



Llywodraeth Cymru
Welsh Government

Review of Hybu Cig Cymru – Meat Promotion Wales

by Kevin Roberts



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Foreword

I am pleased to present Kevin Roberts' review of Hybu Cig Cymru which was commissioned at the end of last year. As Cabinet Secretary for Environment and Rural Affairs I fully appreciate the importance of the red meat industry to Wales and particularly to our rural communities.

HCC is a key player in the Welsh red meat industry and I am grateful for all the work HCC has done to support and build our markets at home and abroad. There is much work to be done in light of the outcome of the EU Referendum and as this report highlights, there is a need for HCC to work together with others across the industry to maximise the impact of our efforts in supporting the industry over the coming years.

The Welsh Government, through the Wellbeing and Future Generations Act, is keen to play its part in helping to further develop the farming and food sectors in Wales and the recommendations in this review will help us to achieve this goal. It is important that any changes we make now are sustainable and we must consider how they will affect the industry in the future.

I would like to thank all the individuals and organisations who helped inform this review; every suggestion made has been listened to and considered as part of the process. I know I can rely on HCC to work with Government to implement the helpful recommendations contained within the review report.



A handwritten signature in black ink that reads "Lesley Griffiths".

Lesley Griffiths AM
Cabinet Secretary For Environment And Rural Affairs

Executive Summary

The Welsh Government commissioned me to carry out a review of Hybu Cig Cymru – Meat Promotion Wales in December 2015. The purpose of this review was to determine how well HCC can meet the future requirements of the red meat sector in Wales. I have also included a section on how the UK's decision to leave the European Union impacts on the work of HCC.

During the review I was asked to answer eight specific questions; these were:

- How well the functions are carried out and whether HCC delivers value for money to levy payers, the wider industry and the Welsh Government
- If the functions of HCC continue to be appropriate
- How HCC works with the other levy bodies in Great Britain
- How HCC links to other related strategies and frameworks within the Welsh Government
- Whether HCC has the right structures to go about its work successfully or whether changes are advisable
- Whether an independent body like HCC is needed to carry out the functions;
- Whether its work could be undertaken by the Welsh Government directly or through another body; and
- Whether the relationship between Welsh Government and HCC should be strengthened having regard to reporting mechanisms and wider governance.

In order to fully answer these questions, I spoke to a wide range of people and organisations to evaluate the role of HCC and its ability to deliver value for money for the Welsh Government and levy payers. I also considered a number of relevant reports including the HCC Corporate Plan, Rosemary Radcliffe's Independent Review of Levy Bodies in 2005, Towards Sustainable Growth: An Action Plan for the Food and Drink Industry 2014-2020 and the Welsh Red Meat Industry Strategic Action Plan 2015-2020.

I have made 21 recommendations in all, but the main focus is on collaboration with partner organisations, tightening of the governance arrangements and changes to the HCC Board, particularly around representation and the roles of individual members to ensure robust scrutiny and challenge to the Executive.

I feel there is a need for a more formal relationship between HCC and the Welsh Government in the form of an updated governance framework and annual remit letter, a programme of formal meetings and an annual meeting with the serving Cabinet Secretary. In addition, HCC need to work with partner organisations more closely when planning programmes of activity to avoid possible duplication of effort and spend.

My other recommendations include a fundamental review of HCC's investment decisions every 3 years, a formal AGM to be held and broadcast live over the internet allowing levy payers and others with an interest in HCC's activities to view the proceedings and exploration of options for retaining a quality mark for Welsh Lamb and Welsh Beef following the UK's exit from the European Union.

Whilst I tested my recommendations with a cross section of industry representatives and government officials for accuracy of my beliefs throughout the process, my report is wholly independent.

Taking forward some of my recommendations will be challenging for HCC and for the Welsh Government. However, I believe they are necessary to facilitate the changes and improvements required. The key to delivering these recommendations is communication on all sides along with full collaboration.

I would like to take this opportunity to thank all who gave of their time and expertise throughout this process.

Summary of Recommendations

- HCC to continue as a company wholly owned by the Welsh Government.
- The statutory red meat levy to remain in place within the Welsh red meat industry.
- A greater focus to be given to export promotion alongside continued promotion in the domestic market.
- HCC should conduct a survey to establish the levels of and success of new product development within the red meat sector and seek as a priority to address any shortcomings.
- HCC must work in partnership with Farming Connect delivery contractors if it is to deliver towards its knowledge transfer remit in an integrated and cost effective way.
- The HCC Board should conduct a fundamental review of its investment decisions every three years and ensure they are likely to deliver maximum impact based on the most recent return on investment data collected. This includes the investment on knowledge transfer.
- Welsh Government should consider in conjunction with relevant stakeholders the inclusion of a trust status for farmer levy in the Red Meat Industry (Wales) Measure 2010.
- HCC to hold a formal annual meeting which is broadcast live over the internet permitting maximum engagement and understanding of the organisation's work.
- HCC should increase cost effective collaborative working with other GB levy boards, the Farming Connect Programme and FAWL to deliver more on behalf of levy payers.
- Welsh Government to continue to lead on the recruitment process to the HCC Board with a representative from HCC and an appropriate independent representative to assist.
- The HCC Board to be actively involved in developing HCC's Business Plan to ensure ownership throughout.
- All future appointees to the Board must, as part of their remit, actively play their part in communicating the work of HCC and the Board to levy payers.
- The HCC Board should include members who have professional experience/qualifications of marketing and promotion and of financial matters to ensure robust scrutiny and challenge to the executive.
- The Board should in future be more balanced in gender terms.
- Welsh Government to review all current incorporation documentation, ensure that there is a formal relationship framework document in place and that incorporation documents reflect this framework. This should be accompanied with an annual remit letter.
- A programme of formal meetings between the Welsh Government and HCC to be held and minuted. These meetings will include co-ordination of activities between HCC and the Welsh Government to avoid duplication of effort and spend.
- Chair of HCC to meet formally with the Cabinet Secretary once a year.
- There should be much greater integration of HCC's work with partner organisations' programmes of activity at the planning stages to avoid duplication.

