and returns;
- certain disclosures of directors' remuneration specified by law are not made;
- I have not received all the information and explanations I require for my audit; or
- the Directors' were not entitled to take advantage of the small companies exemption in preparing the directors' report and take advantage of the small companies exemption from the requirement to prepare a strategic report.

## **Independent Auditor's Report to the Member of Hybu Cig Cymru – Meat Promotion Wales (continued)**

### **Responsibilities**

#### **Responsibilities of the Directors for the financial statements**

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors' are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

#### **Auditor's responsibilities for the audit of the financial statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- Enquiring of management, the company's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to Hybu Cig Cymru – Meat Promotion Wales's policies and procedures concerned with:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
  - Considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the posting of journals;
  - Obtaining an understanding of Hybu Cig Cymru – Meat Promotion Wales's framework of authority as well as other legal and regulatory frameworks that Hybu Cig Cymru – Meat Promotion Wales operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Hybu Cig Cymru – Meat Promotion Wales.
- In addition to the above, my procedures to respond to identified risks included the following:
- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
  - enquiring of management about actual and potential litigation and claims;
  - reading minutes of meetings of those charged with governance



## **Independent Auditor's Report to the Member of Hybu Cig Cymru – Meat Promotion Wales (continued)**

### **Auditor's responsibilities for the audit of the financial statements (continued)**

- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Hybu Cig Cymru – Meat Promotion Wales's controls, and the nature, timing and extent of the audit procedures performed.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

### **Responsibilities for regularity**

The directors are responsible for ensuring the regularity of financial transactions.

I am responsible for expressing an opinion on whether the expenditure and income have been applied to the purposes intended by the Senedd and the financial transactions conform to the authorities which govern them.

### **Report**

I have no observations to make on these financial statements.



Adrian Crompton  
Auditor General for Wales  
23 November 2022

24 Cathedral Road  
Cardiff  
CF11 9LJ

### Statement of Comprehensive Expenditure

	Notes	<u>2022</u> £	<u>2021</u> £
<b>Revenue</b>	5	6,444,423	6,036,932
<b>Expenditure</b>			
Operating expenses	7	6,506,692	5,809,003
		-----	-----
<b>Operating (Deficit)/Surplus</b>		(62,269)	227,929
Finance Income		52	379
Finance Costs	8	(13,857)	(10,799)
		-----	-----
<b>Excess of Expenditure Over Income on Ordinary Activities Before Taxation</b>			
Taxation	7	(76,074)	217,509
Taxation	11	(10)	(72)
		-----	-----
<b>Surplus/(Deficit) and total comprehensive income for the year attributable to the company's member</b>		(76,084) =====	217,437 =====

Annual Report and Financial Statements  
Year Ended 31 March 2022

## Balance Sheet

	Notes	<u>2022</u> £	<u>2021</u> £
<b>Non Current Assets</b>			
Property, plant and equipment	12	658,373	635,209
Right Of Use Assets	13	221,229	267,305
		<u>879,602</u>	<u>902,514</u>
<b>Current Assets</b>			
Trade and other receivables	14	2,639,051	1,698,092
Cash and cash equivalents		93,264	487,668
		<u>2,732,315</u>	<u>2,185,760</u>
<b>Total Assets</b>		<u>3,611,917</u>	<u>3,088,274</u>
<b>Current Liabilities</b>			
Bank Overdraft (unsecured)		284,974	144,164
Trade and other payables	15	1,242,574	746,789
Right Of Use Lease Liabilities	16	40,503	38,860*
Current tax liabilities		10	72
		<u>1,568,061</u>	<u>929,885</u>
<b>Non Current Liabilities</b>			
Right Of Use Lease Liabilities	16	202,930	241,379*
<b>Total Liabilities</b>		<u>1,770,991</u>	<u>1,171,264</u>
<b>Net Assets</b>		<u>1,840,926</u>	<u>1,917,010</u>
<b>Reserves</b>			
Retained Income	18	<u>1,840,926</u>	<u>1,917,010</u>

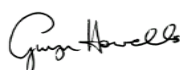
\* 2021 figures restated to agree split to note 16

For the year ending 31 March 2022, the company was entitled to exemption from the requirements of Part 16 of the Companies Act 2006 under section 482 of this Act (non profit making companies subject to public sector audit). It is instead subject to public sector audit and audited by the Auditor General for Wales.

