MHS
Meat Hygiene Service

# Annual Report & Accounts 2009/10

## Protecting Public Health and Animal Health and Welfare

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Meat Hygiene Service

An Executive Agency of the Food Standards Agency

# Annual Report & Accounts 2009/10

## Protecting Public Health and Animal Health and Welfare

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# Contents

# Chief Executive's overview

This is the last annual report of the Meat Hygiene Service (MHS) marking the final stage of our integration with the Food Standards Agency (FSA).

A successful Transformation Programme (2008–2010) has produced far reaching changes across the MHS including:

- a new and more effective operational management structure
- a reduction in back office support through the closure of our regional offices
- revised contracting arrangements
- modernisation of our Terms and Conditions of Employment, and
- the integration of our corporate services with the FSA for improved efficiency and effectiveness.

Throughout, we have encouraged food businesses to fulfil their obligation to protect public health and ensure safe meat from healthy well cared for animals. 2009/10 has been no exception. As the regulator of the meat industry, the MHS has had to deliver the most efficient and effective service possible whilst maintaining consumer protection through the delivery of European Union (EU) official controls on meat hygiene. Official controls are delivered by MHS staff on demand, 24 hours a day, seven days a week, at over 400 abattoirs and game handling premises in Great Britain. Audits are also undertaken by the MHS at over 1,000 cutting plants and cold stores. In sometimes difficult working environments MHS staff have worked hard to ensure safe meat is produced by businesses and that animal welfare is protected.

While overall industry compliance with official controls has been good, there were still operators who were not complying fully with EU legislation in 2009/10. In response, we took 259 formal and 1,997 informal enforcement actions.

A new operational management structure introduced in February 2009 has been successful in ensuring a consistent and robust approach to compliance with regulations and enforcement. Key operational management initiatives include themed visits to approved premises by Lead Veterinarians and the identification of premises that are a 'cause for concern'. The latter forms part of the MHS's compliance and enforcement strategy, which emphasises working with businesses to achieve compliance rather than relying on enforcement alone as a compliance mechanism. The MHS has introduced a system which identifies businesses considered a cause for concern on the basis of their most recent audit scores. These businesses represent only 6% of the total number of approved meat establishments in Great Britain. New audits are conducted by way of review of these establishments and many are able to demonstrate improvements which results in the removal of 'cause for concern' status.

Business Agreements between the MHS and businesses have been instrumental in analysing and capturing the operational requirements of individual businesses, and provide a framework for the MHS to deliver official controls. The greater majority of those in the meat industry acknowledge that they must take responsibility for improving their own levels of compliance. I am pleased with the way many in industry have continued to work with us through 2009/10 to achieve improvements for the protection of both public health and animal health and welfare.

Financially, the MHS has made great progress. In last year's Annual Report it was reported that we delivered further cost reductions of £9.2 million in 2008/09 (84% better than originally planned) on top of those already delivered in 2007/08. Through 2009/10 we were able to reduce costs still further to £68.1 million (£62.3 million in real terms) by end March 2010 – a real terms reduction of 32% since 2006/07.

Looking to the future, we will continue to deliver official controls effectively and efficiently when fully integrated with the FSA. MHS staff skills and experience will be core to the new FSA Operations Group. The creation of the Group will provide better alignment to deliver the FSA's Strategic Plan objectives and a single focus for the delivery of official controls.

Steve McGrath
Chief Executive
21 June 2010

# Annual Report

## Background to the MHS

Until 31 March 2010 the Meat Hygiene Service (MHS) was an Executive Agency of the Food Standards Agency (FSA). It was first established as an Executive Agency of the former Ministry of Agriculture, Fisheries and Food (MAFF) on 1 April 1995, when it took over meat inspection duties from some 300 local authorities and became a single agency responsible for the enforcement of meat hygiene legislation in Great Britain (GB). The great majority of staff transferred to the MHS from local authorities, bringing with them their expertise in meat inspection. On 1 April 2000 the MHS transferred from MAFF to become an Agency of the FSA. The Executive Agency status of the MHS was dissolved on 1 April 2010 when its staff and functions were brought into the FSA to form the core of a new FSA Operations Group. In accordance with the Financial Reporting Manual the accounts are prepared on a going concern basis as all the MHS financial transactions are settled with funds voted by Parliament to the Food Standards Agency, and all functions of the MHS were transferred from one part of Government to another.

The MHS was responsible for official controls in all approved fresh meat premises. Official controls are required by European Union (EU) Legislation and are necessary to verify that Food Business Operators (FBOs)[1] comply with hygiene rules and respect the criteria and targets as set out in the specific regulations. Official controls include undertaking specific inspection tasks and determining, through audit, the verification of FBOs' arrangements and their proper application.

[1] Slaughterhouses, cutting plants and game handling establishments

The principal activities of the MHS included:

- Enforcing legislation on:
  - Hygiene
  - Specified Risk Material (SRM) and other animal by-products
  - Animal welfare at slaughter
  - Emergency controls related to animal disease outbreaks
  - Rejection of meat or animals unfit or banned from the food chain.
- Providing meat inspection and controls on health-marking.
- Collecting and dispatching samples for statutory veterinary medicines residue testing.
- Transmissible Spongiform Encephalopathy (TSE) examination and testing.
- Checking cattle identification.
- Providing export certification.

# Delivering services

The operational delivery structure remains in place following the move of MHS staff and functions into the FSA. This structure (designed around geographical clusters of approved meat premises) maximises the effectiveness of service delivery, and ensures greater flexibility and accountability at a local level. Twelve Business Managers each manage a cluster group – three or four clusters of approved meat establishments. The Business Managers also provide a link between their cluster group and the central support services.

A Lead Veterinarian acts as a team leader in each of the 37 clusters and is responsible for ensuring technical compliance, providing advice and directing improvements for each team in the cluster.

Official Veterinarians are the team leader for Meat Hygiene Inspectors working in approved meat premises. They are supported by their Lead Veterinarian and Senior Meat Hygiene Inspectors. This structure was implemented fully in February 2009, when new contracts with service delivery partners went live. The new contract arrangements have increased efficiency and consistency in service delivery.

The Delivery Planning Unit in York provides national operational support across core business services.

Business Agreements set out the inspection requirements of individual FBOs, and provide the framework for the delivery of efficient and effective official controls.

A detailed list of approved meat premises in England, Scotland and Wales can be found on the FSA website at: *www.food.gov.uk/foodindustry/meat/meatplantsprems/meatpremlicence*

# Health and safety

2009/10 was the final year of the three year MHS Health and Safety Strategy. Key pieces of work during the year included the development of a new Driving at Work Policy; the introduction of the e-learning module on slips, trips and falls; a range of additions to the MHS Health and Safety Manual; and continued application of the ergonomics risk assessment methodology across a number of sites where a review of MHS resource was being conducted.

## Accidents

In total there were 183 accidents with injury (compared to 151 (adjusted) in 2008/09).

This increase is largely attributable to the increased number of ‘slip, trip, fall’; ‘use of knife’ and ‘struck by’ incidents. The ‘slips, trips and falls’ e-learning module was introduced in the fourth quarter of 2009/10 to raise awareness and assist with the prevention of these types of incident.

144 near miss incidents were recorded (compared to 77 (adjusted) in 2008/09) and 10 cases of work related ill health (compared to 19 (adjusted) in 2008/09). This significant increase can be attributed to further work undertaken to promote the importance of reporting such incidents.

The number of days lost due to injury and occupational ill health accounted for 7% of all lost time. This was an 11% reduction on 2008/09. Over the time span of the three year strategy, the number of working days lost per year decreased by over 50%.

The number of (Reportable Injuries, Diseases and Dangerous Occurrences) RIDDOR reportable incidents reduced in 2009/10 to 17 (25 in 2008/09).

**RIDDOR (Reportable accidents, Incidents, Diseases and Dangerous Occurrences) 2008/09 – 2009/10**

| Type of reportable incident | Number of incidents 2009/10 | Number of incidents 2008/09 |
|---|---:|---:|
| Fatal | 0 | 0 |
| Major injury | 1 | 2 |
| Injury resulting in more than three days off work | 17 | (adjusted) 23 |
| Disease | 0 | 1 |
| Dangerous occurrence | 0 | 0 |
| Total number of HSE reportable incidents | 17 | 25 |

# Diversity and equality statement

The MHS was committed to eliminating discrimination and encouraging diversity among its workforce. Employment practices, including recruitment, reflected equality and fairness and did not discriminate on grounds of gender, marital status, race, ethnic origin, nationality, disability, sexual orientation, religion, or age.

All employees were helped and encouraged to develop their potential, and the talents and resources of the workforce were fully utilised to maximise the efficiency of the organisation.

# Employee relations

The MHS and UNISON had a formal employee consultation and negotiation framework, which underlined a joint commitment to establishing clear and effective employee relations mechanisms. In addition, the MHS communicated regularly with its workforce through the MHS Intranet, established publications such as MHS News and MHS Update, and by personal letter from the Chief Executive.

# Information security

The MHS took the management of data security seriously. To ensure that risks related to information security were managed effectively, Cabinet Office guidance and industry best practice were followed. In 2009/10, the MHS successfully retained its ISO27001 *Information Security Management Systems* certification for Headquarters with no non-conformities. In line with Cabinet Office instructions, all existing laptops and remote working tools were encrypted by the target date with all new or re-built equipment also fully complying with Cabinet Office guidelines. Full compliance with the HM Government Security Policy Framework was retained.

The MHS remained in full compliance with all software being legally licensed and the award of the Silver level of certification against the FSSC-1:2004 standard for Software Compliance. The planned achievement of Stage One Gold level targeted for 2009/10 was placed on hold due to the programme to integrate MHS and FSA Corporate Service Departments.

# Management commentary

## Transforming the MHS

Following discussion in July 2007 of the Review of Official Controls in Approved Meat Premises (the Tierney Report), the FSA Board decided a transformed MHS was its preferred option to deliver official controls in approved meat establishments. The MHS set up a Transformation change programme to deliver the cost reductions and effectiveness sought by the Board. Initiatives included the closure of all five regional offices; awarding new contracts for veterinary and meat inspection services; enhanced IT infrastructure; and merging MHS and FSA corporate services.

Over the past three years, the Transformation Programme delivered a wide range of benefits and efficiencies which exceeded targets that were set in the Tierney Report:

**Gross Costs (excluding transformation investment)**

| 2006/07 £m | 2007/08 £m | 2008/09 £m | 2009/10 £m | Tierney Report target for 2009/10 £m | % change 2006/07 to 2009/10 |
|---|---|---|---|---|---|
| 91.3 | 87.1 | 77.9 | 68.1 | 86.6 | -25% |

**Cost Per Livestock Unit**

| 2006/07 | 2007/08 | 2008/09 | 2009/10 | Tierney Report target for 2009/10 | % change 2006/07 to 2009/10 |
|---|---|---|---|---|---|
| £14.11 | £13.21 | £12.16 | £11.00 | £12.46 | -22% |

**Average FTEs**

| | 2006/07 | 2007/08 | 2008/09 | 2009/10 | % change 2006/07 to 2009/10 | Tierney Report target for 2009/10 |
|---|---|---|---|---|---|---|
| Employed OVs/LVs | 42 | 37 | 25 | 21 | -50% | |
| Contracted OVs/LVs | 312 | 300 | 279 | 292 | -6% | |
| Employed MHIs/PMHIs/ SMHIs | 1,034 | 964 | 863 | 760 | -26% | |
| Employed MTs | 150 | 110 | 65 | 10 | -93% | |
| Contracted MHIs/PMIs/ SMHIs | 213 | 175 | 162 | 145 | -32% | |
| Managerial & Admin staff | 252 | 257 | 179 | 168 | -33% | |
| Agency temporary staff | 20 | 17 | 22 | 38* | 90% | |
| Total | 2,023 | 1,860 | 1,595 | 1,434 | -29% | 15% |

* The increase in short term agency temporary staff in 2009/10 was due to the merger of FSA and MHS corporate services and the need to maintain service delivery during the associated re-structure of those services.

**Other efficiencies were delivered through revised terms & conditions, improved deployment of staff and the introduction of Business Agreements:**

| | 2006/07 | 2007/08 | 2008/09 | 2009/10 | % change 2006/07 to 2009/10 |
|---|---|---|---|---|---|
| All overtime | £5.5m | £5.0m | £4.4m | £3.7m | -33% |
| Contractual overtime hours | 130,029 | 121,015 | 100,872 | 67,467 | -48% |
| Non-chargeable hours (cover for sickness, leave, travel, etc) | 868,407 | 773,304 | 608,392 | 555,985 | -36% |

| Number of business agreements analysed | | Average weekly chargeable hours six months prior to implementation | Average weekly chargeable hours six months after implementation | Reduction in hours |
|---|---|---|---|---|
| 329 | Total | 29,978.0 | 28,506.7 | 1,471.3 |
| | Average per Establishment | 91.1 | 86.6 | 4.5 |

**Policy changes to the level of MHS checks on SRM and OTMHC also contributed to efficiencies: Impact of policy changes (hours)**

| | 2006/07 | 2007/08 | 2008/09 | 2009/10 | % change 2006/07 to 2009/10 |
|---|---|---|---|---|---|
| SRM | 420,014 | 339,602 | 271,586 | 133,534 | -68% |
| OTM/OCDS | 66,263 | 50,579 | 43,283 | 0.0 | -100% |
| OTMhc | 201,312 | 119,178 | 107,265 | 70,514 | -65% |
| | | | | | |
| Removal of Meat Technician grade (FTEs) | 150 | 110 | 65 | 10 | -93% |

Transformation efficiencies are well in excess of the industry contraction that occurred over the same period – the average number of operational slaughterhouses in 2009/10 reduced by 7% compared to 2006/07, and livestock units fell by 4%. However inspection hours chargeable to industry fell by 12%. Industry benefited from MHS Transformation, particularly in ‘back office’ areas such as the reduction in managerial and admin staff, the reduction in non-chargeable hours and the reductions in overtime costs and contractual overtime hours.