- HCC and Welsh Government to continue to seek an early resolution to the Red Meat Levy distribution exercise.
- Welsh Government to look at levels of organic produce required in the food chain and the potential for this to be improved with promotion.
- Welsh Government and HCC to work together to explore options for retaining a quality mark for Welsh Lamb and Beef following the UK's exit from the European Union.

1. Introduction

- 1.1 On 25 November 2015 the Deputy Minister for Farming and Food, Rebecca Evans AM, announced by written statement a formal review of Hybu Cig Cymru (HCC).
- 1.2 All arms length bodies should be reviewed periodically to ensure they are still necessary and if so, to ensure that they continue to provide good value for money. HCC was created in 2003 as an amalgamation of the interests of the Meat and Livestock Commission in Wales, some of the functions of the Welsh Development Agency (WDA) and Welsh Lamb and Beef Promotions Limited (WLBP). In 2007 there was a reconstitution of HCC converting it into a wholly owned subsidiary of the Welsh Government. HCC has not previously been reviewed in either phase of its development.
- 1.3 I provided the Minister with an interim report (**Annex 1**) on 11th March 2016¹ and my initial findings were that:
 - the statutory levy should continue and HCC should continue to be the appropriate vehicle through which appropriate statutory levies are collected and spent;
 - there is a need to better coordinate industry development work with other services which are available in the market for knowledge transfer, for example the Welsh Government's own Farming Connect;
 - closer working and governance arrangements between HCC and the Welsh Government would benefit both organisations;
 - the entire board of HCC should be more involved in the development of strategic and corporate plans and should undertake more effective engagement with levy payers.

2. Background on HCC

- 2.1 HCC is a company limited by guarantee and does not have a share capital. The sole member of the company is the Welsh Ministers and operates under the direction of an independent Chair and Board all of whom are appointed by the Ministers. It is independent of and separate to, other agricultural levy bodies that exist elsewhere in the UK such as the Agriculture and Horticulture Development Board (AHDB) and Quality Meat Scotland (QMS). It collects levies from livestock producers and processors and invests the money raised on industry and market development functions as prescribed in its founding legislation. This is its principle source of income. The strategic framework for delivery of HCC is directed by the Welsh Red Meat Industry Strategic Action Plan (20:20 Vision)². This was launched by the then Deputy Minister for Farming and Food in July 2015 and identifies the priorities, objectives, targets and actions that will help address key challenges and bring about a positive impact on employment and growth of the rural economy in Wales.

¹ www.gov.wales/about/cabinet/cabinetstatements/previous-administration/2016/hybuwigcymru/?lang=en

² [www.hccmpw.org.uk/medialibrary/publications/Action%20Plan%20\(English\).pdf](http://www.hccmpw.org.uk/medialibrary/publications/Action%20Plan%20(English).pdf)

- 2.2 HCC is governed by the Red Meat Industry (Wales) Measure 2010³, this legislation formalises the use of slaughter levy. A key part of the measure is to ensure money from animals slaughtered in Wales is only used for the benefit of Welsh farmers. It also governs that any levy paid by levy payers for cattle, sheep or pigs may not be used by a different sector e.g. cattle levy can only be spent on the cattle industry etc.
- 2.3 Welsh Lamb and Welsh Beef were granted Protected Geographical Indication (PGI)⁴ status by the European Commission in July 2003 and November 2002 respectively. The PGI status is considered to be of enormous economic importance to the Welsh red meat industry, as it identifies the origin and unique qualities of both Welsh Lamb and Welsh Beef.
- 2.4 HCC has a legal responsibility to act as guardians of the PGI Welsh Lamb and PGI Welsh Beef designations and in order to fulfil its responsibilities and to ensure that the integrity of the designations are protected, HCC has implemented a verification scheme for abattoirs and cutting plants. This scheme provides for strict control and monitoring to ensure that only lamb and beef which meet the specifications is labelled as Welsh.

3. Terms of Reference

- 3.1 This review required me to consider the role and success of HCC in delivering value for money to the Welsh Government and levy payers. Furthermore, I was asked to recommend whether HCC and its functions should continue in their current form or required change. The detailed terms of reference asked seven questions which I answer under the section headed 'The Review.'

4. How the Review was Conducted

- 4.1 I approached the review as a two stage process; stage one was information gathering. I reviewed all existing literature including all relevant legal documents, reports, strategies and plans in order to be conversant with the current arrangements, authorities and functions. I then engaged with and met all relevant Welsh Government officials to gather evidence on how the relationship worked in practice. Then I met senior staff and board members at HCC to understand how they currently discharged their functions.
- 4.2 I engaged with as many stakeholders between December 2015 and April 2016 as possible to get their views on how well HCC performed. I selected stakeholders to ensure I took views from a wide range of organisations in the supply chain and those affected by the activities of HCC. A list of those I spoke to are at **Annex 2**. I also placed an article in the Welsh Government's Gwlad publication with a feedback form asking readers for their views on HCC. This stage ended with the submission of my interim progress report to the Deputy Minister for Farming and Food, which she announced as a Written Statement.