The financial statements, which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Cash Flows and related notes (1 to 24), were approved and authorised for issue by the Board of Directors on 17 November 2022 and signed on its behalf by:



C Smith      Chair



T G Howells      Accounting Officer

Annual Report and Financial Statements  
Year Ended 31 March 2022

## Statement of Cash Flows

	<u>2022</u> £	<u>2021</u> £
<b>Cash Flows from Operating Activities</b>		
Operating (deficit)/surplus	(62,269)	227,929
Depreciation & loss on disposal of assets	45,631	(22,028)
Property Revaluation	-	(150,000)
Depreciation on right of use assets	46,145	43,000
Operating lease payments	4,128	5,851
Movements in working capital:		
(Increase)/Decrease in trade and other receivables	(940,959)	142,825
Increase/(Decrease) in trade and other payables	495,785	(563,234)
	<hr/>	<hr/>
Cash expended on operations	(411,539)	(315,657)
Taxes paid	(72)	(264)
	<hr/>	<hr/>
Net cash expended on operating activities	(411,611)	(315,921)
	<hr/>	<hr/>
<b>Cash Flows from Investing Activities</b>		
Purchase of plant and equipment	(73,795)	(15,305)
Proceeds on disposal of assets	5,000	-
	<hr/>	<hr/>
Net cash used in investing activities	(68,795)	(15,305)
	<hr/>	<hr/>
<b>Cash Flows From Financing Activities</b>		
Interest received	52	379
Right Of Use Assets Lease payments: capital	(36,875)	(36,737)
Right Of Use Assets Lease payments: interest	(8,558)	(7,752)
Operating lease payments	(4,128)	(5,851)
Bank overdraft interest	(5,299)	(3,047)
	<hr/>	<hr/>
Net cash used in financing activities	(54,808)	(53,008)
	<hr/>	<hr/>
<b>Net decrease in cash and cash equivalents</b>	(535,214)	(384,234)
Cash and cash equivalents at the beginning of the year	343,504	727,738
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year	(191,710)	343,504
	<hr/>	<hr/>
Being cash held in bank accounts	93,264	487,668
Bank overdraft	(284,974)	(144,164)
	<hr/>	<hr/>
	(191,710)	343,504
	<hr/>	<hr/>

## Notes To The Financial Statements

### 1. General Information

Hybu Cig Cymru-Meat Promotion Wales (HCC) is a limited liability company incorporated and domiciled in the United Kingdom. The company is limited by guarantee and does not have a share capital. The registered number of the company is 4635113 and its registered office is Ty Rheidol, Parc Merlin, Aberystwyth, SY23 3FF.

The sole member of the company throughout the year was the Welsh Ministers.

### 2. Statement Of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in accordance with applicable provisions of the Companies Act 2006. The principles of HM Treasury's The Financial Reporting Manual 2021-22 have also been followed.

### 3. Basis Of Preparation

The financial statements are presented in pounds sterling. They have been prepared on the historical cost basis with the exception of the freehold property which is carried on a valuation basis.

### 4. Significant Accounting Policies

#### Separate financial statements

The company is not required to prepare group accounts as the group comprising the company and its subsidiary fall below the Companies Act 2006 small group threshold. In addition, the Welsh Government does not require group accounts to be prepared.

#### Going Concern

The company has net assets of £1,840,926 at 31 March 2022. These financial statements have been prepared on a going concern basis as the company has prepared a budget and cash flow forecast for the twelve months following the date of approval of these financial statements which demonstrates that the company has sufficient cash to continue to meet its liabilities as they fall due. On this basis the Directors consider the company to be a going concern.