The programme closed on 31 March 2010 and the small amount of outstanding work is being completed as business as usual from within the FSA Operations Group.

# Assessment of MHS performance against key performance indicators, 2009/10

In line with Cabinet Office requirements for Executive Agencies, the MHS Framework Document required the setting of annual performance targets for the MHS. Such targets or objectives should cover quality and delivery of service, financial performance and efficiency. Responsibility for setting indicators and targets for the MHS rested with the MHS Board, on behalf of the FSA Board. The MHS Board monitored performance against the indicators quarterly.

**1. To protect public health and animal health and welfare:**

- Securing FBO compliance with legislative requirements
- Ensuring FBO audit findings accurately reflect FBO compliance with relevant legislation
- Ensuring accuracy of MHS post mortem inspection

The targets for FBO compliance and FBO audit findings were met. The system to record the accuracy of post mortem inspection was delayed until April 2010, although pilots were implemented during 2009/10.

**FBO Compliance:** The MHS developed a compliance and enforcement strategy, which emphasised working with FBOs to achieve compliance, rather than simply relying on enforcement as a compliance mechanism.

As part of this strategy, the MHS introduced a system which identifies FBOs that are considered a cause for concern on the basis of their most recent audit scores. As at 31 March 2010, these businesses represented a small proportion (6%) of the total 1,275 approved meat establishments in Great Britain. At subsequent audits conducted in 107 of the establishments, 42 demonstrated improvements warranting their removal from the cause for concern list.

**FBO Audit Findings:** The FBO Audit Review Project undertook a comprehensive review of the audit of FBO compliance using a team of experienced OVs and SMHIs. The review looked at the processes and paperwork involved in audit, and identified changes to the systems to improve the effectiveness of the system. Revised audit arrangements were introduced in April 2010.

Lead Veterinarians completed 73 assessments of audits (involving a mixture of announced and unannounced visits), including 17 for premises identified as a cause for concern. Overall, the assessments concluded that the MHS was taking an evidenced-based and reasonable approach to FBO audits.

**Post Mortem Inspection:** following successful pilots, a new system of checks on the accuracy of post-mortem inspection will be launched in April 2010, later than originally planned.

**2. To meet our efficiency targets**

- Overhead Costs
- Net Costs
- Gross Costs
- Cost Per Livestock Unit

All four targets were met.

**Gross Costs**: Gross costs were 2% below budget at £68.1m against the budget of £69.8m

**Net Costs:** Net costs were 5% below budget at £31.2m against the budget of £32.9m

**Cost Per Livestock Unit:** The cumulative Cost Per Livestock Unit was 1% below budget at £11.00 against the budget of £11.06

**Reduction in Overheads**: For 2009/10 the MHS set a stretching target to reduce overhead costs by 5% and this target was achieved.

**3. Customer satisfaction**

- Customer complaints
- Industry perception of MHS

Both indicators were met.

The results of the Industry Customer Satisfaction survey showed an improvement on last year's score (7.2), with an average score of 7.6 (on a scale of 1–10, where 1 is 'extremely dissatisfied' and 10 is 'extremely satisfied') against a target of 7.3.

To 31 March 2010, the MHS received 34 complaints. 33 were responded to within the 15 day deadline, and none were found in favour of the complainant.

**4. To ensure our people have necessary knowledge and experience**

- Reduction in sickness absence
- Reduction of 20% in days lost to work related ill health/injury
- e-Learning Diversity module – 100% of staff trained
- Performance and Development Review Scheme in place
- Securing changes to Terms and Conditions

Reduction in sickness absence was not met. The average working days lost per person per year at end March 2010 was 13.6 against a target of 10.4. To improve performance, an Attendance Manager has been appointed, taking up post with the FSA in April 2010, and a comprehensive action plan to reduce absence levels is being implemented.

2009/10 was the final year of delivery against the three year MHS Health and Safety Strategy. The three year target to reduce days lost due to work related ill health/injury of 20% was significantly exceeded by 34%.

The target to achieve 100% of staff trained on e-learning Diversity module was missed by 2%. This was due to long term leave (sickness/maternity) and some difficulties with staff gaining remote access to the system.

The new Performance and Development Review Scheme took effect from April 2009. To end March 2010, 99% of staff appraisals had been returned against a target of 100%.

Revised Terms and Conditions of employment were implemented in August/September 2009.

# Assessment of MHS performance against targets in earlier years

An assessment of MHS performance against targets in 2007/08 and 2008/09 appears as an appendix to this report. Similar assessments going back to 2000/01 are available in earlier MHS Annual Reports & Accounts at: *http://www.food.gov.uk/archived/meatarchive/mhsreportaccounts/*

# Management commentary 2009/10

## Financial performance

### Financial results

Net operating cost increased overall by £1.1m, from £35.7m in 2008/09 to £36.8m in 2009/10. This included the absorption of costs of undertaking FSA work, previously invoiced to the FSA (£6.8m for 2009/10), and investment costs related to the MHS Transformation programme of £5.6m. After allowing for the change to absorb the cost of FSA work, net operating cost for normal business activities reduced to £31.2m following the final phase of the Transformation programme, due mainly to a significantly improved deployment of resources following the continuation of a frontline staffing review, reductions in costs of work for other Government Departments and administrative savings, offset in part by inflationary pressures.

Total operating costs decreased by £11.4m from £85.1m to £73.7m, inclusive of Transformation investment costs of £5.6m predominantly severance and IT infrastructure costs. Gross operating costs for normal business activities decreased by £9.7m. Direct costs decreased by £8.7m, resulting from significantly reduced operational staffing levels and lower overtime offset by pay inflation for 2009/10, and reduced contract inspection and veterinary activity £4.2m. Administrative costs decreased by £1.0m due mainly to lower staff and administration costs.

Operating income reduced by £12.5m to £36.9m, including the discontinuance of invoicing for FSA work (£10.4m in 2008/09). Lower Defra income of £1.2m resulted mainly from a reduction in activity related to the Over Thirty Month Scheme and the closure of the Older Cattle Disposal Scheme offset by an increase in disease control work. Industry income decreased by £0.9m as a result of marginally lower throughput. A decision was made not to increase charges to Food Business Operators when time based charging was introduced at the end of September 2009 to replace the previous Maclean charging mechanism.

The MHS was set financial performance targets for gross cost, net cost and cost per livestock unit, operating within the delegated resource budget, and to operate within the delegated cash budget for 2009/10. Performance against these targets was met in full and is shown at note 3 of the accounts.

### Local Government Pension Scheme

Around 60% of MHS employees are members of the Local Government Pension Scheme, which is a defined benefit scheme. The MHS members' share of the Scheme's assets and liabilities is identifiable by the Scheme actuaries. During the year, the MHS share of the Scheme deficit increased from £44.4m to £102.6m reflecting an increase in liabilities as a result of low AA rated bond yields and higher expected inflation, offset partially by improved asset performance. This deficit explains the net liability position on the Statement of Financial Position.

## Statement of Financial Position

Total assets less total liabilities shows a net liability position of £101.9m compared to £42.2m in the previous year, an increase in net liabilities of £59.7m. This resulted mainly from an increase in the pension liability for the LGPS of £58.2m, calculated using the Financial Reporting Standard criteria. Net current assets decreased by £1.3m due to a decrease in trade and other receivables of £0.5m and cash balances by £0.1m, in addition to an increase in trade payables and other current liabilities of £0.7m. Fixed assets decreased by £0.3m as a result of additional investment in IT capital expenditure being more than offset by depreciation.

## Non-current assets

As at 1 April 2009 assets with a value of £1,474,000 were held by the MHS. These assets comprised computer equipment, computer software (system specific) and software licences. During the year to 31 March 2010, £265,000 was spent on tangible and intangible IT assets. After depreciation and disposals, the net book value of non-current assets decreased to £1,178,000.

## Change of status as at 31 March 2010

As at 31 March 2010, the MHS ceased to be an Executive Agency of the Food Standards Agency, instead being fully merged with the Food Standards Agency from 1 April 2010. As a result, budgets for 2010/11 are incorporated in the newly integrated Food Standards Agency.

## Pensions

The MHS contributes to two separate pension schemes. The majority of staff are members of the Local Government Pension Scheme (LGPS), a defined benefit scheme which is governed by the Local Government Pension Scheme Regulations 1995, and administered by the London Pensions Fund Authority (LPFA). Other employees are members of the Principal Civil Service Pension Scheme (PCSPS). Further details of the MHS pension schemes are shown at note 7 of the accounts.

## Supplier payment policy

It is Government policy that all departments and agencies should pay all invoices not in dispute within 10 days of receipt or the agreed contractual terms if otherwise specified. During 2009/10, 95% of all invoices were paid by their due date. 99% of all invoices were paid within 30 days, against 98% in 2008/09.

## Auditors

The accounts have been audited by the Comptroller and Auditor General. The Chief Executive, as Accounting Officer, has responsibility to ensure that there is no relevant audit information of which the auditors are unaware and has taken all necessary steps to make himself aware of any relevant audit information and to establish that the MHS's auditors are aware of this information. The audit certificate is on page 36–37 of the Annual Accounts. The cost of audit services is £46,000. Auditors' remuneration and expenses does not include any amounts for non-audit work.

## Staff absence

In 2009–10 staff absence as a result of physical and mental illness including injuries, disability or other health problems averaged 13.6 working days per employee. Previously sickness absence was calculated on a calendar days basis and the average number of calendar days per employee for 2008–09 and 2007–08 were 18.4 and 20.1 respectively. The table below shows sickness absence on both a working days and calendar days basis to aid comparison:

| All sickness | Average number of staff | Number of absences | Sick working days | Potential days | % of time lost | Average working days lost |
|---|---|---|---|---|---|---|
| 2009/10 | 959 | 1,126 | 13,055 | 215,775 | 6.1 | 13.6 |

| All sickness | Average number of staff | Number of absences | Sick calendar days | Potential days | % of time lost | Average calendar days lost |
|---|---|---|---|---|---|---|
| 2009/10 | 959 | 1,126 | 17,801 | 215,774 | 8.2 | 18.6 |

# The environment and sustainability

The Government has defined sustainable development as enabling "all people throughout the world to satisfy their basic needs and enjoy a better quality of life, without compromising the quality of life of future generations". The MHS was committed to sustainable development principles and to contributing to the UK Government's strategic framework for sustainable development.

As an Executive Agency the MHS was required to produce a Sustainable Development Action Plan (SDAP). The Sustainable Development Commission (SDC) assessed the MHS's SDAP 2009/10 and Progress Report, and confirmed that the SDAP and Progress Report supported the Government's overall targets and were fully compliant with SDC requirements.

The MHS SDAP set a number of stretching targets including reduced energy usage and increased recycling. The 2009/10 financial year saw a number of in-house campaigns for raising awareness of our sustainability targets. MHS headquarters was located in a 'green' building designed to achieve high standards of environmental and sustainability performance through efficiency technologies such as absence control lighting and a rainwater harvesting system. MHS headquarters took part in extensive waste recycling activity.

One example of reduced power usage was MHS investment in virtual server technology. This means that the 30 server units previously used by the MHS were reduced to just two. As a consequence, there was a 40% reduction in power usage.

The MHS has successfully run the Government's Cycle scheme initiative for the past five years.

The use of Sustainable Impact Assessment (SIA) tools were provided to policy makers within the MHS.

The MHS was committed to supporting local communities. The MHS was successful, once again, in achieving Charter Mark accreditation in 2009/10. Examples of best practice in many areas were upheld, including:

- Awareness of our impact in the communities we serve and for exploring opportunities to enrich those communities.
- Achieving positive results from our involvement with the community.

Since 2004, when the MHS Community Strategy was endorsed by the MHS Chief Executive, the support of sustainable communities has been embedded in MHS policy. One element of the Community Strategy concerns volunteering. The MHS has been committed to promoting sustainable communities by encouraging and supporting staff to take part in volunteering activity. A process was established to support this including a variation to the leave Policy which made provision for staff to support their local community.

climatecare

In the context of environmental protection, the MHS offset carbon emissions for the production of this report through Climate Care (*www.climatecare.org*).

# Corporate governance

## The MHS Senior Management Team

Members of the MHS Senior Management Team (SMT) at 31 March 2010 were:

**Steve McGrath**
Chief Executive

**Jane Downes**
Veterinary and Technical Director

**Peter Styler**
Business Director (South)

**Geoff Ogle**
Business Director (North)

**Jennifer Sergeant**
Director of IT

**Rob Mackintosh**
(from 19 November 2008 – 10 January 2010)
Director of Finance

**Chris Hitchen** (from 11 January 2010)
Director of Finance

**Lynne Bywater**
Director of Human Resources

**Kevin Goddard**
Head of Business Development and Secretary to the SMT

It was corporately responsible for:

- Developing vision for the MHS, and reinforcing this through its decisions and actions.
- Ensuring that the purpose of the MHS was achieved.
- Achieving the Key Performance Indicators (KPIs) set by the MHS Board on behalf of the FSA Board.
- Managing the MHS through monitoring Key Performance Indicators (KPIs) and taking appropriate corrective action as necessary.
- Approving operational policies, procedures and strategies.
- Agreeing budget priorities.
- Ensuring that the organisation fulfilled its statutory responsibilities, for example Health and Safety Management.
- Providing support and advice to the Chief Executive in his role as Accounting Officer.

# Preparation of accounts

The accounts have been prepared in accordance with a direction given by the Treasury under the Government Resources and Accounts Act 2000. The MHS operated under Government Accounting on a Gross Vote from the Food Standards Agency Class II Vote 4.