³ www.assembly.wales/en/bus-home/bus-third-assembly/bus-legislation-third-assembly/bus-leg-measures/bus-legislation-measures-proposed_redmeat/Pages/bus-legislation-measures-proposed_redmeat.aspx

⁴ www.ec.europa.eu/agriculture/quality/schemes/index_en.htm

4.3 The second stage of my review was to collate the evidence I had gathered and begin to formulate my own assessment and draft the report and recommendations.

5. The Review

5.1 The Welsh Government asked me to answer a series of questions when completing this work. I have decided to answer each question in turn and structure this review around these questions.

5.2 **Does the Welsh red meat sector need a promotional and development body such as HCC to develop the sector for the benefit of the sector and Wales?**

5.2.1 In this section I considered the fundamental question of the review, my response to this question shapes the review as a whole.

5.2.2 The question of whether the red meat sector needs a promotional and development body is best determined by whether the market would function effectively without the interventions performed by HCC. The ongoing need for intervention is really an economic one and one considered in detail by Rosemary Radcliffe's Review. She developed tests to determine how well the market functioned and what barriers existed preventing more efficient performance. She concluded that market failure existed because the farming industry was made up of a large number of often very small businesses, producing largely homogenous commodity-type products and supplying them to a processing sector that is also made up of a large number of, often small, and quite different businesses. This she termed the fragmentation test as these small businesses were unable to resource important business functions such as research and development and product promotion on their own without intervention. The industry is largely unchanged since her review and this is unsurprising as EU subsidies insulate the sector from the normal market forces that might drive consolidation, cooperation and innovation. **Table 1** below shows the number of holdings and larger businesses in 2007 and 2015 and it is clear that the arguments used by Radcliffe to justify the continuation of a statutory levy still exist and it is for this reason I recommend its continuation.

Table 1 – Number of livestock farms in 2007 compared to 2015

	2007	2015
Total farms with livestock	10939	10675
Number of the total farms in Wales with significant numbers of livestock	9487	8585

5.2.3 Notwithstanding the question being an economic one, I did ask stakeholders whether they thought the industry continued to need a statutory levy; the answer was universally yes. Most respondents recognised that as individual businesses, farmers would not be able to promote their products or finance research and development or knowledge transfer. Some respondents said the price information published by HCC brought greater transparency to the market and aided better selling decisions.

5.2.4 In answer to the fundamental question of the ongoing need for a promotional and development body I believe that there is such a need and this is also well understood by the levy payers and wider stakeholders.

RECOMMENDATION 1 – HCC to continue as a company wholly owned by the Welsh Government

RECOMMENDATION 2 – The statutory red meat levy to remain in place within the Welsh red meat industry

5.3 **Are HCC's functions fit for purpose? Should they be limited or greater?**

5.3.1 In this section I looked at whether the Welsh red meat sector needs promotional and development activity to further it. It also considers whether HCC's functions are fit for purpose, complete or whether they need to be augmented or limited.

5.3.2 HCC's functions are determined by legislation: The Red Meat Industry (Wales) Measure 2010. This sets out the objectives of the red meat levy as:

- Increasing efficiency or productivity in the red meat industry;
- Improving marketing in the industry;
- Improving or developing services that the industry provides or could provide to the community; and
- Improving the ways in which the industry contributes to sustainable development.

5.3.3 The Welsh Government has delegated these functions to HCC. I believe the legislation has sufficient scope to allow HCC to keep pace with the inevitable and almost constant change occurring in the industry.

5.3.4 Most stakeholders, when asked about the functions of HCC, were generally supportive but almost all thought some were more important than others or more/less should be done of each function. A considerable number of respondents felt the most important function was promoting the product. They often cite advertisements on television as the most effective way of doing this. TV adverts are a clear and direct signal to levy payers that their money is being spent in a tangible way; levy payers can actually see the product of the investment. However, any uplift in demand is difficult to sustain and often drops away quite quickly. It is difficult to see how investments of less than £1 million per annum can make any significant impacts when flagship brands have to spend many times more than this per annum. I believe investments in export development offer better immediate returns on investment and generate more sustainable paybacks over time. The sustainability of returns should be evaluated by HCC and this should become one of the criteria used to allocate resources. The rudimentary evidence held by HCC shows that returns are greater from export development and more sustainable when compared on a pound for pound basis. Also, there are positive price impacts in the home market when exports are increased and domestic supply is restricted as this makes buyers compete more aggressively to secure product. Some respondents suggested that some funds should be spent on stimulating product development that made red meat more versatile

and convenient. HCC should conduct a survey to establish how much new product development is conducted within the supply chain and if this is not keeping pace with consumer demands, should stimulate more. Finally, some respondents suggested that more modern methods of communicating product benefits offered better value for money. I have explored how well HCC has embraced social media and it is clear that a growing and sustainable presence has been developed; HCC intend to strengthen this communication channel.