#### Revenue

Revenue comprises levy income, grants and invoiced services.

Levy income – a statutory levy is charged in respect of all animals fit for human consumption slaughtered in Wales. Income is recognised at the date of slaughter, up to the last full week of March. Levy income also includes levy repatriated from other GB levy bodies under the Agriculture Act 2020.

Grants are claimed when the expenditure has been defrayed but grant income is recognised in the financial statements to match costs when the activity has taken place. Grant income is outside the scope of VAT.

Grant income – grants are received from the Welsh Government through The European Agriculture Fund For Rural Development: Europe Investing In Rural Areas, being the Welsh Government Rural Development Plan 2014-2020.

Invoiced Services – income is recognised when the activity has taken place. Such activity relates to services performed on behalf of other bodies. Income is stated net of VAT.

## Notes To the Financial Statements (continued)

### 4. Significant Accounting Policies (continued)

#### Property, plant and equipment

Freehold property is stated at valuation less accumulated depreciation. Depreciation is not provided in the year of acquisition. Freehold land is not depreciated. A valuation of the freehold property is to be carried out every three years, unless in the Directors' opinion, local market movement deems more frequent valuation to be necessary.

Plant and equipment are stated at cost less accumulated depreciation.

Freehold property, plant and equipment assets are depreciated to their residual value over their anticipated useful economic lives on the following bases:

Freehold property	over 30 years from 2009
Computer equipment	33% reducing balance
Office furniture	25% reducing balance
Motor vehicles	25% reducing balance

#### Right Of Use Assets

Leases are capitalised where the company receives the economic benefit of the use of that asset.

Assets are capitalised at the value of the total payments over the course of the lease. Leases with a resultant value of less than £10,000 are not capitalised and treated as operating leases.

Property and vehicles are depreciated to their residual value over the period of the lease on the following bases:

Freehold property	between 5 and 11 years
Motor vehicles	25% straight line

#### Impairment of non current assets

At each balance sheet date, the Company reviews the carrying amounts of its property, plant and equipment and right of use assets to determine whether there is any indication that those assets have suffered an impairment loss with reference to both the operating and business plans. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted. An impairment loss is recognised immediately in the statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the Statement of Comprehensive Income, unless the relevant asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

## Notes To the Financial Statements (continued)

### 4. Significant Accounting Policies (continued)

#### Financial Instruments

Financial assets and financial liabilities are recognised when the Company has become a party to the contractual provisions of the instrument.

#### Financial assets

Trade receivables, outstanding levy income and accrued income:

Trade receivables, outstanding levy income and accrued income are initially recognised at fair value. A provision for impairment is made where there is objective evidence, (including customers with financial difficulties or in default on payments), that amounts will not be recovered in accordance with original terms of the agreement. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flows.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits held with financial institutions at call and on short term notice not exceeding three months.

#### Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

#### Trade payables

Trade payables are initially recognised at cost.

#### Right Of Use Lease Liabilities

Leases are capitalised where the company receives the economic benefit of the use of that asset. The associated liability is recognised in the financial statements at the total of the payments over the course of the lease discounted at the company's underlying interest rate. HCC has determined this to be 3.25% over base rate (2021:2.5%).

#### Leases

Leases where the company receives the economic benefit of the lease are classified as Right Of Use Assets, as defined above. Other leases are operating leases and are not recognised in the company balance sheet. Payments under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease.

#### Pensions

The company makes contributions for some employees, whom were transferred to the company under TUPE regulations, to a defined benefit pension scheme. The regular pension cost is charged to the Statement of Comprehensive Income and is based on the expected pension costs over the service lives of the employees. The scheme is now closed to new employees.

## Notes To the Financial Statements (continued)

### 4. Significant Accounting Policies (continued)

#### Pensions (continued)

The company makes defined contributions to individual pension plans for all of its other employees. Contributions payable for the year are charged to the Statement of Comprehensive Income. The pension plans are grouped together under the Hybu Cig Cymru Group Pension Plan. Contributions commence as soon as practicable after employees commence employment.