# The MHS Board

The MHS Board was a sub-committee of the FSA Board. It was responsible for ensuring good governance of the MHS, and that the MHS fulfilled its purpose of protecting public health, and animal health and welfare. It was chaired by the FSA Deputy Chair and included four other FSA Board members, the FSA Chief Executive, the MHS Chief Executive and the UK Chief Veterinary Officer. The MHS Board was also responsible for supporting the MHS in achieving the transformation targets agreed by the FSA Board.

## Membership of the MHS Board during the year 2009/10

**Ian Reynolds**
FSA Deputy Chair

**Maureen Edmondson**
FSA Board Member

**Tim Bennett**
FSA Board Member

**Margaret Gilmore**
FSA Board Member

**Clive Grundy**
FSA Board Member

**Tim Smith**
FSA Chief Executive

**Steve McGrath**
MHS Chief Executive

**Nigel Gibbens**
Chief Veterinary Officer
Defra

As a result of the FSA Board's decision to dissolve the Executive Agency status of the MHS on 1 April 2010, the MHS Board held its final meeting on 27 January 2010.

Further information about the MHS Board, including its Terms of Reference, Register of Members' Interests, meeting papers, and minutes of meetings, are available on the FSA website at: *http://www.food.gov.uk/archived/meatarchive/mhsboard/*

# The Audit Committee

In September 2008, the Audit Committees of the FSA and the MHS were merged to form a single Audit Committee. The merged Committee supported the MHS Board and the MHS Chief Executive, as Accounting Officer, by reviewing the comprehensiveness of assurances given across the MHS and the FSA and provided greater transparency and accountability.

## The Audit Committee comprised:

**Graeme Millar** (Chair)
FSA Board Member

**Chris Pomfret**
FSA Board Member

**Michael Parker**
FSA Board member

**Tim Bennett**
FSA Board Member

**Clive Grundy**
FSA Board Member

# Internal Audit

The Internal Audit Team was responsible for providing internal audit assurance to the Senior Management Team (SMT) on the suitability of policies and procedures implemented by the MHS to meet statutory obligations and achieve business objectives, and also on compliance with agreed policies and procedures.

Internal Auditors carried out audits to assess compliance with the relevant controls under food hygiene and animal health and welfare legislation, as set out in the MHS Manual for Official Controls (MOC). They also carried out internal audits to assess compliance with HR, Finance, IT and other policies established to ensure the effectiveness and efficiency of activities undertaken by the MHS.

Ongoing dialogue and co-operation with external auditors from the National Audit Office (NAO), enabled the MHS to ensure that audit work undertaken by the Internal Audit Team contributed to external audit assurance needs. This helped to eliminate duplication of audit effort.

# EU Food and Veterinary Office (FVO) Missions

The EU Food and Veterinary Office (FVO) is part of the European Commission's Directorate-General for Health and Consumer Protection, known as DG (Sanco), and is based in County Meath, Republic of Ireland. It carries out inspections within the EU and in countries that export foodstuffs to the EU, and is tasked with ensuring that Member States comply with EU legislation on food safety, animal health, plant health and animal welfare.

For further information about FVO Missions, please go to: *www.food.gov.uk/aboutus/agencyandeurope/fvomissions/*

The FVO undertook four missions to the UK in 2009/10, covering areas relevant to the work of the MHS, and visited approved fresh meat establishments during the course of their visits. The dates and subjects were:

| Dates of visits | Subject of inspection |
|---|---|
| 5–15 May 2009 | To evaluate the follow-up action taken by the Competent Authorities with regard to Official Controls related to the Safety of Food of Animal Origin. |
| 20–29 Oct 2009 | To evaluate the Food Safety control systems in place governing the production and placing on the market of Poultry Meat and Poultry Meat Products. |
| 19–29 Jan 2010 | To evaluate measures concerning Bovine Spongiform Encephalopathy (BSE). |
| 8–12 Feb 2010 | Fact Finding – Small Establishments. |

# Remuneration report

This report for the year ended 31 March 2010 deals with the remuneration of the MHS Senior Management Team. The tables are subject to audit.

## Remuneration policy

The remuneration of Senior Civil Servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits; and
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at *www.ome.uk.com*

Senior Civil Servants (SCS) in the MHS were recruited by the Food Standards Agency, the parent organisation of the MHS. Contracts were awarded up to the individual's normal retirement age, which is the age at which the employee is entitled to receive their full pension benefits (age 60 for Civil Servants who commenced employment by 30 July 2007, and age 65 for those who started after that date). Normal notice periods are the same as for any other Civil Servant, with up to a maximum of 13 weeks notice for 12 or more years' continuous service. However, in certain circumstances of compulsory termination, six months notice is appropriate instead.

Other termination payments would be made in line with the Civil Service Compensation Scheme (CSCS) or Local Government Pension Scheme (LGPS), and depend on the pension scheme to which the individual belongs. Any payments also depend on the age and continuous service of the individual at the time of the termination.

Remuneration policy for non-SCS staff also included the factors highlighted above within an overall remit from the Treasury.

## Service contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report held appointments which were open-ended. Early termination, other than for misconduct, would have resulted in the individual receiving compensation as set out in the LGPS pension regulations or Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at *www.civilservicecommissioners.gov.uk*

The following is a summary of the service contracts for the members of the MHS Senior Management Team (which includes all Senior Civil Servants employed by the MHS).

| Position | Date of continuous service | Notice period* |
|---|---|---|
| Steve McGrath<br>Chief Executive<br>(SCS Payband 2) | 1 July 2003 | 6 weeks or<br>6 months in certain circumstances |
| Jane Downes<br>Veterinary and Technical Director<br>(SCS Payband 1) | 1 April 1995 | 13 weeks or<br>6 months in certain circumstances |
| Geoff Ogle<br>Business Director (North)<br>(SCS Payband 1) | 16 November 1984 | 13 weeks or<br>6 months in certain circumstances |
| Peter Styler<br>Business Director (South)<br>(SCS Payband 1) | 1 September 1986 | 13 weeks or<br>6 months in certain circumstances |
| Chris Hitchen<br>Director of Finance (from 11 January 2010)<br>(SCS Payband 1) | 11 January 2010 | 13 weeks or<br>6 months in certain circumstances |
| Robert Mackintosh<br>Acting Director of Finance (until 10 January 2010)<br>(Grade 6) | 18 August 1986 | 13 weeks or<br>6 months in certain circumstances |
| Jennifer Sergeant<br>Director of IT<br>(Grade 6) | 6 January 2003 | 8 weeks or<br>6 months in certain circumstances |
| Lynne Bywater<br>Director of Human Resources<br>(SCS Payband 1) | 17 December 2007 | 13 weeks or<br>6 months in certain circumstances |
| Kevin Goddard<br>Head of Business Development<br>(Grade 7) | 28 July 1980 | 13 weeks or<br>6 months in certain circumstances |

* The formula by which periods of notice are calculated for Civil Servants is one week for each year of service, plus one extra week (e.g., 11 years' service = 11 weeks + 1 week, = 12 weeks notice period), up to a maximum of 13 weeks.

The Chief Executive and all other members of the SMT were employed under permanent employment contracts. The Chief Executive and senior managers worked for the Agency full-time.

For the Chief Executive and SMT, early termination, other than for misconduct, would have been under the terms of the LGPS pension regulations or Principal Civil Service Pension Scheme (PCSPS). The terms of this scheme come under the terms of the Civil Service Compensation Scheme.

# MHS Senior Management Team

## Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the most senior officials of the agency and are subject to audit.

## Salary

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on payments made by the Agency and thus recorded in these accounts.

## Benefits in kind

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

The MHS made contributions to the PCSPS for SMT members at rates of either 21.8% or 24.3% depending on salary. Contributions to the LGPS were made at the rate of 17.9% of salary.

## Non cash remuneration

No non-cash remuneration was paid to senior managers in 2009/10 or 2008/09.

**MHS Senior Management Team (SMT) members**

| | 2009/10 Salary £'000 | 2009/10 Benefits in kind (to nearest £100) | 2008/09 Salary £'000 | 2008/09 Benefits in kind (to nearest £100) |
|---|---|---|---|---|
| Steve McGrath<br>Chief Executive | 130–135 | – | 125–30 | – |
| Jane Downes<br>Veterinary and Technical Director | 80–85 | – | 80–85 | – |
| Geoff Ogle<br>Business Director (North) | 75–80 | – | 20–25<br>(full year equivalent 65–70) | – |
| Peter Styler<br>Business Director (South) | 75–80 | – | 50–55<br>(full year equivalent 70–75) | – |
| Chris Hitchen<br>Director of Finance<br>(from 11 January 2010) | 15–20<br>(full year equivalent 85–90) | – | – | – |
| Robert Mackintosh<br>Director of Finance (Acting)<br>(to 10 January 2010) | 65–70 | – | 20–25<br>(full year equivalent 55–60) | – |
| Jennifer Sergeant<br>Director of IT | 60–65 | – | 60–65 | – |
| Lynne Bywater<br>Director of Human Resources | 60–65 | – | 55–60 | – |
| Kevin Goddard<br>Head of Business Development | 50–55 | – | 50–55 | – |

## Taxable benefits

No taxable benefits were paid to senior managers in 2009/10 or 2008/09.

## Compensation paid, significant awards to former senior managers

No compensation was paid to former senior managers in 2009/10.

## MHS Board

The MHS Board was a sub committee of the FSA Board, and ceased to exist on 31 March 2010, when the MHS Agency status was removed.

Remuneration for Ian Reynolds (Chair) and Tim Smith is disclosed in the FSA annual report and accounts for 2009/10, and their attendance was covered by their FSA salaries. Steve McGrath's remuneration is shown above, which included his attendance. Nigel Gibbens, Chief Veterinary Officer, is a Defra employee, and his remuneration is disclosed in the resource accounts for Defra. His attendance was covered by his Defra salary.

Non executive members, only, were paid attendance fees. Maureen Edmondson, Tim Bennett, Margaret Gilmore and Clive Grundy were each paid fees of less than £5,000 in 2009/10. In addition, each received benefits in kind (reimbursement of travel and subsistence costs) which amounted to less than £5,000.

**Pensions benefits of Chief Executive and senior managers**

| | Total accrued pension at age 60 at 31/03/2010 and related lump sum £'000 | Real increase in pension and related lump sum at age 60 £'000 | CETV at 31/03/2010 £'000 | CETV at 31/03/2009 £'000 (*) | Real increase in CETV funded by employer £'000 | Employer contribution to partnership pension account £'000 |
|---|---|---|---|---|---|---|
| Steve McGrath<br>Chief Executive | 10–15 | 2.5–5.0 | 257 | 196 | 44 | – |
| Jane Downes<br>Veterinary and Technical Director | 15–20 plus lump sum 15–20 | 0–2.5 plus lump sum 0–2.5 | 310 | 266 | 34 | – |
| Geoff Ogle<br>Business Director (North) | 20–25 plus lump sum 65–70 | 2.5–5.0 plus lump sum 10.0–12.5 | 318 | 251 | 50 | – |
| Peter Styler<br>Business Director (South) | 20–25 plus lump sum 60–65 | 0–2.5 plus lump sum 5–7.5 | 362 | 310 | 30 | – |
| Chris Hitchen<br>Director of Finance (from 11.01.10) | 0–5 | 0–2.5 | 3 | – | 3 | – |
| Robert Mackintosh<br>Director of Finance (to 10.01.10) | 15–20 plus lump sum 55–60 | 0–2.5 plus lump sum 2.5–5.0 | 300 | 271 | 18 | – |
| Jennifer Sergeant<br>Director of IT | 5–10 | 0–2.5 | 150 | 122 | 20 | – |
| Lynne Bywater<br>Director of Human Resources | 0–5 | 0–2.5 | 34 | 19 | 10 | – |
| Kevin Goddard<br>Head of Business Development | 15–20 plus lump sum 55–60 | 0–2.5 plus lump sum 0–2.5 | 330 | 297 | 13 | – |

(*) These figures may differ from the closing figures in the 2008–09 accounts for this MHS, as the AMC factor used to calculate the CETV values has been updated by the Cabinet Office since the 2008–09 accounts were produced.

## Principal Civil Service Pension Scheme (PCSPS)

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes: either a 'final salary' scheme (Classic, Premium or Classic Plus); or a 'whole career' scheme (Nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, Classic Plus and Nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (Partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Premium, Classic Plus and Nuvos. Benefits in Classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum. Classic Plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per Classic and benefits for service from October 2002 calculated as in Premium. In Nuvos a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The Partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of Classic, Premium and Classic Plus and 65 for members of Nuvos.

Further details about the Civil Service pension arrangements can be found at the website *www.civilservice-pensions.gov.uk*

## Local Government Pension Scheme (LGPS)

The LGPS is a defined benefit scheme which is governed by the Local Government Pension Scheme Regulations 1995, and administered by London Pensions Fund Authority. Employee contributions are set at the rate of 6 per cent of pensionable earnings. Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement.

Further details about LGPS pensions can be found at the website *www.lgps.org.uk*

## Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

## Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Signed:

S McGrath
MHS Chief Executive and Accounting Officer
21 June 2010

# Annual Accounts 2009/10

(for the year ended 31 March 2010)

## Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury directed the MHS to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the MHS and its net operating cost, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- make judgements and estimates on a reasonable basis.
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts.
- prepare the accounts on a going concern basis.

The Accounting Officer of the Food Standards Agency appointed the Chief Executive of the MHS as MHS Agency Accounting Officer. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the MHS's assets, are set out in the Accounting Officer Memorandum issued by the Food Standards Agency and in line with the responsibilities published in the Government Financial Reporting Manual.