- 5.3.5 The decision of where to invest levy payers' funds has always challenged levy boards and like most mature organisations an element of incremental budgeting is eventually introduced. I believe it is now time for the HCC Board to carry out an internal review of how resources are allocated in order to ensure that investments not only reflect the current strategy but also the best payback. HCC should ensure all promotion campaigns are evaluated post investment to determine value for money and use this data in future to allocate resources. This review should be repeated every three years and ensure they are likely to deliver maximum impact based on the most recent return on investment data collected. This does not imply that any particular activity should be discontinued, that will be determined by the strategy. Rather, pay back information will determine whether investments are increased or decreased. This review will also address the wider question of how much money is invested in knowledge transfer from the overall budget. A review of the strategy should determine if the levy payers' need for knowledge transfer is now being met more effectively through schemes such as Farming Connect; in other words there is less market failure than existed before Farming Connect was introduced. This is a development that should be taken into account when considering strategy and resource allocation. A better role for HCC going forward would be to work more closely with the Farming Connect programme to ensure the information being provided more accurately meets the needs of their levy payers.
- 5.3.6 A consistent theme running through the feedback from stakeholders was that the work of HCC should be fully integrated with other work conducted by the Welsh Government, other levy boards or other players in the market. The Welsh industry is small and there is no room for duplication or competition of any sort. Effective integration can only be achieved through early engagement in the strategic planning process with other players, and monitored with regular feedback meetings.
- 5.3.7 There is one minor change to the legislation that should be implemented as soon as possible and that is to include a clause that creates a trust status on farmers' levies held by abattoirs but not paid to HCC. This will protect the levies held by abattoirs should they go into liquidation as they will have been held separately from other assets.

RECOMMENDATION 3 – There should be a greater focus to be given to export promotion alongside continued promotion in the domestic market.

RECOMMENDATION 4 – HCC should conduct a survey to establish the levels of and success of new product development within the red meat sector and seek as a priority to address any shortcomings.

RECOMMENDATION 5 – HCC must work in partnership with Farming Connect delivery contractors if it is to deliver towards its knowledge transfer remit in an integrated and cost effective manner.

RECOMMENDATION 6 – The HCC Board should conduct a fundamental review of its investment decisions every three years and ensure they are likely to deliver maximum impact based on the most recent return on investment data collected. This includes the investment on knowledge transfer.

RECOMMENDATION 7 – Welsh Government should consider in conjunction with relevant stakeholders the inclusion of a trust status for farmer levy in the Red Meat Industry (Wales) Measure 2010.

5.4 How effective is HCC in discharging its functions? Does it provide value for money for levy payers and the Welsh Government?

- 5.4.1 This section makes an overall assessment of whether the delivery function provides value for money to the Welsh red meat levy payers. I have also looked at how HCC works with all parts of the red meat sector, including its communications with farmers, processors, retailers and other levy bodies. I have also looked at the effectiveness of HCC in promoting and developing markets for PGI Welsh Beef and PGI Welsh Lamb.
- 5.4.2 Most of the levy payers and their representatives that I spoke to said they lacked a full understanding of the work of HCC and were therefore unable to comment fully on its performance. This view prevailed even though there is substantial communication by HCC on its performance in its various reports and plans. HCC also meets regularly with its stakeholders to provide feedback on performance. Many levy payers representatives said there was communication about what was going to be done but very little feedback after the programmes were implemented.
- 5.4.3 I have considered the data held by HCC and all post investment evaluations show positive results in payback or increased awareness figures. HCC should as a matter of routine evaluate the payback of all major campaigns at home and overseas. The most significant evaluation conducted recently showed the return to levy payers from investments in PGI lamb and beef was in excess of £115 million for a levy investment of £22 million. In addition, a three year Welsh Government investment of £1.2 million to support the activities of HCC resulted in over £35 million of new and safeguarded business for PGI Welsh Lamb and PGI Welsh Beef.
- 5.4.4 It is therefore very clear that the lack of understanding is a result of levy payers not realising the information is already readily available. HCC must engage better on their communication otherwise this will leave them in a vulnerable position and out of step with their levy payers. They must ensure that the communications they make are understood better and this is more about how they engage with levy payers than the content of what they say.

- 5.4.5 I believe a formal Annual General Meeting should be introduced where the entire board stands accountable to levy payers and the Welsh Government on the previous year's performance. This event could be coordinated with existing conference events and therefore should not be too costly. I also propose that the event should be broadcast live over the internet giving access to levy payers unable to attend. As a live and interactive event, levy payers would at least have an opportunity each year to speak directly with the board of HCC.
- 5.4.6 I have no doubt that the programmes will stand scrutiny when challenged and if the programmes are better aligned to strategy and Return on Investment, HCC will have a good story to tell.

RECOMMENDATION 8 – HCC to hold a formal annual meeting which is broadcast live over the internet permitting maximum engagement and understanding of the organisation's work.

5.5 Is HCC fit for purpose to discharge its functions fully and effectively?

- 5.5.1 This section considered whether HCC should continue in its current form or whether it needs to change.
- 5.5.2 When asked, most levy payer representatives felt comfortable with HCC without being able to express detailed information about its performance. I take this as being comfortable with the concept of a levy board working on their behalf. The earlier recommendations on better engagement should help underpin this favourable disposition with more tangible data on performance.
- 5.5.3 Generally I believe HCC is fit for purpose in shape and function but could improve performance by working better with other players in its sector. Collaboration will provide better overall outcomes for levy payers.
- 5.5.4 I believe HCC needs to work more closely with the Welsh Government in order to integrate its work more cohesively with the government's own programme. During the interview stage of this review I was told of work being conducted of which one party or the other was not aware. This work may have been discharged in a different, more effective way if all parties were working better together and therefore better informed. I don't think it is necessary to apportion blame or decide whose fault it was that programmes on occasion were out of step; rather it is important to introduce measures to avoid this happening in future. I will discuss measures to improve relationships and governance later in the report but suffice to say here that early engagement on HCC's Corporate/Business Plan would help.

RECOMMENDATION 9 – HCC should increase cost effective collaborative working with other GB levy boards, the Farming Connect Programme and FAWL to deliver more on behalf of levy payers.

5.6 Does HCC's board provide effective governance and strategic leadership?

5.6.1 In this section I have looked at HCC's Board. I have considered whether it provides strong strategic leadership, sufficient challenge to the Executive and effective representation.