#### Foreign Currency

Normal trading activities in foreign currencies, being the payment of foreign suppliers, are recorded in sterling at the exchange rate as of the date of the transaction.

#### Accounting Estimates and Judgements

In the application of the Company's accounting policies, which are described earlier in this note, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

Critical judgements in applying the Company's accounting policies:

The following are the critical judgements, apart from those involving estimations (see below), that the Directors have made in the process of applying the Company's accounting policies and that must have the most significant effect of the amounts recognised in the financial statements.

Revenue recognition:

In making their judgement, the Directors considered the detailed criteria for the recognition of revenue set out in IFRS 15 Revenue.

Provision for doubtful debts:

The recognition of an impairment of a financial asset is based upon the likelihood of the value of the financial assets being recovered. Recognition of an impairment therefore requires justification regarding recoverability.

Impairment of property, plant and equipment:

Determining whether property, plant and equipment is impaired requires an estimation of the value in use of the cash-generating units. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Pension liability:

The Directors have received and considered an actuarial valuation regarding a potential liability in respect of one of the Company's pension schemes, as detailed in note 21.



## Notes To the Financial Statements (continued)

### 4. Significant Accounting Policies (continued)

#### Key sources of estimation uncertainty

The Directors believe that there are no key sources of estimation uncertainty in the accounts for the period.

#### Impact of standards not yet effective

The Directors have considered the impact of standards and interpretations which have been issued but are not yet effective and which have not been adopted early by the company.

### 5. Revenue

	<u>2022</u> £	<u>2021</u> £
Levy	4,286,603	3,461,289
Grants received:		
: Welsh Government RMDP	1,932,530	1,729,056
: Welsh Government Export	100,000	404,000
: Welsh Government CPRC	90,121	404,028
Services	35,169	38,559
	<u>6,444,423</u>	<u>6,036,932</u>
	=====	=====

From 1 April 2021, total GB levy income has been repatriated to the country of birth. Included in levy is an amount of £1,386,208 received under this arrangement. Previously, the GB levy bodies had jointly agreed expenditure, under a ring fenced fund, on GB activities which benefits the levy payers of Great Britain. HCC were able to invoice the fund £26,500 (2021: £278,180).

### 6. Operating Segments

The Board considers that the company consists of two business operating segments, all contributing to the development and promotion of Welsh red meat. The segments were determined by the source of income and relevant expenditure.

All of the income generated by the business arises from the United Kingdom.

		Levy	Grants	Total
2022	Revenue	4,321,772	2,122,651	6,444,423
	Expenditure	4,387,075	2,119,617	6,506,692
	Operating (Deficit)/Surplus	<u>(65,303)</u>	<u>3,034</u>	<u>(62,269)</u>
		=====	=====	=====
2021	Revenue	3,499,848	2,537,084	6,036,932
	Expenditure	3,277,844	2,531,159	5,809,003
	Operating Surplus	<u>222,004</u>	<u>5,925</u>	<u>227,929</u>
		=====	=====	=====

The levy sector also includes other services which enhance levy expenditure.

## Notes To the Financial Statements (continued)

### 6. Operating Segments (continued)

The following information identifies the risks to HCC's income due to reliance on specific parties, based upon their main sources of income.

Within levy income, 3 companies operating abattoirs in Wales account for 14%, 11% and 9% respectively (2021: 18%, 12% and 12%) of total income of £6,444,423.

Within grants, direct grants received from the Welsh Government and also under the Rural Development Plan for Wales 2014-20 accounts for 32.9% (2021: 42.0%) of total income of £6,444,423.