# Statement on Internal Control 2009/10

## Scope of responsibility

As Accounting Officer, I had responsibility for maintaining a sound system of internal control that supported achievement of the Meat Hygiene Service's policies, aims and objectives, whilst safeguarding the public funds and agency assets for which I was personally responsible, in accordance with the responsibilities assigned to me in managing public money.

The Meat Hygiene Service (MHS) was an Executive Agency of the Food Standards Agency (FSA), which is a non-Ministerial Government Department, accountable to Parliament, and the devolved administrations in Scotland, Wales and Northern Ireland, through Health Ministers. As such, I was accountable to the FSA Board, for the functions set out in the MHS Framework Document and for achievement of annual corporate objectives. The MHS operated within England, Scotland and Wales (GB), but not Northern Ireland. The MHS formally merged into the FSA on 1 April 2010 and its executive agency status was dissolved.

I was a member of the MHS Board, a sub-committee of the FSA Board, which was responsible for good governance (including setting objectives and monitoring performance) of the MHS, and for ensuring that the MHS fulfilled its purpose to protect public health and animal health and welfare.

The FSA Chief Executive is the Principal Accounting Officer for the FSA and has personal responsibility for the overall operation, organisation, management, staffing, and financing of the FSA including the MHS. The Principal Accounting Officer designated me as Agency Accounting Officer by formal letter of appointment. I reported for line management purposes to the FSA Chief Executive, who was also a member of the MHS Board. I was a member of the FSA's Executive Management Board, which manages and regularly reviews the FSA's strategic risks. I was also a member of the FSA's Risk Committee.

The MHS system of internal control included:

- A Senior Management Team chaired by me which met monthly;
- Internal Audit arrangements which complied with the Government standards applicable in 2009/10, including a risk-based audit programme linked to the strategic risks of the MHS. Regular reports were issued by Internal Audit and an annual report which included an independent annual opinion on the adequacy and effectiveness of the MHS system of internal control together with recommendations for improvement;
- A joint FSA/MHS Audit Committee, constituted in line with HM Treasury guidance, which advised me as Accounting Officer. The Committee meets at least four times a year and has a fully non-executive membership. The chair reports to the FSA Board on the work of the Committee;
- A risk management process which aimed to provide reasonable assurance that business objectives could be achieved reliably. The process promoted local accountability and risk ownership as an essential part of risk management. It prioritised risk based on likelihood and impact, and enabled the Senior Management Team to manage effectively the strategic risks to business objectives. The Audit Committee advised on the strategic processes for risk management.

- Business planning, financial, procurement and HR management processes were published on the MHS Intranet and were regularly reviewed and updated.
- Business and financial performance reports were discussed at every meeting of the Senior Management Team and the MHS Board.

## The purpose of the system of internal control

The system of internal control was designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it therefore only provided reasonable and not absolute assurance of effectiveness. The system of internal control was based on an ongoing process designed to identify and prioritise the risks to the achievement of the Meat Hygiene Service'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 had been in place in the Meat Hygiene Service for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts, and accorded with Treasury guidance.

## Capacity to handle risk

A comprehensive risk management policy and procedure approved by the Senior Management Team was embedded in the organisation. Training was provided to most managers with authority to make decisions about risk treatment, recognising that some risks needed to be referred upwards to more senior management for treatment. The Senior Management Team discussed risk management issues, including identification, evaluation and controls at their monthly meetings.

As a member of the FSA's Executive Management Board, I liaised with the FSA on the MHS approach to risk management and learnt from their experience. MHS Directors and managers were encouraged to meet regularly with their FSA counterparts, to discuss issues of concern and mutual benefit, including risk issues.

During 2009/10 a programme was delivered to integrate the corporate services of the MHS and FSA, and this helped ensure consistency of approach across the two organisations. At times the programme stretched management and staff capacity, however this was managed without impact on core business or the achievement of key performance indicators. This programme included the integration of FSA and MHS internal audit into a single function.

Work continued during 2009/10 on the integration of the MHS and FSA risk policies and procedures and a new single approach will be launched during early 2010/11.

## The risk and control framework

The MHS approach to risk management was implemented across the MHS. Managers at three levels (operational management, directorate management, senior management) implemented the following process in populating, revising and reviewing risk registers:

- risk identification and definition;
- risk evaluation and control measures;
- contingency measures;
- risk transference.

The FSA Board discussed its risk appetite with the Senior Management Team annually with due regard to the strategic context of its work and the expectations of its stakeholders. In previous years the Senior Management Team concluded that the organisation's risk appetite was low, but during 2009/10 the Team agreed that an improved approach would be to consider the risk appetite of high level risks individually.

The Chief Executive and Director of Finance attended all Audit Committee meetings, thereby providing a direct link to the Senior Management Team.

The MHS embedded risk management in its activities through its managers, from the frontline up to the Senior Management Team, populated risk registers by identifying and defining their risks; prioritised the risks by evaluating their impact and likelihood in preventing achievement of business objectives; identified control measures to eliminate or reduce risk impact; identified contingency plans; and passed upwards significant risks which need to be managed at that level or notifying of significant retained risks which would remain and be managed at the lower level.

The Risk Management Group took an overview of risk management to encourage and promote the sharing of best practice across the MHS. The Senior Management Team managed corporate level risks and reviewed these monthly. Such risks included business continuity issues (for example animal disease outbreak or industrial action), change management, staff absence, or lack of investment. All managers were similarly encouraged to discuss risk management issues at team meetings, however work to re-map risk registers to match the new operational structure was overtaken during 2009/10 by work on developing a combined MHS and FSA risk management policy and procedures. Risk registers were maintained for major projects, which followed the principles of PRINCE 2 methodology, depending on the size, scale, or complexity of the project.

From July 2007, the MHS implemented a major transformation programme. A formal programme and project management structure ensured the timely delivery of the programme elements and managed risks to the programme. Regular reports to the Programme Board and the MHS Board included a risk register. The Programme closed on 31 March 2010 and any remaining work will be completed by the FSA Operations Group as business as usual.

The MHS took the management of data security seriously. To ensure that risks related to information security were managed effectively, Cabinet Office guidance and industry best practice were followed. The MHS maintained ISO27001 *Information Security Management Systems* accreditation for Headquarters.
In line with Cabinet Office instructions, all laptops and remote working tools were encrypted and all new or re-built equipment fully complied with Cabinet Office guidelines.

The MHS fully complied with the HMG Security Policy Framework. All software was legally licensed and the MHS was awarded the Silver level of certification against the FSSC-1:2004 standard for Software Compliance. The planned achievement of Stage One Gold level targeted for 2009/10 was placed on hold because of the future intention to integrate MHS and FSA software licences.

## Review of effectiveness

As Accounting Officer, I was responsible for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control was informed by the work of the internal auditors and the executive managers within the Meat Hygiene Service who had responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Senior Management Team, Head of Internal Audit, the Audit Committee and a process to address weaknesses and ensure continuous improvement of the system was put in place.

As part of my review of the effectiveness of the system of internal control, I required an assurance statement to be prepared by all Directors covering scope of responsibility; capacity to handle risk; and review of effectiveness.

The joint FSA/MHS Audit Committee advised the MHS Chief Executive on:

- the strategic processes for risk management, control and governance and the contents of the Statement on Internal Control;
- the accounting policies, the accounts, and the annual report of the MHS, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
- the planned activity and results of both internal and external audit;
- the adequacy of the management response to issues identified by audit activity, including external audits management letters;
- assurances related to corporate governance requirements.

The Committee is constituted in line with HM Treasury's Audit Committee Handbook and has a fully non-executive membership. The Chair reports annually to the FSA Board on the work of the Committee.

I was a member of the Risk Committee which provided advice, support and challenge to the Executive in relation to the introduction and implementation of processes for risk identification and management relating to delivery of the FSA Strategic Plan and fulfilling statutory obligations, and on the high level risks identified.

A programme of internal audit work, informed by the risk registers, was developed and discussed with the Audit Committee prior to the commencement of each financial year. The Head of Internal Audit's opinion, based on the internal audit work undertaken during the year, was that the MHS had a generally adequate and effective framework of risk management, control and governance processes. Only the arrangements for procuring some IT consultancy services were assessed as requiring significant improvements to achieve business objectives.

In all the areas examined, management were aware of the control weaknesses that were identified and had made good progress in implementing the changes necessary to ensure achievement of business objectives. Over the year, management had also made significant progress in ensuring that recommendations in audit reports were implemented within agreed time scales. The audit opinion recognised that any system of risk management control and governance can only provide reasonable and not absolute assurance that the objectives of the system will be achieved.

The MHS was successfully re-accredited to the revised Investor in People standard in September 2009. During 2009/10, the MHS maintained its accreditation to ISO 9001:2008 *Quality Management Systems* with no non-conformities raised in either of the two external audits undertaken. In February 2010, the MHS maintained its accreditation to the Charter Mark standard following external assessment. In 2009/10, the MHS successfully retained its ISO27001 *Information Security Management Systems* certification for Headquarters with no non-conformities.

I ensured that the Senior Management Team and Audit Committee saw all internal and external business audit reports, including key controls testing and the annual Internal Audit report. An Audit Implementation Steering Group took a strategic overview of audit risk and provided assurance that there was effective delivery of official controls through effective implementation of internal and external audit recommendations. A monitoring system was in place to ensure that all internal and external business audit report recommendations were implemented.

A progress report on implementation of internal and external audit recommendations was prepared for each Audit Committee meeting.

This progress report ensured that weaknesses were addressed and continuous improvement.

Last year I reported that the Report of the Public Inquiry into the Outbreak of E.coli O157 infection in South Wales in September 2005 had found that the risk of contaminated raw meat leaving the abattoir implicated in the outbreak was higher than it should have been. I was a member of the FSA/MHS Programme Board established to address the Report's recommendations. The work of the programme continued throughout 2009/10 and progress was reported to the FSA Board on 21 April, 14 July and 8 December 2009. The Programme Board's role includes ownership of the risk management and issue resolution functions for the programme and a role in determining resource allocation. The new MHS operational management structure introduced in February 2009 was very successful in ensuring a consistent and robust approach to compliance of regulations and enforcement. Key operational management initiatives included themed visits to approved premises by Lead Veterinarians and the identification of premises that were a cause for concern.

Signed:

S McGrath
MHS Chief Executive and Accounting Officer
21 June 2010

# Audit Certificate

## Meat Hygiene Service

### The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Meat Hygiene Service for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement, the Statement of Changes in Taxpayers' Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### Respective responsibilities of the Accounting Officer and auditor

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

### Scope of the Audit of the Financial Statements

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

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

## Opinion on Regularity

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

**Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view, of the state of the Agency's affairs as at 31 March 2010, and of the net operating cost, changes in taxpayers' equity and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

**Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in Annual Report, Management Commentary and Corporate Governance for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I report by exception**

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit;or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

## Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
Victoria London SW1W 9SP
28 June 2010

# Operating Cost Statement

**for the year ended 31 March 2010**

| | Note | Staff costs £'000 | Other costs £'000 | Income £'000 | 2009/2010 TOTAL £'000 | 2008/2009 £'000 |
|---|---|---|---|---|---|---|
| **Direct costs** | | | | | | |
| Inspection and veterinary staff costs | 6 | 30,315 | | | **30,315** | 34,850 |
| Contract inspection and veterinary costs | 6 | 21,065 | | | **21,065** | 25,262 |
| Other operational costs | 8 | | 1,204 | | **1,204** | 1,123 |
| **Total direct costs** | | | | | **52,584** | 61,235 |
| **Administrative costs** | | | | | | |
| Administrative staff costs | 6 | 6,672 | | | **6,672** | 7,974 |
| Other administration costs | 8 | | 8,818 | | **8,818** | 8,561 |
| **Total administrative costs** | | | | | **15,490** | 16,535 |
| **Gross operating costs** | | | | | **68,074** | 77,770 |
| **Transformation investment costs** | 6 (iii) & 8 | | 5,630 | | **5,630** | 7,353 |
| **Total operating costs** | | | | | **73,704** | 85,123 |
| **Operating income** | 5 | | | (36,897) | **(36,897)** | (49,393) |
| **Totals** | | **58,052** | **15,652** | **(36,897)** | | |
| **Net operating cost** | | | | | **36,807** | **35,730** |

Net operating cost for normal business was **£31.2m** in 2009/10.

All income and expenditure is derived from continuing operations. However, with effect from 31 March 2010 the MHS ceased to be a separate agency and operations were transferred to the Food Standards Agency effective from 1 April 2010.

The notes on pages 42 to 68 form part of these accounts.

# Statement of Financial Position

**as at 31 March 2010**

| | | **31 March 2010** | | 31 March 2009 | | Restated 31 March 2008 | |
|---|---|---|---|---|---|---|---|
| | **Note** | **£'000** | **£'000** | £'000 | £'000 | £'000 | £'000 |
| **Non-current assets** | | | | | | | |
| Property, plant and equipment | 10 | **364** | | 386 | | 396 | |
| Intangible assets | 11 | **814** | | 1,088 | | 772 | |
| Total non-current assets | | | **1,178** | | 1,474 | | 1,168 |
| **Current assets** | | | | | | | |
| Trade and other receivables | 13 | **4,077** | | 3,961 | | 4,730 | |
| Other current assets | 13 | **3,112** | | 3,788 | | 3,601 | |
| Cash and cash equivalents | 16 | **4,779** | | 4,838 | | 2,152 | |
| Total current assets | | | **11,968** | | 12,587 | | 10,483 |
| **Current liabilities** | | | | | | | |
| Trade and other payables | 14 | **(3,587)** | | (3,897) | | (4,477) | |
| Other current liabilities | 14 | **(7,026)** | | (6,010) | | (11,693) | |
| Total current liabilities | | | **(10,613)** | | (9,907) | | (16,170) |
| **Non-current assets plus net current assets** | | | **2,533** | | 4,154 | | (4,519) |
| **Non-current liabilities** | | | | | | | |
| Provisions | 15 | **(104,442)** | | (46,311) | | (28,240) | |
| Total non-current liabilities | | | **(104,442)** | | (46,311) | | (28,240) |
| **Assets less liabilities** | | | **(101,909)** | | (42,157) | | (32,759) |
| **Taxpayers equity** | | | | | | | |
| General fund | | **(101,909)** | | (42,157) | | (32,759) | |
| | | | **(101,909)** | | (42,157) | | (32,759) |

The notes on pages 42 to 68 form part of these accounts.