5.6.2 Appointments to the HCC Board are made by Welsh Ministers. It has 10 members including the Chairperson and is made up of industry and independent members. Industry members represent the majority of Board members and are selected from the red meat sector to bring industry experience and knowledge. The remainder of the Board is represented by independent members selected to bring wider knowledge from professional disciplines such as finance, research and marketing. Board Members were re-appointed in April 2015 and will hold the position for 18 months. The current Board of HCC is shown at **Annex 3**.

5.6.3 I have attended three board meetings as an observer and on the whole felt that the Board might have offered more challenge to the Executive. The agenda and work programme is driven by an energetic and conscientious HCC executive team who absolutely have the best interests of the organisation and industry, at heart, but this often means that the Board is left to consider finished documents that they have not been sufficiently involved in creating and lack ownership of.

5.6.4 The sector would be better served by a Board that is more substantially involved in setting the direction and strategy; after all it is the Board's responsibility to set strategy and the executive to implement it. I accept this is often a joint effort but the Board need to take a greater ownership in the case of HCC. I am recommending that in future the whole Board is involved in the horizon scanning element of HCC's Corporate/Business Plan. This is a process that considers the challenges and opportunities facing the sector and organisation and where vital decisions on resource allocation are decided. Having set the overall direction, the executive should then work up the full document. When the plan comes back to the Board for sign off, it will have a greater ownership of the strategy and be more conversant with the issues.

5.6.5 A greater ownership of the strategy will allow the Board to be more effective and enthusiastic communicators on behalf of the organisation. This will help share the heavy load of communicating with the industry and reduce the reliance on the Chair and CEO. I am recommending that in future it should be a clear requirement of board members to be more active in communicating the activities, performance and successes of HCC. This should also be incorporated into the role specification for Board members in future recruitment exercises. Applicants should be required to demonstrate how they would meet this important commitment.

5.6.6 HCC is currently considering how best to finance its operations after the cessation of a number of government programmes. During the next financial year HCC will need to either; secure additional levy by securing a solution to the red meat levy collection and distribution issue or source new Welsh Government Rural Communities – Rural Development Programme funding; or cut its costs accordingly. However, I support the current wait and see approach.

- 5.6.7 Recruitment of the HCC Board is led by WG with support from HCC. This should continue to comply fully with governance rules for arm's length bodies. I suggest the interview panel is made up of one member of HCC, one senior Welsh Government representative and an independent member. The panel should have an appropriate gender balance.
- 5.6.8 Future board members should be recruited for the specific skills required to allow robust scrutiny and challenge; particularly in marketing and finance. It is very difficult to hold the executive to account on these technical areas without the appropriate expertise around the table.
- 5.6.9 On the general make-up of the board I think the ratio of industry representatives and independents is about right but going forward I would strongly urge the recruitment of more women in both industry and independent roles as this will undoubtedly have a positive impact on the operation and performance of the board as a whole.

RECOMMENDATION 10 – Welsh Government to continue to lead the recruitment process to the HCC Board with a representative from HCC and an appropriate independent representative to assist.

RECOMMENDATION 11 – The HCC Board to be actively involved in developing HCC's Corporate/Business Plan to ensure ownership throughout.

RECOMMENDATION 12 – All future appointees to the Board must, as part of their remit, actively play their part in communicating the work of HCC and the Board to levy payers.

RECOMMENDATION 13 – The HCC Board should include members who have professional experience/qualifications of marketing and promotion and of financial matters to ensure robust scrutiny and challenge to the executive.

RECOMMENDATION 14 – The Board should in future be more balanced in gender terms.

5.7 **Is HCC's relationship with the Welsh Government effective?**

- 5.7.1 This section looks at HCC's relationship with the Welsh Government; it considers whether there is effective communication between both parties and proper oversight by the Welsh Government of HCC and proposes how this relationship could be strengthened.
- 5.7.2 HCC and the Welsh Government have a formal relationship in place in which a sponsor division within the Welsh Government liaises directly with HCC. Through the Memorandum and Articles of Association of HCC, the Welsh Government is entitled to nominate up to two officials as observers at the HCC Board. This does not allow the Welsh Government to have voting rights and I do not believe this should

change. The most appropriate place for the Welsh Government to hold HCC to account is through the governance relationship. To ensure good governance of HCC, this prescriptive nature of the business documentation needs to be reviewed to ensure it is fit for purpose particularly in light of complications which have arisen surrounding government relationships with sponsored bodies elsewhere.

5.7.3 In general, the relationship works because there is goodwill on both sides, however, there needs to be more formality in order to ensure there are effective outcomes from a more integrated programme of work. Furthermore, I recommend that a framework document is drawn up along with an annual remit letter that describes in detail the roles and responsibilities on both sides in respect of the governance relationship. I also think a programme of formal meetings should be diarised at the start of the year which have standing agendas and are formally minuted. These meetings will provide a formal opportunity to share information and ensure the work of HCC and its subsidiary, EID Cymru, is effectively integrated into the wider work of the Welsh Government. At least one of these meetings should provide an early opportunity in the planning cycle to coordinate activities. The Chair of HCC should have one formal meeting each year with the Cabinet Secretary to update on progress and performance which should coincide with the issuing of the remit letter.

5.7.4 I have met with the Corporate Governance Unit of the Welsh Government and understand there is a Framework document which is widely used with Welsh Government Sponsored Bodies. Implementing something formal on these lines for the relationship with HCC should be a priority for Welsh Government.

RECOMMENDATION 15 – Welsh Government to review all current incorporation documentation, ensure that there is a formal relationship framework document in place and that incorporation documents reflect this framework. This should be accompanied with an annual remit letter.