### 7. Excess of Expenditure Over Income on Ordinary Activities Before Taxation

The result is stated after charging/(crediting) the following:

	<u>2022</u>	<u>2021</u>
	£	£
Auditors – audit	18,494	17,779
Staff costs (note 9)	1,616,162	1,483,007
Directors fees (note 10)	61,213	59,250
Depreciation	44,394	(22,028)
Property Revaluation	-	(150,000)
Depreciation: ROU assets	46,145	43,000
(Profit)/Loss on foreign exchange	(2,768)	652
Operating lease rentals – equipment	4,128	4,218
Bad debts (recovered)/provided for re levy due	(58,392)	671

#### Operating expenses

	<u>2022</u>	<u>2021</u>
	£	£
Export: Established	832,266	693,605
Developing	107,850	81,746
New Markets	50,071	56,920
Grants	100,000	403,973
Home: Retail	245,256	224,116
Consumer	933,024	818,445
Foodservice	95,660	85,270
Development of Brands	204,323	141,349
WG Grants	2,019,617	2,127,186
Market Intelligence	379,733	301,011
Research & Development	123,324	83,214
Supply Chain Efficiency	73,182	73,202
Corporate Costs	1,342,386	718,966
Total	<u>6,506,692</u>	<u>5,809,003</u>
	=====	=====

Staff costs are assigned to the activity to which they relate.

**Notes To the Financial Statements (continued)**

**8. Finance Costs**

	<u>2022</u>	<u>2021</u>
	£	£
Interest charges on bank overdraft	5,299	3,047
Interest charges on Right Of Use Assets	8,558	7,752
	<u>13,857</u>	<u>10,799</u>
	=====	=====

**9. Staff Costs**

Staff costs comprised:

	<u>2022</u>	<u>2021</u>
	£	£
Wages and salaries	1,266,308	1,240,984
Social security costs	128,042	125,651
Other pension costs	221,812	116,372
	<u>1,616,162</u>	<u>1,483,007</u>
	=====	=====

The average number of full time equivalent persons, excluding Directors, employed, on UK employment contracts, during the year was:

	<u>2022</u>	<u>2021</u>
Market Development	8	7
Industry Development	10	11
Communications	3	4
Corporate Services	12	13
	<u>33</u>	<u>35</u>
	-----	-----

**10. Directors' Emoluments**

Directors' emoluments were as follows:

	<u>2022</u>	<u>2021</u>
	£	£
Fees	59,675	59,250
Expenses	1,538	-
	<u>61,213</u>	<u>59,250</u>
	=====	=====

No payments have been made to Directors in respect of personal pension schemes.

## Notes To the Financial Statements (continued)

### 11. Taxation

Tax on finance income. The tax charge is made up as follows:

	<u>2022</u>	<u>2021</u>
	£	£
Taxation charge for the period	10	72
	=====	=====
Reconciliation of total tax charge:		
The company does not undertake any trading activities. The only income subject to corporation tax is finance income.		
Finance income	52	379
	=====	=====
Tax charge at UK corporation tax rate of 19% (2021: 19%)	10	72
	=====	=====

### 12. Property, Plant and Equipment

Property, Plant and Equipment comprised:

	<u>Freehold Land and Property</u>	<u>Office Equipment</u>	<u>Motor Vehicle</u>	<u>Total</u>
	£	£	£	£
<b>Cost or Valuation</b>				
1 April 2020	450,000	86,011	19,278	555,289
Additions	-	15,305	-	15,305
Revaluation	150,000	-	-	150,000
	-----	-----	-----	-----
At 31 March 2021	600,000	101,316	19,278	720,594
Additions	-	73,795	-	73,795
Disposals	-	(11,063)	(14,788)	(25,851)
	-----	-----	-----	-----
At 31 March 2022	600,000	164,048	4,490	768,538
	-----	-----	-----	-----
<b>Depreciation</b>				
1 April 2020	29,524	69,685	8,204	107,413
Charge for the year	14,763	5,024	2,472	22,259
Released on revaluation	(44,287)	-	-	(44,287)
	-----	-----	-----	-----
At 31 March 2021	-	74,709	10,676	85,385
Charge for the year	25,556	17,038	953	43,547
Disposals	-	(10,218)	(8,549)	(18,767)
	-----	-----	-----	-----
At 31 March 2022	25,556	81,529	3,080	110,165
	-----	-----	-----	-----
<b>Net Book Value</b>				
At 31 March 2022	574,444	82,519	1,410	658,373
	=====	=====	=====	=====
At 31 March 2021	600,000	26,607	8,602	635,209
	=====	=====	=====	=====