Signed:

S McGrath
MHS Chief Executive and
Accounting Officer
21 June 2010

## Statement of Cash Flows

**for the year ended 31 March 2010**

| | Note | 31 March 2010 £'000 | 31 March 2009 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net operating cost (excluding interest received) | | **(36,814)** | (35,737) |
| Adjust for interest received | | **7** | 7 |
| **Net operating costs (including interest received)** | | **(36,807)** | (35,730) |
| Adjustment for non-cash transactions | | **(1,985)** | (847) |
| Decrease in trade and other receivables | 13 | **560** | 583 |
| Increase/(decrease) in trade payables | 14 | **706** | (6,263) |
| Transfer to provisions | 15 | **732** | 2,733 |
| **Net cash outflow from operating activities** | | **(36,794)** | (39,524) |
| **Cashflows from investing activities** | | | |
| Purchase of property, plant and equipment | 10 | **(154)** | (757) |
| Purchase of intangible assets | 11 | **(111)** | (33) |
| **Net cash outflow from investing activities** | | **(265)** | (790) |
| **Cash flows from financing activities** | | | |
| Resource funding from FSA | | **37,000** | 43,000 |
| **Net cash inflow from financing** | | **37,000** | 43,000 |
| **Net cash requirement** | | **(59)** | 2,686 |
| **Cash and cash equivalents at the beginning of the period** | 16 | **4,838** | 2,152 |
| **Cash and cash equivalents at the end of the period** | 16 | **4,779** | 4,838 |
| **Increase in cash** | | **(59)** | 2,686 |

The notes on pages 42 to 68 form part of these accounts.

# Statement of Changes in Taxpayers' Equity

**for the year ended 31 March 2010**

| | Note | General Fund £'000 | Total Reserves £'000 |
|---|---|---|---|
| **Balance at 1 April 2008 (*)** | | (32,758) | (32,758) |
| Changes in taxpayers equity for 2008–09: | | | |
| Actuarial loss | | (15,338) | (15,338) |
| Adjustment for notional transactions | | (1,331) | (1,331) |
| Net operating cost for the year | | (35,730) | (35,730) |
| Total recognised income and expense for 2008–09 | | (52,399) | (52,399) |
| Funding from Parent | | 43,000 | 43,000 |
| Balance at 31 March 2009 | | (42,157) | (42,157) |

(*) This balance includes prior period adjustments in respect of a change in accounting policy for fixed assets. An adjustment has been made to move to Historic Cost Accounting. A write back of £471,000 was been made to the General Fund to ensure that the Fixed Asset register balances were restated at historic net book value. In addition, the Revaluation Reserve of £56,000 was released to the General Fund.

| | Note | General Fund £'000 | Total Reserves £'000 |
|---|---|---|---|
| **Balance at 1 April 2009** | | **(42,157)** | **(42,157)** |
| Changes in taxpayers equity for 2009–10 | | | |
| Actuarial loss | | **(57,399)** | **(57,399)** |
| Adjustment for notional transactions | 9 | **(2,546)** | **(2,546)** |
| Net operating cost for the year | | **(36,807)** | **(36,807)** |
| Total recognised income and expense for 2009–10 | | **(96,752)** | **(96,752)** |
| Funding from parent | | **37,000** | **37,000** |
| Balance at 31 March 2010 | | **(101,909)** | **(101,909)** |

The MHS was an executive agency of the FSA. The General Fund represents the net assets vested in the MHS at 1 April 1995 (stated at historical cost less accumulated depreciation at that date), the surplus or deficit generated from notional charges and trading activities, actuarial losses and the Vote funding arising since that date.

The notes on pages 42 to 68 form part of these accounts.

# Notes to the accounts

for the year ended 31 March 2010

## 1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2009/10 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Meat Hygiene Service (MHS) for the purpose of giving a true and fair view has been selected. The particular policies adopted by the MHS are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

The MHS was excluded from the Administration Budget Regime as all of its expenditure was classed as programme expenditure.

### a) Accounting convention

The financial statements have been prepared under the historical cost convention. Following the decision of HM Treasury to commit fully to compliance with International Financial Reporting Standard (IFRS) 1 ‘First Time Adoption of International Financial Reporting Standards’, the Agency, in common with other government departments, prepared these accounts for 2009–10 under IFRS.

### b) Going concern

From 31 March 2010 the MHS ceased to be a separate agency and operations were transferred to the Food Standards Agency (FSA) effective from 1 April 2010. In accordance with the Financial Reporting Manual the accounts are prepared on a going concern basis as all the MHS financial transactions are settled with funds voted by Parliament to the FSA, and all functions of the MHS were being transferred from one part of Government to another.

### c) Non-current assets

All non-current assets with a purchase cost in excess of £5,000 (including recoverable VAT and delivery) are capitalised at cost (in line with FSA policy).

Non-current assets that were purchased prior to 1 April 2008 with a purchase cost of between £2,000 and £5,000 (including recoverable VAT and delivery) remained as capitalised assets. (The capitalisation policy was revised with effect from that date and the capitalisation limit increased from £2,000 to £5,000.)

Property, plant and equipment assets are held at Fair Value.

All Property, plant and equipment and Intangible assets were transferred to the FSA with effect from 1 April 2010 on cessation of the MHS agency status.

### d) Depreciation and Amortisation

Depreciation is provided on a straight line basis to write off assets, less any estimated residual balance, over their estimated useful lives. The useful lives of property, plant and equipment and intangible assets have been estimated as follows:

**Property, plant and equipment**

| | |
|---|---|
| Computer infrastructure equipment | 4 years |
| Office machinery | 7 years |
| Furniture, fixtures and fittings | 7 years |

**Intangible assets**

| | |
|---|---|
| Computer software (system specific) | 4 years |
| Software licenses | 2–5 years |

The MHS does not currently own any land, buildings, vehicles, office machinery or furniture, fixtures and fittings.

Profits or losses arising on the disposal of property, plant and equipment are calculated by reference to the net book value of the asset.

## e) Website capitalisation costs

The MHS developed its own intranet and an extranet for use by its stakeholders. None of these websites will generate future economic benefits and consequently all expenditure incurred on developing them was recognised as an expense when it occurred and was not capitalised in line with International Accounting Standards (IAS) 38.57 (d).

## f) Operating income

Operating income is income which relates directly to the operating activities of the MHS, recognised as inspection time recorded by staff, and generated by meat inspection work invoiced to both industry and government customers.

Income represents total accrued income for the year, and is shown net of Value Added Tax.

## g) Expenditure

The Operating Cost Statement splits the Agency's expenditure into Direct Costs, Administrative Costs and Transformation Investment Costs.

Direct Costs comprise costs associated with carrying out the MHS's operations, mainly labour costs and contractor costs.

Administrative Costs cover costs that are not directly associated with the Agency's operations, including administrative staff.

Transformation Investment Costs relate to the MHS's Transformation Programme.

## h) Operating leases

Rentals under operating leases are charged to the operating cost statement over the term of the lease.

## i) Notional charges

Costs for interest on capital and external audit are charged on a notional basis and included in the accounts. The Cost of Capital interest is calculated at a rate of 3.5% on Assets and Liabilities, less cash held at the Office of the Paymaster General.

Notional insurance costs are excluded from the published accounts but were included in charging fees. Actual losses were charged to the operating cost statement.

Notional costs were charged/credited to the operating cost statement and credited/debited as a movement on the general fund.

## j) Pensions

Around 60% of MHS employees were members of the Local Government Pension Scheme (LGPS), which is a defined benefit scheme governed by the Local Government Pension Regulations 2005, administered by the London Pension Fund Authority and subject to regular valuations by an independent, professionally-qualified actuary, who determines the level of contributions required to fund future benefits.

Most of the remaining MHS employees were members of the Principal Civil Service Pension Scheme (PCSPS), which is a defined benefit scheme that is unfunded.

There has been no change to pension arrangements following the cessation of the MHS agency status. All staff remained in their existing schemes under the same terms and conditions, with employer contributions being made by the FSA with effect from 1 April 2010.

Pension costs are charged to operating cost statements at the rates recommended by the relevant actuary so as to spread the total cost over the employees' working lives.

Actuarial gains and losses arising from the Local Government Pension Scheme are recognised in the Statement of Changes in Taxpayers' Equity.

## k) Value Added Tax

Value Added Tax on purchases, to the extent that it is recoverable, is carried as a debtor in the balance sheet. Irrecoverable Value Added Tax is charged to the operating cost statement when incurred. The MHS is registered for Value Added Tax under the FSA registration.

## l) Cash at bank

Bank balances continue to be shown as current assets or liabilities. All bank balances were transferred to the FSA with effect from 1 April 2010.

## m) Provisions

Provisions are recognised where there is a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount.

No provisions are discounted since the effect of applying a 3.5% discount factor is considered to be immaterial.

**(i) Pensions**

Around 60% of MHS employees are members of the Local Government Pension Scheme (LGPS), which is a defined benefit scheme governed by the Local Government Pension Regulations 2005, administered by the London Pension Fund Authority and subject to regular valuations by an independent, professionally-qualified actuary, who determines the level of contributions required to fund future benefits.

Most of the remaining MHS employees are members of the Principal Civil Service Pension Scheme (PCSPS), which is a defined benefit scheme that is unfunded.

The Pension Provision relating to the LGPS is an actuarial calculation in-line with IAS19, which is described in more detail in Note 7, as are other employer contributions to both the LPGS and PCSPS schemes.

**(ii) Early Retirement Provisions**

In addition, Early Retirement Provisions have been calculated for both the PCSPS and LGPS. These represent the full additional costs of benefits beyond the normal benefits provided by the LGPS and PCSPS (Note 7) in respect of employees who retire early by paying the required amounts annually to the pension funds over the period between early retirement and normal retirement date. The MHS provides in full when the early retirement programme becomes binding.

**(iii) Provision for onerous leases**

A provision was created in 2008–09 in respect of several onerous leases which relate to office space occupied by the former regional offices of the MHS which closed during that year. The amount provided has been calculated by reference to the periods specified in the leases. Charges received in 2009–10 have been written off against the provision.

**(iv) Provision for personal injury claims**

A provision was created in 2008–09 to cover the estimated amounts required to settle the claims and claimants legal costs for a number of personal injury cases for which the MHS had admitted liability. The amount provided was calculated by reference to similar cases and reviewing correspondence applicable to the cases. Payments made to settle these cases during 2009–10 have been written off against the provision. The provision has been increased in order to provide for new claims received in 2009–10. Amounts for any previous claims that remain unsettled have been reviewed and adjusted as necessary in line with the latest legal advice.

### n) Provision for bad and doubtful debts

Provision has been made in full against balances relating to industry debtors that are in receivership or subject to liquidation. In addition, full provision has been made in respect of industry and staff debts where no payment has been received in the last three months.

### o) Leases

The MHS had leases for office equipment and motor vehicles, which are classed as operating leases. There were no leases for land and buildings.

### p) Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS37, the Agency disclosed for Parliament's reporting and accounting purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Managing Public Money.

The time value of the contingent liabilities disclosed in Note 19 is not considered to be material, therefore, no discounting has been applied.

## 2 First time adoption of IFRS

**(i) Reconciliation of UK GAAP reported taxpayers' equity to IFRS at the end of final UK GAAP reporting period 31 March 2009**

| | General Fund £'000 |
|---|---|
| Taxpayers' equity at 31 March 2009 under UK GAAP | (41,784) |
| Adjustments for: | |
| *IAS 19 Employee benefits* | (373) |
| Provision for holiday pay outstanding as at 31 March 2009. | |
| Taxpayers' equity at 1 April 2009 under IFRS | (42,157) |

**(ii) Reconciliation of UK GAAP reported net operating cost to IFRS for the year-ended 31 March 2009**

| | General Fund £'000 |
|---|---|
| Net operating cost for 2008–09 under UK GAAP | 35,823 |
| Adjustments for: | |
| IAS 19 Employee benefits | (93) |
| Movement of provision for outstanding holiday pay during 2008–09. | |
| Net operating cost for 2008–09 under IFRS | 35,730 |

# 3 Key performance targets

The MHS was set four financial performance targets by the FSA: **Gross operating cost (a); Net operating cost (b); Cost per livestock unit (c) and Cash (d).**

## (i) Resource target

| | | Budget £'000 | Actual £'000 | Favourable/ (adverse) variance £'000 | 2008/09 Actual £'000 |
|---|---|---|---|---|---|
| Gross operating costs | **(a)** | 69,837 | 68,074 | 1,763 | 77,770 |
| Operating receipts | | (36,907) | (36,897) | (10) | (49,393) |
| Net operating cost | | 32,930 | 31,177 | 1,753 | 28,377 |
| Transformation investment Costs | | 4,600 | 5,630 | (1,030) | 7,353 |
| Total | **(b)** | 37,530 | 36,807 | 723 | 35,730 |
| | | | | | |
| Capital | | 325 | 265 | 60 | 270 |
| Capital for Transformation Programme | | 0 | 0 | 0 | 520 |
| Total | | 325 | 265 | 60 | 790 |

**The targets for achieving gross costs and net costs have been met and surpassed.**

## (ii) Cost per livestock unit: (c)

| | Budget £ | Actual £ | Favourable/ (adverse) variance £ | 2008/09 Actual £ |
|---|---|---|---|---|
| Gross operating cost per livestock unit (excluding Transformation costs) | 11.06 | 11.00 | 0.06 | 12.15 |

**The target to operate within the total cost per livestock unit has been met and surpassed.**

**(iii) Cash Target: (d)**

| | Budget £'000 | Actual £'000 | Favourable/ (adverse) variance £'000 |
|---|---|---|---|
| Net operating cost | (37,530) | (36,807) | 723 |
| Capital | (325) | (265) | 60 |
| Disposals of property, plant and equipment | – | – | – |
| Non cash transactions | (661) | (1,985) | (1,324) |
| Movement in working capital | (1,703) | 1,265 | 2,968 |
| Transfer to provisions | 1,069 | 733 | (336) |
| Net | (39,150) | (37,059) | 2,091 |

**The target to operate within the delegated cash budget has been met and surpassed.**

## 4 Related party transactions

The MHS was an executive agency of the Food Standards Agency (FSA) which was regarded as a related party. In addition, during the year, the MHS had a significant number of material transactions with the FSA, Defra and the Rural Payments Agency.