RECOMMENDATION 16 – A programme of formal meetings between the Welsh Government and HCC to be held and minuted. These meetings will include co-ordination of activities between HCC and the Welsh Government to avoid duplication of effort and spend.

RECOMMENDATION 17 – Chair of HCC to meet formally with the Cabinet Secretary once a year.

5.8. Does HCC have an effective relationship with other bodies and link to existing related strategies?

5.8.1 This section looks at how HCC interacts with other bodies and strategies. There are existing meat levy bodies within Great Britain such as QMS in Scotland and AHDB in England along with other levy bodies such as the dairy levy Board. There are also various strategies such as the Red Meat Strategy, Agriculture Strategy and Animal Health and Welfare Framework.

5.8.2 I am a strong advocate of working together. Levy boards across the UK have limited funds and it is therefore clear that pooling resources in non-competitive areas make eminent sense. Research and development, opening up new export markets and market intelligence are prime areas for collaboration. A number of factors can get in the way of cross border working but these should be set aside for the greater good. HCC already works with AHDB and QMS on research but this work could be increased greatly.

5.8.3 The work on reviewing the collection and distribution of red meat levy is something that needs to continue at pace and an early resolution of this issue will help enormously. However, I do recognise that in some markets there is no market advantage from HCC, QMS and the AHDB working separately on an export basis, particularly in light of the recent vote to leave the European Union.

5.8.4 More generally, my earlier recommendations on integration will improve links to existing related strategies. Horizon scanning at the planning stage should incorporate the existing strategies and contact with the owners of the strategies to ensure there is no cross-over. This alone should improve things considerably. Some of the interviewees informed me that they often found it difficult to get information out of HCC to enable joint working to happen. This is something that needs to be improved as collaboration will reduce costs and increase the benefits for Welsh farmers.

RECOMMENDATION 18 – There should be much greater integration of HCC's work with partner organisations' programmes of activity at the planning stages to avoid duplication.

RECOMMENDATION 19 – HCC and Welsh Government to continue to seek an early resolution to the Red Meat Levy distribution exercise.

5.9 Other Matters Discussed During the Interviews

5.9.1 Although the Welsh Government requested I answer the questions as detailed earlier in this report I was also invited by those I interviewed to provide a commentary on certain other related matters which are detailed below:

- There was a significant challenge from the organic sector who made a strong case that organic red meat was under performing when compared to other organic food commodities both at home and abroad. Although the evidence supported the case, it did not identify why organic red meat was underperforming. This could be a failure of effective marketing as asserted by the sector, or there could be barriers

in the supply chain or pricing issues at the point of sale. Organic production has been significantly stimulated by various government incentive schemes over the last 20 years and it could be that in this area supply has got well ahead of demand. From the limited investigations I conducted it was impossible to determine the cause of the underperformance. A more in-depth supply chain analysis would determine whether more promotion would rectify the matter or whether supply should be curtailed. More investment in promotion would have to be financed in part from other sources as HCC has limited capacity from the organic red meat levy.

- Some of those interviewed stated that HCC do not engage with them as they do not directly pay a levy. Although it is true that HCC was set up for levy payers it also has a function to improve the promotion of Welsh produce. Some of the non levy paying organisations could be useful to HCC particularly if they have links with export markets, supermarkets and large scale producers. HCC should re-consider their position on this interaction.
- There was some pressure during the interviews for HCC to spend more money on activities to specifically benefit sub-brands. In the main I support HCC's existing policy on sub-brands although it should try and support viable local programmes within the context of this policy. HCC would not be able to deliver industry-wide benefits if it divided its resources into small amounts reflecting the value of levy collected from each potential sub-brand. It also goes against the Red Meat Industry (Wales) Measure 2010.

RECOMMENDATION 20 – Welsh Government to look at levels of organic produce required in the food chain and the potential for this to be improved with promotion.

6. Exit from European Union: Implications for Red Meat

- 6.1 In light of the recent vote for the UK to leave the European Union we must seek to urgently determine the likely impacts on red meat sales home and abroad. My report details the importance of exports for the red meat market but it is difficult to provide more of a commentary on this matter in the absence at this point of any new trading agreements.
- 6.2 Welsh lamb and Welsh beef relies on its PGI status to inform buyers of the quality and condition of the meat. I recommend that the Welsh Government and HCC look to engage with parallel quality marks following the EU exit to protect the good work the PGI has done in helping promote Welsh lamb and beef.

RECOMMENDATION 21 – Welsh Government and HCC to work together to explore options for retaining a quality mark for Welsh Lamb and Beef following the UK's exit from the European Union.

7. Conclusion

- 7.1 My review has concluded that HCC is doing good work but does need to change and improve in some important areas. In order to grow and achieve more for Welsh levy payers it needs to be less insular, collaborate more and become a more confident organisation.
- 7.2 Collaboration is in everyone's best interests, it reduces the amount of spend required to effectively promote red meat and when more are involved in the work the messages can be circulated to a greater audience.
- 7.3 The red meat industry has always faced challenges and these will continue; particularly with the adjustment needed when the UK leaves the European Union. My recommendations in this report will assist HCC and the Welsh Government in meeting these challenges.

Interim Report – Hybu Cig Cymru (HCC) Review

Introduction

This report provides interim feedback on the HCC Review and although the review is still in its early stages, I believe I have collected enough evidence to provide reasonably robust views.