## Notes To the Financial Statements (continued)

### 12. Property, Plant and Equipment (continued)

An independent market valuation of the building was carried out as at 31 March 2021 at a value of £600,000. This was on a freehold vacant possession basis by RJ Chartered Surveyors, assuming a marketing period of two years. Had the building been carried under the cost model, the carrying amount recognised at 31 March 2022 would have been £587,633 (2021: £614,513).

An impairment review of the property, plant and equipment has been carried out and did not reveal any necessity to book an impairment charge or change the depreciation rates currently in use.

#### Intangible Assets

Additions amounting to £nil (2021:£nil) were made in the year.

### 13. Right Of Use Assets

Right Of Use Assets comprised:

	<b>Freehold Land and Property</b>	<b>Motor Vehicle</b>	<b>Total</b>
	£	£	£
<b>Cost or Valuation</b>			
At 1 April 2020	308,799	35,482	344,281
Valuation adjustment	8,668	(2,624)	6,044
At 31 March 2021	<u>317,467</u>	<u>32,858</u>	<u>350,325</u>
Valuation adjustment	278	(209)	69
At 31 March 2022	<u>317,745</u>	<u>32,649</u>	<u>350,394</u>
<b>Depreciation</b>			
At 1 April 2020	31,150	8,870	40,020
Charge for the year	34,785	8,215	43,000
At 31 March 2021	<u>65,935</u>	<u>17,085</u>	<u>83,020</u>
Charge for the year	37,982	8,163	46,145
At 31 March 2022	<u>103,917</u>	<u>25,248</u>	<u>129,165</u>
<b>Net Book Value</b>			
At 31 March 2022	<u>213,828</u>	<u>7,401</u>	<u>221,229</u>
At 31 March 2021	<u>251,532</u>	<u>15,773</u>	<u>267,305</u>

HCC leases property and vehicles. These assets are leased to match the inherent nature of its income.

## Notes To the Financial Statements (continued)

### 14. Trade and Other Receivables

Trade and Other Receivables comprised:

	<u>2022</u>	<u>2021</u>
	£	£
Receivables	3,822	984
Outstanding levy income	302,599	235,823
Prepayments and accrued income	2,321,253	1,446,087
Amount due from group company (note 23)	11,377	15,198
	<u>2,639,051</u>	<u>1,698,092</u>
	=====	=====

The Directors consider that the book value approximates to their fair value.

The average credit period taken is 37 days (2021: 39 days).

Allowance has been made for estimated irrecoverable amounts of outstanding levy income of £16,667 (2021:£75,059). This amount has been arrived at following a review of the payment history of individual debtors at the balance sheet date, and represents provisions against the relevant carrying amounts. An analysis of the movement on the allowance is set out below:

	<u>2022</u>	<u>2021</u>
	£	£
At 1 April	75,059	74,388
Debt written off	-	-
Recovered in year	(58,392)	(17,241)
Additional allowance	-	17,912
At 31 March	<u>16,667</u>	<u>75,059</u>
	=====	=====

The Directors are satisfied that the credit quality of the remaining debtors is fully recoverable.

The following table provides analysis of amounts receivable that were past due at 31 March 2022, but not impaired. The Company believes that the balances are ultimately recoverable based upon a review of past payment history.

	<u>2022</u>	<u>2021</u>
	£	£
Up to 3 months old (2021: 3 months)		
: receivables	-	-
: levy income	71,149	25,772
	<u>71,149</u>	<u>25,772</u>
	=====	=====

All have been received after the year end.