The MHS undertook work under a Service Level Agreement, mainly on SRM (Specified Risk Material) for the FSA. Work for Defra included inspection work related to the Over Thirty Month for human consumption (OTMhc) scheme and the Older Cattle Disposal Scheme (OCDS). Work relating to Cattle Passports was undertaken principally for the RPA.

As at 31 March 2010, £631,000 was due from Defra and £453,000 from the RPA. Work undertaken for the FSA in 2009/10 was funded by an increased budget delegation to the MHS.

No amounts have been written off in the year in respect of these activities.

None of the MHS Senior Management Team, key MHS managerial staff or related parties have undertaken any material transactions with the MHS during the year.

# 5 Income

Until 27 September 2009 income was recognised as the lower of cumulative throughput or inspection time recorded by staff. However, with effect from 28 September 2009, time costs were charged with discounts applied to bring the charges down to the level of the 2008–09 charges provided that throughput and resources were unchanged. (Throughput charges were calculated at the end of the financial year to determine if the FBO had paid the minima. Further details are given below.)

Income was derived entirely within GB from the following sources:

| | | 2009/10 | | 2008/09 |
|---|---|---|---|---|
| | **£'000** | **£'000** | £'000 | £'000 |
| **Industry income** | | **24,080** | | 25,039 |
| **Government income** | | | | |
| FSA income (*) | **0** | | 10,439 | |
| Defra income | **9,840** | | 10,111 | |
| RPA income | **2,685** | **12,525** | 3,613 | 24,163 |
| **Other income** | | **292** | | 191 |
| **Total income** | | **36,897** | | 49,393 |

(*) With effect from 1 April 2009 the FSA have not been invoiced for this work.
The delegated budget from the FSA to the MHS has been amended to reflect this change.

**Segmental Analysis**

Fees and charges

The following table shows MHS fees and charges levied by country.

| | | |
|---|---|---|
| England | **30,483** | 37,451 |
| Scotland | **3,492** | 6,686 |
| Wales | **2,922** | 5,256 |
| | **36,897** | 49,393 |

An analysis of programme income from services provided to external and public sector customers is as follows:

| | 2009–10 | | | 2008–09 | | |
|---|---|---|---|---|---|---|
| | **Income £'000** | **Full cost £'000** | **Surplus/ (deficit) £'000** | Income £'000 | Full cost £'000 | Surplus/ (deficit £'000) |
| Industry | 24,080 | 60,887 | (36,807) | 25,039 | 60,769 | (35,730) |
| Government | 12,525 | 12,525 | – | 24,163 | 24,163 | – |

The above information is provided to meet the Fees and Charges disclosure requirements of the IFReM and has not been provided for Segmental Analysis purposes under IFRS 8.

The FSA's financial objective is to recover costs fully. In relation to Hygiene Inspection Charges made by the MHS, Ministers previously agreed to an annual subsidy, However the FSA Board at the November 2009 Board meeting reiterated the expectation of moving towards full cost recovery in the coming years. There currently remains a considerable shortfall between the costs to the FSA of delivering the meat hygiene controls and income received from Food Business Operators (FBOs) for these services.

This is effectively a subsidy of approximately £37m from the FSA to the meat industry, which will be received by 70% of FBOs across the UK in 2010/11. EU regulations provide for support from the charging system for small/rural slaughterhouses. However, the current system provides a level of subsidy to FBOs over and above that required by EU regulations. The MHS met the EU requirements of charging the minima on a country basis.

The MHS had an objective of recovering its costs in full in respect of work carried out for other Government departments (in line with the principles of Managing Public Money).

# 6 Staff costs

(i) Staff costs for the year comprised:

| | 2009/10 Total £'000 | 2009/10 Permanently employed staff £'000 | 2009/10 Others £'000 | 2008/09 Total £'000 |
|---|---|---|---|---|
| Wages and salaries | **30,253** | **29,805** | **448** | 33,431 |
| Social security costs | **2,384** | **2,344** | **40** | 2,725 |
| Other pension costs (Note 6i) | **4,869** | **4,833** | **36** | 5,325 |
| IAS19 LGPS Pension scheme service costs (Note 7ii) | **(944)** | **(944)** | **–** | 841 |
| Agency temporary staff | **839** | **–** | **839** | 410 |
| Contract inspection and veterinary costs | **21,065** | **–** | **21,065** | 25,262 |
| **Total staff costs** | **58,466** | **36,038** | **22,428** | 67,994 |
| Less recoveries in respect of outward secondments | **(176)** | **(176)** | **–** | (33) |
| | **58,290** | **35,862** | **22,428** | 67,961 |

(ii) The number of people, including contractors, deployed by the MHS during the year by function, were as follows:

| | as at 31 March 2010 | Average 2009/10 | as at 31 March 2009 | Average 2008/09 |
|---|---|---|---|---|
| Meat Hygiene Inspectors and Meat Technicians | **697** | **770** | 835 | 928 |
| Contracted Meat Hygiene Inspectors | **123** | **145** | 122 | 162 |
| Official Veterinarians and Lead Veterinarians | **20** | **21** | 22 | 25 |
| Contracted Official Veterinarians | **274** | **267** | 250 | 275 |
| Contracted Lead Veterinarians | **25** | **25** | 25 | 4 |
| Managerial and administrative staff | **167** | **168** | 166 | 179 |
| Agency temporary staff | **50** | **38** | 22 | 22 |
| | **1,356** | **1,434** | 1,442 | 1,595 |

(iii) Staff costs analysed by function comprise:

| | | 2009/10 Total £'000 | 2009/10 Normal business £'000 | 2009/10 Transformation investment £'000 | 2008/09 £'000 |
|---|---|---|---|---|---|
| Inspection and veterinary staff costs: | Employed | **30,315** | **30,315** | **0** | 34,901 |
| | Contract | **21,065** | **21,065** | **–** | 25,262 |
| Administrative staff costs | | **8,030** | **7,616** | **414** | 6,990 |
| Pension scheme service costs (Note 7ii) | | **(944)** | **(944)** | **–** | 841 |
| | | **58,466** | **58,052** | **414** | 67,994 |

There was one early retirement on ill-health grounds, with no additional accrued pension liabilities in the year. No staff costs were capitalised during the year.

# 7 Pension arrangements

(i) For 2009/10 pension costs were a total of £4.9m (£2.0m and £2.9m below).

In addition £1.6m was paid to reduce the pension deficit.

In 2008/09, pension costs were £5.3m (£2.2m and £3.1m).

**PCSPS**

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. The MHS is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2007. Details are given in the resource accounts of the Cabinet Office: Civil Superannuation and at *www.civilservice.gov.uk/pensions*

For the year ended 31 March 2010, contributions of £2.0m were paid by the MHS to the Paymaster General at rates determined from time to time by the Government Actuary and advised by the Treasury. For the year ended 31 March 2010, these rates varied from 16.7% to 24.3% depending on the grade of the relevant employee. (For the year commencing 1 April 2009, the salary bands were the same, however the rates varied from 17.1% to 25.5%.)

**LGPS**

The majority, around 60%, of employees of the MHS are members of the LGPS, a defined benefit scheme which is governed by the Local Government Pension Scheme Regulations 1995, and administered by London Pensions Fund Authority (LPFA). For the year ended 31 March 2010, contributions of £2.9m were paid to the fund at the rate determined by the Actuary appointed to the fund. For the year ended 31 March 2010, this rate was 17.9% of pensionable remuneration, as it was for the year ended 31 March 2009.

The latest full actuarial review of the scheme considered the position at 31 March 2007.

This valuation concluded that the general position has deteriorated since the last valuation due to:

- improving life expectancy, both for current and prospective pensioners.
- early retirements due to redundancy, ill health etc.

offset due to improvements in:

- investment performance.

On the basis of the full actuarial valuation the MHS Fund deficit was £27.6m. The agency agreed to increase the funding to the scheme, payable for 20 years. For 2010/11 £1.7m will be paid.

The next full actuarial review of the scheme will show the position at 31 March 2010.

An updated valuation, under IAS19 criteria, resulted in a calculated deficit of £102.6m as at 31 March 2010 compared with a calculated deficit of £44.4m as at 31 March 2009.

The projected unit method of valuation has been used to calculate the service cost under IAS19.

The actuary has estimated the employer's contributions for 2010–11 to be £4.9m.

**Financial assumptions**

| | 31/3/10 | 31/3/09 |
|---|---|---|
| Inflation/pension increase rate | 3.9% | 3.1% |
| Salary increases | 5.4% | 4.6% |
| Expected return on assets | 6.8% | 6.4% |
| Discount rate | 5.5% | 6.9% |

**Mortality**

Life expectancy is based on the actuarial PFA92 tables, projected to the calendar year 2033 for non-pensioners and 2017 for pensioners. Based on these assumptions, the average life expectancies at age 65 are summarised below. An additional liability loading of 3.5% for prospective pensioners and 1.7% for current pensioners is applied by the actuary.

| | Males | Females |
|---|---|---|
| Current pensioners | 19.6 years | 22.5 years |
| Future pensioners | 20.7 years | 23.6 years |

Movement in liabilities

| | 31/3/10 £'000 | 31/3/09 £'000 | 31/03/08 £'000 |
|---|---|---|---|
| **Opening defined benefit obligation** | **127,221** | **127,767** | **141,154** |
| Current service cost | 2,120 | 2,663 | 4,809 |
| Interest cost | 8,730 | 8,953 | 7,682 |
| Contributions by members | 1,111 | 1,204 | 1,435 |
| Actuarial losses/(gains) | 76,465 | (13,568) | (23,307) |
| Past service costs | 0 | 1,623 | 0 |
| Losses on curtailments | 568 | 1,974 | 336 |
| Estimated unfunded benefits paid | (133) | (141) | (140) |
| Estimated benefits paid | (4,513) | (3,254) | (4,202) |
| **Closing defined benefit obligation** | **211,569** | **127,221** | **127,767** |

Movement in assets

| | 31/3/10<br>£'000 | 31/3/09<br>£'000 | 31/3/08<br>£'000 |
|---|---|---|---|
| **Opening fair value of employer's assets** | **82,805** | **99,777** | **94,419** |
| Expected return on assets | 5,354 | 7,149 | 6,928 |
| Contributions by members | 1,111 | 1,204 | 1,435 |
| Contributions by employer | 5,130 | 6,837 | 6,732 |
| Contributions in respect of unfunded benefits | 133 | 141 | 140 |
| Actuarial gains/(losses) | 19,066 | (28,908) | (5,535) |
| Unfunded benefits paid | (133) | (141) | (140) |
| Benefits paid | (4,513) | (3,254) | (4,202) |
| **Closing fair value of employer assets** | **108,953** | **82,805** | **99,777** |

The assets in the scheme and expected return were:

| | 31 March 2010 | | | 31 March 2009 | | |
|---|---|---|---|---|---|---|
| | Expected long term rate of return | Asset value £'000 | Proportion of total fund | Expected long term rate of return | Asset value £'000 | Proportion of total fund |
| Equities | 7.5% | 76,267 | 70% | 7.0% | 47,199 | 57% |
| Target Return Portfolio | 4.5% | 10,895 | 10% | 5.5% | 8,281 | 10% |
| Alternative Assets | 6.5% | 15,253 | 14% | 6.0% | 20,701 | 25% |
| Cash | 3.0% | 5,448 | 5% | 4.0% | 6,624 | 8% |
| Corporate Bonds | 5.5% | 1,090 | 1% | – | – | – |
| **Total market value of assets** | | 108,953 | 100% | | 82,805 | 100% |
| **Present value of scheme liabilities** | | (211,569) | | | (127,221) | |
| **Net pension deficit** | | (102,616) | | | (44,416) | |

(ii) Analysis of amount charged to operating deficit

| | 2009/10 £'000 | 2008/09 £'000 |
|---|---|---|
| Current service cost | 2,120 | 2,664 |
| Past service cost | 0 | 1,623 |
| Curtailments and settlements | 568 | 1,974 |
| | 2,688 | 6,261 |
| Employer contributions to be set off | (3,632) | (5,420) |
| Amount (credited)/charged to operating cost (Note 6) | (944) | 841 |

(iii) Analysis of net amount charged to operating cost

| | 2009/10 £'000 | 2008/09 £'000 |
|---|---|---|
| Expected Return on Pension Scheme Assets | (5,354) | (7,149) |
| Interest on Pension Scheme Liabilities | 8,730 | 8,954 |
| Amount charged to operating cost (Note 8) | 3,376 | 1,805 |