Approach

I was given the following objectives within the terms of reference:

- Does the Welsh red meat sector need a promotional and development body such as HCC to develop the sector for the benefit of the sector and Wales?
- Are HCC's functions fit for purpose? Should they be limited or greater?
- How effective is HCC in discharging its functions? Does it provide value for money for levy payers and the Welsh Government (WG)?
- Is HCC fit for purpose to discharge its functions fully and effectively?
- Does HCC's board provide effective governance and strategic leadership?
- Is HCC's relationship with the WG effective?

My approach to the review has been to divide the work into two phases; first, to conduct a literature review and gather evidence through interviews with interested parties and secondly to analyse the evidence, draw conclusions and make appropriate recommendations. This interim report will bring you up to speed on the first phase of work, identify emerging findings and seek your views on whether there are other areas of work you wish me to explore.

My small team and I have conducted 27 interviews with WG staff and key stakeholders. This includes a group of young farmers and the NFU Cymru livestock board. In addition I have spoken extensively to HCC staff and HCC Board members. The evidence gathering work is not yet complete but should be finalised during March 2016. This evidence base will be tested against my own views and form the basis of a further round of interviews with HCC and WG in the second phase.

The next few paragraphs provide an interim report against the key objectives stated in the terms of reference.

1. Is a statutory levy still required and are HCC the correct vehicle to collect the levy?

I have used the tests developed by Rosemary Radcliffe for her review of levy boards conducted in 2005. She established that market failure existed because the industry is made up of a large number of often very small businesses, producing largely homogeneous commodity-type products and supplying them to a processing sector that also made up of a large number of, often small, different businesses. This she termed the fragmentation test as these small businesses were unable to resource important business functions such as research and development and product promotion on their own without intervention. The industry is largely unchanged since her review and this is unsurprising as EU subsidies insulate the sector from the normal market forces that might drive consolidation, cooperation and innovation. For these reasons I advocate that the statutory levy continues.

Having established that a statutory levy is still necessary I then sought views on whether an organisation like HCC is the appropriate vehicle through which to collect and spend the statutory levies. The overwhelming feedback from farmers and their representatives is that they are reassured by the apparent independence of HCC and its arm's length nature. There is clear traceability, accountability and transparency provided by a separate entity and this would be lost if the money simply went into general funds of the Welsh Government. We explored other mechanisms such as cooperative vehicles and voluntary levies but none of these found favour. All in all, the statutory levy system and HCC, although not perfect, was the preferred option.

2. Use of levy money

The next element I explored was whether the levy funds were spent in the right areas and in the right amounts. This is an element I will work on further in the second phase of the work, however I am getting strong feedback from most stakeholders that market development is an area they want maintained but refined. There was much more support for export market development than continuing to invest relatively small sums of money in TV campaigns in the home market. The view was that these campaigns were unable to provide sustainable improvements in value and volume of purchases over the long term. This is an issue I will explore in more depth in the second phase of the review. I have also had consistent feedback on the need to coordinate industry development work with other services which are available in the market for knowledge transfer; this was also a strong theme in the feedback from WG, a matter which I will return to later.

3. Governance

I then explore how well the governance arrangements work both within HCC and between HCC and WG. After a review of relevant documentation I have concluded that the governance of HCC would be enhanced through a more robust relationship between HCC and WG. There should be more formality and better documentation; regular meetings with prescribed standing agendas so everyone concerned knows which matters need to be discussed and when. I will be making full recommendations on the nature of the formal documentation that needs to be put in place in my final report. I am convinced that a closer, more formal working relationship with WG officials will also improve the mutual understanding of what each party does and how the various activities can be better integrated.

In respect of the internal governance of HCC, I would recommend that the whole board of HCC be more involved in the development of strategic and corporate plans, this will ensure a greater ownership of the HCC strategy by the board and this in turn will allow each board member to fulfil more effectively the important role of communicating with the industry. Better engagement with levy payers is essential if HCC is to continue to receive their trust. Responsibilities for communication currently fall to the Chairman and Chief Executive and this should be extended to the whole board. I will expand on my recommendations for the board, its make up and whether there are any skills gaps in the final report.

4. Accountability

Finally I look at how well HCC fulfils its accountability to levy payers. I believe the industry perceives there is a lack of information provided by HCC on its plans and performance; this is a matter I want to explore further because there is adequate information but apparently this is not understood by levy payers. My final report will include measures on how this gap can be closed but I believe, at this stage, the recommendations will largely focus on better engagement rather than more or different information. I believe better engagement will also improve dramatically relationships with WG.

Conclusion

It is hoped these early findings show that the review is shaping up well and give an insight into the likely recommendations in the final report. There is still much to do and I look forward to providing my final report.

K J Roberts

List of Interviewees

Rebecca Evans AM, former Deputy Minister for Farming and Food
Nick Allen (Agriculture and Horticulture Development Board)
Kevin Austin, Deputy Head of Agriculture, Sustainability and Development, Welsh Government
Norman Bagley (Association of Industrial Meat Suppliers)
Tim Bennett (Deputy Chair of the Food Standards Agency Board)
Spencer Conlon, Head of Animal Policy Division, Welsh Government
Dorian Davies, Former Contract Manager for Farming Connect, Welsh Government
Delyth Davies, (Agriculture and Horticulture Development Board)
Huw Davies (Llandre Farm)
Gary Douch, Former Head of Farming Connect, Welsh Government
John Dracup, (2 Sisters Food Group)
Nick Fenwick (Farmers Union of Wales)
Jim Gaffney (Randall Parker Foods)
Charlotte Garbutt (Agriculture and Horticulture Development Board)
Christianne Glossop, Chief Veterinary Officer, Welsh Government
Jayne Griffiths (Foods Standards Authority)
Gary Haggaty, Deputy Director, Agriculture and Rural Affairs, Welsh Government
Peredur Hughes (Chair, Animal Health and Welfare Strategy)
Wynfford James
Moss Jones (Welsh Lamb and Beef Promotions)
Barrie Jones (DUNBIA)
Professor Wynne Jones (Chair, Farming Connect)
Ifan Lloyd (British Veterinary Association)
Chris Mallon (National Beef Association)
Helen Minnice-Smith, Agriculture and Climate Change Policy Advisor, Welsh Government
Tim Mordan, Head of Agriculture and Horticulture Development Board Sponsor Division (Defra)
David Morris, Deputy Head of Food, Welsh Government
Helen Morris, Head of Corporate Governance, Welsh Government