## Notes To the Financial Statements (continued)

### 14. Trade and Other Receivables

Included within prepayments and accrued income is £1,977,196 (2021: £1,284,185) relating to grant expenditure. Trade and other receivables include financial assets amounting to £306,421 (2021: £236,807) which are categorised as loans and receivables.

Financial risk management:

#### Credit Risk

The company's credit risk is principally attributable to its outstanding levy income balances. Due to levy being a statutory charge based on all animals slaughtered for the food chain, HCC is unable to assess the credit worthiness of processors prior to their commencement of trade. In order to reduce the risk, HCC follows detailed credit control procedures.

#### Liquidity Risk

The company closely monitors its cash balances to outstanding commitments on a regular basis to ensure that it has sufficient funds to meet the obligations of the company as they fall due.

#### Capital Risk

The company is not able to set income, but instead budgets are set by the Board each year for planned expenditure, which are then in turn monitored. Any surplus is taken to reserves.

### 15. Trade and Other Payables

Trade and Other Payables comprised:

	<u>2022</u>	<u>2021</u>
	£	£
<b>Amounts falling due within one year</b>		
Other taxation and social security	101,569	125,792
Other Payables	934,667	379,810
Accruals and deferred income	206,338	241,187
	<u>1,242,574</u>	<u>746,789</u>
	=====	=====

Trade and other payables include financial liabilities amounting to £1,141,005 (2021: £530,876) which are categorised as other financial liabilities at amortised cost.

## Notes To the Financial Statements (continued)

### 16. Right Of Use Lease Liabilities

	<u>2022</u>	<u>2021</u>
	£	£
At 1 April 2021	280,239	310,932
Valuation adjustment	69	6,044
Repayments	(45,433)	(44,489)
Finance charges	8,558	7,752
	<hr/>	<hr/>
At 31 March 2022	243,433	280,239
	<hr/>	<hr/>
Leases falling due:		
Within one year	40,503	38,860
	<hr/>	<hr/>
Within two to 5 years	111,228	119,559
Over 5 years	91,702	121,820
	<hr/>	<hr/>
	202,930	241,379
	<hr/>	<hr/>

### 17. Share Capital

The company is limited by guarantee and does not have any share capital. The liability of the member is limited to £100.

### 18. Reserves

	<b>Retained Income</b>
	£
At 1 April 2020	1,699,573
Surplus for the year	217,437
	<hr/>
At 1 April 2021	1,917,010
Deficit for the year	(76,084)
	<hr/>
At 31 March 2022	1,840,926
	<hr/> <hr/>

Reserves are held to cover future activities of the company, including unforeseen circumstances.



## Notes To the Financial Statements (continued)

### 19. Operating lease arrangements

Non-cancellable operating lease commitments:

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	<u>2022</u>	<u>2021</u>
	£	£
Within one year - equipment	4,759	4,640
Within two to five years - equipment	16,563	9,479
	<u>21,322</u>	<u>14,119</u>
	=====	=====

The principal items leased are office equipment.

These leases are treated as operating leases and are not recognised in the company balance sheet due to their being of low value as defined in the accounting policy. Payments under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease.

### 20. Capital Commitments

At the 31 March 2022 capital expenditure approved and committed amounted to £nil (2021: approved and committed £55,000).

### 21. Contingent Liabilities

The company is aware of a contingent liability amounting to £711,000 (2021: £711,000). The contingent liability arises from the provisions of s75 Pension Act 1995 and is based on the latest information available being as at 31 March 2020. No subsequent valuations have been prepared by the pension company.

HCC is a participating employer in the Meat and Livestock Commission Pension Scheme for certain of its employees. A liability may arise to pay a proportion of any deficit within the scheme when HCC ceases to employ anyone within that scheme but this liability may be deferred under a deferred debt arrangement with the Trustees. An estimate of this liability has been calculated as at 31 March 2020 and amounts to £711,000.