(iv) Analysis of amount recognised in the Statement of Changes in Taxpayers' Equity

| | 2009/10 £'000 | 2008/09 £'000 |
|---|---|---|
| Actual return less expected return on scheme assets | 19,066 | (28,517) |
| Experience gains and losses arising on scheme liabilities | 441 | (382) |
| Changes in assumptions underlying the present value of scheme liabilities | (76,906) | 13,559 |
| Actuarial loss recognised in the Statement of Changes in Taxpayers' Equity | (57,399) | (15,340) |

Movement in deficit during the year

| | 2009/10 £'000 | 2008/09 £'000 |
|---|---|---|
| Opening deficit | (44,416) | (27,990) |
| Movement in year: | | |
| Current service cost | (2,120) | (2,664) |
| Contributions – employer | 3,632 | 5,420 |
| Payment of deficit | 1,631 | 1,558 |
| Curtailments and settlements | (568) | (1,974) |
| Past service cost | 0 | (1,623) |
| Other finance net interest charged | (3,376) | (1,805) |
| Actuarial loss | (57,399) | (15,338) |
| Closing deficit – LGPS Pension Provision (Note 15) | (102,616) | (44,416) |

History of experience gains and losses

| | 2009/10 £'000 | 2008/09 £'000 | 2007/08 £'000 | 2006/07 £'000 | 2005/06 £'000 |
|---|---|---|---|---|---|
| **Difference between experience and actual return on scheme assets** | | | | | |
| Amount (£'000) | 19,066 | (28,908) | (5,535) | 823 | 10,688 |
| Value of assets (£'000) | 108,953 | 82,805 | 99,777 | 94,419 | 84,007 |
| Percentage of scheme assets | 17.5% | (34.9%) | (5.5%) | 0.9% | 12.7% |
| Experience gains/(losses) on scheme liabilities | | | | | |
| Amount (£'000) | 441 | (382) | 2,763 | (92) | (477) |
| Total present value of liabilities (£'000) | 211,569 | 127,222 | 127,767 | 141,154 | 111,267 |
| Percentage of scheme liabilities | 0.2% | 0.0% | 2.2% | (0.1%) | (0.4%) |
| **Total amount recognised in the Statement of Changes in Taxpayers' Equity** | | | | | |
| Actuarial (loss)/gain (£'000) | (57,399) | (15,340) | 17,772 | (19,744) | 19,643 |
| Total present value of liabilities (£'000) | 211,569 | 127,222 | 127,767 | 141,154 | 111,267 |
| Percentage of scheme liabilities | (27.1%) | (12.1%) | 13.9% | (14.0%) | 17.7% |
| Cumulative actuarial (loss)/gain (£'000) | (55,721) | 1,678 | 17,018 | (754) | 18,990 |

# 8 Other costs

| | | 2009/10 | | 2008/09 |
|---|---|---|---|---|
| | **£'000** | **£'000** | £'000 | £'000 |
| Rentals under operating leases: | | | | |
| Other operating leases | | **150** | | 156 |
| Non-cash items: | | | | |
| Depreciation and amortisation | **561** | | 480 | |
| Loss on disposal of fixed assets | **0** | | 4 | |
| Cost of capital credit | **(2,592)** | | (1,368) | |
| Auditors remuneration and expenses | **46** | | 37 | |
| Provision for personal injury claims | **215** | | 217 | |
| Early Retirement Provision – LGPS | **80** | **(1,690)** | 82 | (548) |
| Accommodation costs | | **1,432** | | 1,502 |
| Staff overheads | | **3,396** | | 2,621 |
| Administration costs | | **716** | | 1,648 |
| IT costs | | **1,382** | | 1,413 |
| Provision for bad debts | | **73** | | (84) |
| Bad debts (recovered)/written off | | **(10)** | | 55 |
| Interest payable to pension scheme (Note 7iii) | | **3,376** | | 1,805 |
| Interest received | | **(7)** | | (7) |
| (i) **Total other administration costs** | | **8,818** | | 8,561 |
| (ii) **Other operational costs** | | **1,204** | | 1,123 |
| Investment costs including severance, IT investment and programme delivery | | **5,142** | | 6,246 |
| Early Retirement Provision – PCSPS (*) | | **74** | | 1,199 |
| (iii) **Transformation investment costs** | | **5,216** | | 7,445 |

(*) Relates entirely to early retirements under Transformation.

Auditors remuneration and expenses for 2008–09 included £3,000 in relation to work carried out towards the adoption of International Financial Reporting Standards in 2009–10.

# 9 Analysis of notional charges

Notional charges, defined as costs not subject to invoice and payment, comprise the following:

| | **2009/10 £'000** | 2008/09 £'000 |
|---|---|---|
| External audit fee | **46** | 37 |
| Cost of capital credit | **(2,592)** | (1,368) |
| | **(2,546)** | (1,331) |

For 2009/10 a credit of £2,573,000 is applicable to the average LGPS pension provision held during the year. This is increased by an additional cost of capital credit of £19,000, calculated in accordance with the Treasury guidelines at a rate of 3.5 per cent per annum on the monthly average net assets employed.

# 10 Property, plant and equipment

| 2008–09 | Computer equipment £'000 | Office equipment £'000 | Furniture & fittings £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| At 1 April 2008 | 1,491 | 94 | 145 | 1,730 |
| Additions in the year | 153 | – | – | 153 |
| Disposals in the year | (4) | (8) | – | (12) |
| At 31 March 2009 | 1,641 | 86 | 145 | 1,872 |
| **Accumulated depreciation** | | | | |
| At 1 April 2008 | 1,099 | 90 | 145 | 1,334 |
| Charge for the year | 159 | 1 | – | 160 |
| Disposals in the year | (3) | (5) | – | (8) |
| At 31 March 2009 | 1,255 | 86 | 145 | 1,486 |
| **Net book value** | | | | |
| At 1 April 2008 | 392 | 4 | – | 396 |
| At 31 March 2009 | 386 | – | – | 386 |

| 2009–10 | Computer equipment £'000 | Total £'000 |
|---|---|---|
| **Cost or valuation** | | |
| At 1 April 2009 | **1,641** | **1,641** |
| Additions in the year | **154** | **154** |
| Disposals in the year | **0** | **0** |
| At 31 March 2010 | **1,795** | **1,795** |
| **Accumulated depreciation** | | |
| At 1 April 2009 | **1,254** | **1,254** |
| Charge for the year | **177** | **177** |
| Disposals in the year | **0** | **0** |
| At 31 March 2010 | **1,431** | **1,431** |
| **Net book value** | | |
| At 1 April 2009 | **387** | **387** |
| At 31 March 2010 | **364** | **364** |

The MHS accounts for 2008–09 and earlier (under UK GAAP) include Computer software in the Fixed asset balances. The comparative figures in this note have been adjusted to exclude Computer software, which has been included in Intangible assets shown below (see Note 11).

All the Property, plant and equipment was owned by the MHS, and transferred to the FSA on the cessation of the MHS agency status on 31 March 2010.

# 11 Intangible assets

| 2008–09 | Software licences £'000 | Computer software £'000 | Total £'000 |
|---|---|---|---|
| **Cost or valuation** | | | |
| At 1 April 2008 | 835 | 1,773 | 2,608 |
| Additions in the year | 33 | 604 | 637 |
| At 31 March 2009 | 868 | 2,376 | 3,245 |
| **Accumulated amortisation** | | | |
| At 1 April 2008 | 651 | 1,185 | 1,836 |
| Charge for the year | 53 | 267 | 320 |
| At 31 March 2009 | 704 | 1,452 | 2,157 |
| **Net book value** | | | |
| At 1 April 2008 | 184 | 588 | 772 |
| At 31 March 2009 | 164 | 924 | 1,088 |

| 2009–10 | Software licences £'000 | Computer software £'000 | Total £'000 |
|---|---|---|---|
| **Cost or valuation** | | | |
| At 1 April 2009 | **868** | **2,376** | **3,244** |
| Additions in the year | **66** | **45** | **111** |
| At 31 March 2010 | **934** | **2,421** | **3,355** |
| | | | |
| **Accumulated amortisation** | | | |
| At 1 April 2009 | **704** | **1,453** | **2,157** |
| Charge for the year | **49** | **335** | **384** |
| At 31 March 2010 | **753** | **1,788** | **2,541** |
| | | | |
| **Net book value** | | | |
| At 1 April 2009 | **164** | **923** | **1,087** |
| At 31 March 2010 | **181** | **633** | **814** |

The MHS accounts for 2008–09 and earlier (under UK GAAP) included Computer software under Fixed assets. The comparative figures shown in this note include Computer software.

All the Intangible assets were owned by the MHS, and transferred to the FSA on the cessation of the MHS agency status on 31 March 2010.

## 12 Depreciation

| | 2009/10 £'000 | 2008/09 £'000 |
|---|---|---|
| Depreciation charge for the year based on historical cost | **561** | 480 |
| Permanent diminution in value on computer equipment and software licences | **0** | 0 |
| | **561** | 480 |

# 13 Trade receivables and other current assets

(i) Analysis by Type

| | 31 March 2010 £'000 | 31 March 2009 £'000 | Restated 1 April 2008 £'000 |
|---|---|---|---|
| **Amounts falling due within one year** | | | |
| Trade receivables | **3,137** | 3,038 | 2,359 |
| VAT recoverable | **876** | 845 | 1,135 |
| Other receivables | **26** | 33 | 1,177 |
| | **4,039** | 3,916 | 4,671 |
| Other current assets: | | | |
| Prepayments and accrued income | **3,003** | 3,709 | 3,505 |
| Employee benefit receivable accrual | **109** | 76 | 95 |
| | **3,112** | 3,785 | 3,600 |
| | **7,151** | 7,701 | 8,271 |
| **Amounts falling due after more than one year** | | | |
| Trade receivables | **38** | 45 | 59 |
| Prepayments and accrued income | **0** | 3 | 2 |
| | **38** | 48 | 61 |
| | **7,189** | 7,749 | 8,332 |

Prepayments and accrued income falling due after more than one year relate to subscriptions and car leases.

(ii) Intra-Government Balances

| | 31 March 2010 £'000 | 31 March 2009 £'000 | Restated 1 April 2008 £'000 |
|---|---|---|---|
| **Amounts due within one year** | | | |
| Balances with other central government bodies | **2,551** | 2,626 | 3,307 |
| **Sub-total: intra-government balances** | **2,551** | 2,626 | 3,307 |
| Balances with bodies external to government | **4,600** | 5,075 | 4,964 |
| Debtors at end of period | **7,151** | 7,701 | 8,271 |

| | 31 March 2010 £'000 | 31 March 2009 £'000 | Restated 1 April 2008 £'000 |
|---|---|---|---|
| **Amounts due after one year** | | | |
| Balances with other central government bodies | 0 | 0 | 0 |
| **Sub-total: intra-government balances** | **0** | 0 | 0 |
| Balances with bodies external to government | 38 | 48 | 61 |
| **Debtors at end of period** | **38** | 48 | 61 |

# 14 Trade payables and other current liabilities

(i) Analysis by type

| | 31 March 2010 £'000 | 31 March 2009 £'000 | Restated 1 April 2008 £'000 |
|---|---|---|---|
| **Amounts falling due within in one year** | | | |
| Other taxation and social security | **1,225** | 816 | 948 |
| Trade payables | **2,106** | 2,038 | 2,470 |
| Other payables | **256** | 1,043 | 1,059 |
| | **3,587** | 3,897 | 4,477 |
| Other current liabilities: | | | |
| Accruals and deferred income (*) | **6,483** | 5,561 | 11,132 |
| Employee benefit payable accrual | **543** | 449 | 561 |
| | **7,026** | 6,010 | 11,693 |
| | **10,613** | 9,907 | 16,170 |

(*) Accruals include Transformation costs of £3.6m and the 2009–10 pay award.

(ii) Intra-Government balances

| | **31 March 2010 £'000** | 31 March 2009 £'000 | Restated 1 April 2008 £'000 |
|---|---|---|---|
| **Amounts due within one year** | | | |
| Balances with other central government bodies | **1,225** | 1,602 | 858 |
| **Sub-total: intra-government balances** | **1,225** | 1,602 | 858 |
| Balances with bodies external to government | **9,388** | 8,305 | 15,312 |
| **Creditors at end of period** | **10,613** | 9,907 | 16,170 |

# 15 Provisions for liabilities and charges

(i) LGPS Pension provision

| | Pension provision – LGPS £'000 |
|---|---|
| As at 1 April 2008 | 27,990 |
| Arising during year | 2,646 |
| Utilised during year | – |
| Payment to reduce deficit | (1,558) |
| Actuarial loss arising | 15,338 |
| As at 31 March 2009 | 44,416 |

| | Pension provision – LGPS £'000 |
|---|---|
| As at 1 April 2009 | 44,416 |
| Arising during year | 2,432 |
| Utilised during year | – |
| Payment to reduce deficit | (1,631) |
| Actuarial loss arising | 57,399 |
| As at 31 March 2010 | 102,616 |

This provision is classed as being due over more than one year.

(ii) Early retirement provisions

| | Early Retirement Provision – LGPS £'000 | Early Retirement Provision – PCSPS £'000 | Early Retirement Provision – Total £'000 |
|---|---|---|---|
| As at 1 April 2008 | 250 | – | 250 |
| Arising during year | 82 | 1,199 | 1,281 |
| Utilised during year | (124) | (76) | (200) |
| As at 31 March 2009 | 208 | 1,123 | 1,331 |

| | Early Retirement Provision – LGPS £'000 | Early Retirement Provision – PCSPS £'000 | Early Retirement Provision – Total £'000 |
|---|---|---|---|
| As at 1 April 2009 | 208 | 1,123 | 1,331 |
| Arising during year | 80 | 74 | 154 |
| Utilised during year | (111) | (129) | (240) |
| As at 31 March 2010 | 177 | 1,068 | 1,245 |

The Early Retirement Provision represents the full additional costs of benefits beyond the normal benefits provided by the LGPS and PCSPS (Note 6) in respect of employees who retired early by paying the required amounts annually to the pension funds over the period between early retirement and normal retirement date. The MHS provided in full when the early retirement programme became binding.