Uel Morton (Quality Meats Scotland)
Jonathon Parker
Matthew Quinn, Director of Environment and Sustainable, Welsh Government
Graham Rees, Deputy Director, Marine and Fisheries, Welsh Government
Andy Richardson, (Wales Food Board)
Laura Ryan (Agriculture and Horticulture Development Board)
Justin Scales (Capestone Organics)
Marcus Sherreard (Dawn Meats)
Andrew Slade, Director of Agriculture, Food and Marine, Welsh Government
Keith Smyton, Head of Food, Welsh Government
Phil Stocker, (National Sheep Association)
Terri Thomas, Deputy Director, Rural Development Division, Welsh Government
Huw Thomas (Puffin Produce)
Don Thomas (Welsh Lamb and Beef Promotions)
Chris Wardle (Organic Farmer)
Rebecca Williams (Country Land and Business Association)
Gareth Wilson, Agriculture Policy Manager, Welsh Government
Catherine Fookes & Paul Moore (Organic Trade Board)
John Mercer & Dylan Morgan (National Farmers Union Cymru)
National Farmers Union Cymru Livestock Board
A group of young farmers at a HCC Review public meeting on 24 February in Lampeter

Hybu Cig Cymru Board

Board Members are representative of farmer and processor levy payers and others who possess skills relevant to the future development of the organisation.

Chair: Dai Davies

Farmer Levy Payers: Graham Probert
Richard Rogers
Richard Tudor
John Yeomans

Processor Levy Payers: Wyn Williams

Independent Members: John Brereton
Professor William Haresign
Gwynn Angell Jones
Bethan Wynne Jones

Recommendations

Number	Description	Timescale	Responsibility
1	HCC to continue as a company wholly owned by the Welsh Government.	N/A	Welsh Government
2	The statutory red meat levy to remain in place within the Welsh red meat industry.	N/A	Welsh Government
3	A greater focus to be given to export promotion alongside continued promotion in the domestic market.	September 2017	HCC
4	HCC should conduct a survey to establish the levels of and success of new product development within the red meat sector and seek as a priority to address any shortcomings.	Spring 2017	HCC
5	HCC must work in partnership with Farming Connect delivery contractors if it is to deliver towards its knowledge transfer remit in an integrated and cost effective way.	Spring 2017	Welsh Government/ HCC
6	The HCC Board should conduct a fundamental review of its investment decisions every three years and ensure they are likely to deliver maximum impact based on the most recent return on investment data collected. This includes the investment on knowledge transfer.	Autumn 2017	HCC
7	Welsh Government should consider in conjunction with relevant stakeholders the inclusion of a trust status for farmer levy in the Red Meat Industry (Wales) Measure 2010.	Spring 2017	Welsh Government
8	HCC to hold a formal annual meeting which is broadcast live over the internet permitting maximum engagement and understanding of the organisation's work.	November 2016	HCC
9	HCC should increase cost effective collaborative working with other GB levy boards, the Farming Connect Programme and FAWL to deliver more on behalf of levy payers.	Spring 2017	HCC

Number	Description	Timescale	Responsibility
10	Welsh Government to continue to lead the recruitment process to the HCC Board with a representative from HCC and an appropriate independent representative to assist.	Spring 2017	Welsh Government
11	The HCC Board to be actively involved in developing HCC's Corporate/Business Plan to ensure ownership throughout.	Spring 2017	HCC
12	All future appointees to the Board must, as part of their remit, actively play their part in communicating the work of HCC and the Board to levy payers.	Spring 2017	HCC
13	The HCC Board should include members who have professional experience/qualifications of marketing and promotion and of financial matters to ensure robust scrutiny and challenge to the executive.	Spring 2017	HCC/Welsh Government
14	The Board should in future be more balanced in gender terms.	Spring 2017	HCC
15	Welsh Government to review all current incorporation documentation, ensure that there is a formal relationship framework document in place and that incorporation documents reflect this framework. This should be accompanied with an annual remit letter.	Autumn 2016	Welsh Government
16	A programme of formal meetings between the Welsh Government and HCC to be held and minuted. These meetings will include co-ordination of activities between HCC and the Welsh Government to avoid duplication of effort and spend.	Autumn 2016	Welsh Government/ HCC
17	Chair of HCC to meet formally with the Cabinet Secretary once a year.	Spring 2017	Welsh Government/ HCC
18	There should be much greater integration of HCC's work with partner organisations programmes of activity at the planning stages to avoid duplications.	Spring 2017	HCC
19	HCC and Welsh Government to continue to seek an early resolution to the Red Meat Levy distribution exercise.	Ongoing	Welsh Government

Number	Description	Timescale	Responsibility
20	Welsh Government to look at levels of organic produce required in the food chain and the potential for this to be improved with promotion.	Autumn 2017	Welsh Government
21	Welsh Government and HCC to work together to explore options for retaining a quality mark for Welsh Lamb and Beef following the UK's exit from the European Union.	Ongoing	Welsh Government/ HCC