International Accounting Standard 37 sets out the accounting treatment for provisions and contingencies. In particular, the standard sets out three requirements for a liability to be recorded as a provision and therefore stated in the company's balance sheet. It is recognised that HCC has a future obligation to satisfy this debt, which arises from the present position of employing staff who are within the MLC Pension scheme. That obligation may require an outflow of resources when the liability crystallises. However, the third requirement is that a reliable estimate is required and in the Directors opinion this requirement is not fulfilled. The estimate as at March 2020 amounted to £711,000 and March 2019 £556,000. Estimates for the 4 years prior to these ranged between £374,000 and £609,000. From further advice received it would appear that such fluctuations could arise year on year. In the Directors opinion this does not provide a reliable estimate.

On that basis the potential liability is disclosed as a contingent liability and not a provision.

## Notes To the Financial Statements (continued)

### 22. Related Party Transactions

Throughout the year to 31 March 2022, the Welsh Government was the sole member of the company and the ultimate controlling party.

The company receives funding through the Rural Development Plan for Wales 2014-2020 managed by the Welsh Government of which £1,980,227 (2021:£1,723,158) was receivable in the year. At the year end £1,962,558 (2021:£1,149,132) was outstanding relating to grant expenditure not yet refunded.

Direct funding was also received from the Welsh Government in 2021 for export promotion and capital assistance for central point recording centres (CPRC's). £100,000 was receivable in the year in respect of the export funding, of which £nil was outstanding at the year end. The CPRC grant was for £500,000 of which £404,028 was expended in 2021. The balance of £90,121 was held for the final claims and have been expended this year.

Transactions and balances with the company's subsidiary undertaking, EIDCYMRU, are separately disclosed in Note 23.

Farmers Marts (R G Jones) Limited, auctioneers in which G R Davies is Director and Chief Executive, invoiced the company for £704 (2021:£1,443) in respect of levy recovery costs.

### 23. Subsidiary Undertaking

The company is the sole member, by way of guarantee, of EIDCYMRU, a company limited by guarantee whose principal place of business is Parc Merlin, Aberystwyth. The company is registered in Wales. It's principal activity is as a bureau for the electronic recording of sheep movements in Wales. EIDCYMRU is wholly funded by Welsh Government, such funds being provided on a defrayed basis.

During the year, HCC recharged costs relating to the activities of EIDCYMRU amounting to £98,104 (2021: £55,249). At the year end £11,377 (2021:£15,198) is outstanding.

## Notes To the Financial Statements (continued)

### 24. Pension Schemes

#### **Hybu Cig Cymru Group Personal Pension Plan**

The company made contributions to individual personal pension plans for some of its employees. Contributions are charged to the statement of comprehensive income as incurred and amounted to £68,849 (2021:£69,641). Contributions amounting to £5,543 (2021: £5,651) were outstanding at the year-end.

#### **Meat and Livestock Commission Pension Scheme**

The company also made contributions to a defined benefit pension scheme which is operated by the Agriculture and Horticulture Development Board. The scheme closed to future accrual with effect from 31 March 2022 and the members are now deferred.

The contributions paid in the year amounted to £152,962 (2021:£46,731) and there were outstanding contributions at the year-end of £3,997 (2021: £3,905). This cost is based on the actuarial valuation made as at 31 March 2018. Employer contributions are payable at a rate of 27% (2021: 27%) of pensionable salaries. The contributions in the year include the purchase of additional years service for the employees as the scheme closed to future accrual.

Information regarding the split of the scheme's assets between the participating employers is not available. The company is therefore unable to account for the plan as a defined benefit plan and is accounted for as if it were a defined contribution plan. The market value of the entire pension scheme assets at 31 March 2022, as calculated per IAS19, amounted to £196.5m (2021: £210.9m) which is sufficient to cover 102.9% (2021: 96.7%) of the value of the benefits that had accrued to members, after allowing for earnings increases.

Further information in respect of a liability that may arise when the company ceases to employ anyone within this scheme can be found in note 21.