(iii) Other provisions

| | Onerous Lease Provision £'000 | Personal Injury Claims Provision £'000 |
|---|---|---|
| As at 1 April 2008 | – | – |
| Arising during year | 347 | 217 |
| Utilised during year | 0 | 0 |
| As at 31 March 2009 | 347 | 217 |

| | Onerous Lease Provision £'000 | Personal Injury Claims Provision £'000 |
|---|---|---|
| As at 1 April 2009 | 347 | 217 |
| Arising during year | 0 | 215 |
| Utilised during year | (71) | (126) |
| As at 31 March 2010 | 276 | 306 |

The Provision for Personal Injury Claims includes management estimates of the amounts required to settle claims made against the MHS for personal injury, for which the MHS had admitted liability. The provision also includes management estimates for the associated costs for these cases. Claims against the MHS where liability had been denied are not included. Since claims can take a considerable period, often years, to settle it is not possible to determine a split of the provision, therefore, the entire balance is treated as being over one year.

(iv) Total

| | Total all provisions £'000 |
|---|---|
| As at 1 April 2008 | 28,240 |
| Arising during year | 4,491 |
| Utilised during year | (200) |
| Payment to reduce deficit | (1,558) |
| Actuarial loss arising | 15,338 |
| As at 31 March 2009 | 46,311 |

| | Total all provisions £'000 |
|---|---|
| As at 1 April 2009 | 46,311 |
| Arising during year | 2,801 |
| Utilised during year | (438) |
| Payment to reduce deficit | (1,631) |
| Actuarial loss arising | 57,399 |
| As at 31 March 2010 | 104,442 |

The aforementioned respective provisions for early departure, pension, onerous leases and legal claims have all been reviewed for the overall purpose of meeting reporting requirements outlined within IAS37 Provisions, Contingent Liabilities and Contingent Assets. As a result it was confirmed that, under existing accounting for Provisions, the appropriate recognition criteria and measurement bases are already being applied and that sufficient information has been disclosed.

(v) Analysis of expected timing of discounted flows

| | Early Retirement Provision – Total £'000 | Onerous Lease Provision £'000 | Personal Injury Claims Provision £'000 | Total £'000 |
|---|---|---|---|---|
| In the remainder of the Spending Review period (to 2010) | 230 | 102 | – | 332 |
| Between 2011 and 2015 | 641 | 245 | 217 | 1,103 |
| Between 2016 and 2020 | 460 | – | – | 460 |
| Thereafter | – | – | – | – |
| Balance at 31 March 2009 | 1,331 | 347 | 217 | 1,895 |

The above analysis excludes the LGPS Pension provision deficit of £44,416,000.

## 16 Analysis of changes in cash and cash equivalents during the year

| | 31 March 2008 £'000 | Cashflow £'000 | 31 March 2009 £'000 | Cashflow £'000 | **31 March 2010 £'000** |
|---|---|---|---|---|---|
| Balances held with OPG | 1,871 | 2,754 | 4,625 | (36) | **4,589** |
| Balances with other financial institutions and in hand | 281 | (68) | 213 | (23) | **190** |
| | 2,152 | 2,686 | 4,838 | (59) | **4,779** |

## 17 Capital commitments

There are no future capital commitments for Meat Hygiene Service.

## 18 Commitments under operating leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given below, analysed according to the period in which the lease expires.

| | **2009/10 £'000** | 2008/09 £'000 |
|---|---|---|
| Expiry within one year | 55 | 40 |
| Expiry between one and five years | 310 | 372 |
| | 365 | 412 |

## 19 Contingent liabilities

There are a number of small claims being made by MHS employees and others for injuries sustained in the workplace, unfair dismissal or other issues. These cases will be defended and as yet the outcome is not known but could cost approximately £335,000. No provision has been made for these cases, however, a provision of £306,000 has been made for cases where liability has been admitted.

There was a provision of £217,000 for personal injury claims at the end of the previous financial year.

## 20 Losses and special payments

Included in Other Costs (Note 8), administration costs, are Losses and Special Payments which amounted to £250,000 relating to 19 cases (£602,000 relating to 27 cases in 2008/09). In addition, provision of £306,000 has been made in respect of estimated future payments relating to these cases and a further 15 cases.

The majority of the cases refer to compensation and personal injury claims. The majority of the cases refer to compensation and personal injury claims. An analysis by category is shown below.

| | No of cases | Value (£'000) |
|---|---|---|
| Cash losses | – | – |
| Stores losses | – | – |
| Fruitless payments | – | – |
| Constructive losses | – | – |
| Claims waived and abandoned | – | – |
| Special payments | 19 | 250 |

## 21 Post balance sheet events

In accordance with the requirements of FRS21, *Events after the balance sheet date*, post balance sheet events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

The Meat Hygiene Service ceased to exist as an executive agency on 31 March 2010. With effect from 1 April 2010 all of the work of the agency was absorbed into the Food Standards Agency, with the MHS forming the core of the new FSA Operations Group. All employed staff were transferred (on existing terms and conditions). All assets and liabilities of the MHS were transferred to the FSA on 1 April 2010.

The were no other reportable post balance sheet events up to the date of certification by the Comptroller and Auditor General. The financial statements do not reflect events after this date.

## 22 Financial instruments

'IFRS 7 Financial Instruments' requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

The MHS is financed by the Government, and, therefore, it is not exposed to the risk faced by business entities. Also, financial instruments play no role in creating, or changing risk, unlike that which would be typical of the listed companies to which IFRS7 mainly applies.

The MHS does not have any powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities rather than being held to manage the risks facing the MHS in undertaking its activities. The fair values and carrying values of financial assets and liabilities do not differ significantly.

The Financial Instruments that the MHS had included its Trade Payables and Trade Receivables. In addition, the agency had contractual obligations that included two agreements which contained embedded derivatives (allowing the vendors to increase prices each year in line with published inflation indices), the value of these is not considered to be material.

All contractual arrangements have been reviewed, and no further embedded derivatives found. The MHS did not make use of any other derivatives or financial instruments.

### Liquidity risk

The MHS finances its operations from funds made available from the Government. Therefore, there is no exposure to liquidity risks.

### Currency risk

The MHS does not have any transactions outside of the UK, and, therefore, has no exposure to currency rate fluctuation.

### Credit risk

The MHS has no long term debt and both debtors and creditors predominantly fall within one year. The majority of the MHS's income comes from industry customers and government customers (see Note 5).

The maximum exposure as at 31 March 2010 is in receivables from customers, disclosed in the trade receivables and other current assets note (Note 13).

### Interest rate risk

The MHS has no borrowings nor interest bearing deposit accounts. The MHS's financial assets and liabilities carry nil rates of interest. The MHS is not, therefore, exposed to interest-rate risk.

## 23 IFRSs, amendments and interpretations in issue but not yet effective, or adopted

IAS8, accounting policies, changes in accounting estimates and errors, require disclosure in respect of the new IFRSs, amendments and interpretations that are, or will be applicable after the reporting period. The are a number of IFRSs, amendments and interpretations that have been issued by the International Accounting Standards Board that are effective for financial statements after this reporting period. The following were not adopted early by the Agency.

### IFRS9 Financial Instruments

A new standard intended to replace IAS39. The effective date is for accounting periods beginning on, or after 1 January 2013.

### IFRS1 First-time Adoption of International Financial Reporting Standards.

Three sets of amendments to the existing standard. The effective date of one set of amendments us for accounting periods beginning on, or after 1 July 2009. The effective date of the second set of amendments is for accounting periods on, or after 1 January 2010. The effective date of the third set of amendments is for accounting periods beginning on, or after 1 July 2010.

### IFRS2 Share-based Payment

Two sets of amendments to the existing standard. The effective date of one set of amendments is for accounting periods beginning on, or after 1 July 2009. The effective date of the second set of amendments is for accounting periods on, or after 1 January 2010.

### IFRS3 Business Combinations

Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 July 2009.

### IFRS5 Non-current Assets Held for Sale and Discontinued Operations

Two sets of amendments to the existing standard. The effective date of one set of amendments is for accounting periods beginning on, or after 1 July 2009. The effective date for the second set of amendments is for accounting periods beginning on, or after 1 January 2010.

### IFRS8 Operating Segments

Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 January 2010.

### IAS1 Presentation of Financial Statements

Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 January 2010.

### IAS7 Statements of Cash Flow

Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 January 2010.

### IAS17 Leases

Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 January 2010.

### IAS24 Related Party Disclosures

Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 January 2011.

### IAS27 Consolidated and Separate Financial Statements

Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 January 2009.

### IAS32 Financial Instruments: Presentation

Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 February 2010.

### IAS36 Impairment of Assets

Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 January 2010.

### IAS38 Intangible Assets

Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 July 2009.

### IAS39 Financial Instruments: Recognition and Measurement

Two sets of amendments to the existing standard. The effective date of one set of amendments is for accounting periods beginning on, or after 1 July 2009. The effective date of the second set of amendments is for accounting periods beginning on, or after 1 January 2010.

### IFRIC9 Reassessment of Embedded Instruments

Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 July 2009.

### IFRIC14 Prepayments of a Minimum Funding Requirement

Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 January 2011.

### IFRIC16 Hedges of a Net Investment in a Foreign Operation

A new interpretation. The effective date is for accounting periods beginning on, or after 1 July 2009.

### IFRIC17 Distributions of Non-cash Assets to Owners

A new interpretation. The effective date is for accounting periods beginning on, or after 1 July 2009.

### IFRIC19 Extinguishing Financial Liabilities with Equity Instruments

A new interpretation. The effective date is for accounting periods beginning on, or after 1 January 2011.

None of these new or amended standards and interpretations are likely to be applicable or are anticipated to have a future material impact on the financial statements of the Food Standards Agency (the agency to which the MHS operations transferred with effect from 1 April 2010).

In addition, the following are changes to the FReM, which will be applicable for accounting periods beginning on 1 April 2010:

### Chapter 6 Tangible Non-current Assets

New standard FRS30 accounting for heritage assets.

### Chapter 8 Impairments

Adaption of IAS36 impairment of assets.

### Chapter 11 Income and Expenditure

Removal of cost of capital charging.

### Chapter 13 Accounting for Consolidated Fund Revenue

Introduction of trust statements for revenue, and some associated expenditure.

None of these changes to the FReM are anticipated to have a future material impact on the financial statements of the FSA.

# Appendix

## Assessment of performance targets in 2007/08 and 2008/09

### 2007/08

The MHS Board met on 29 May 2008 and assessed MHS performance against the corporate objectives set for 2007/08. It concluded that the five objectives had been met.

**Objective 1 – To deliver customer requirements**

Of the ten performance indicators for this objective, eight were met in full (including animal health and welfare, hygiene and assurance on delivery standards) and two in part – BSE controls and customer satisfaction.

MHS verification of BSE controls compliance remained exceptionally high at 99.9997% – out of 2,209,845 bovines processed in 2007/08, six breaches were reported. Five Over Thirty Month (OTM) bovines were processed as Under Thirty Month (UTM) and not tested for BSE prior to being released into the human food chain, and there was one SRM breach where spinal cord was found in a quarter of beef received at a cutting plant. The risk to public health from these breaches was minuscule. The MHS will continue to strive for zero breaches of BSE controls.

Customer satisfaction results from industry and FSA improved on last year. Industry increased by 12.5% from 6.4 in 2006/07 to 7.2 in 2007/08, and FSA's satisfaction with the MHS increased from 5.4 to 6.6 – a 22.2% improvement. Although the result for Defra was 7.7 against a target of 7.8, this was still considered to be a good result.

As the vast majority of the indicators for this objective were met, and the two that were missed presented minuscule risk to public health, the MHS Board considered that Objective 1 had been substantially met.

**Objective 2 – To equip all our staff with the necessary skills, knowledge and information to deliver our services effectively.**

Five out of the six indicators supporting this objective were met, including delivering the HR policy and training programmes. Implementation of two of the Health and Safety strategy components missed their target deadlines, but were implemented by the end of the financial year. Although the Health & Safety indicator missed its deadline, the MHS Board considered that Objective 2 had been met.

**Objective 3 – To e-enable all MHS processes working in partnership with our customers where appropriate**

The indicators contributing to the IS/IT Strategy for 2007/08 were met. These included: identifying and delivering the requirements for the e-enablement of business processes; presenting the stakeholder analysis to improve access to e-enabled services to the Senior Management Team; and developing the business case for IT systems to enable changes to current business practices and underpin the transformation cost savings. The MHS Board considered that Objective 3 had been met.

**Objective 4 – To operate within delegated resource budget and delegated cash budget for 2007/08. All indicators supporting this objective were achieved, including all financial targets set for 2007/08 – gross cost, net cost, cost per livestock unit and cash.**

The MHS Board considered that Objective 4 had been met.

**Objective 5 – To improve efficiency**

All corporate indicators supporting this objective were achieved, including: implementing the Staffing Verification Team recommendations; producing the functionality for version 2 of Food Chain Information/Collection and Communication of Inspection Results for pigs; and submitting the MHS bid to the FSA review of the delivery of official controls. The MHS Board considered that Objective 5 had been met.

## 2008/09

The MHS Board met on 13 May 2009 and assessed MHS performance against the corporate objectives set for 2008/09. It concluded that within the strict interpretation of stretch targets, the MHS had fully met two objectives and substantially met three objectives, however noted that some of the indicators not fully achieved were not within the control of the MHS.

**Objective 1 – To deliver effective official controls in line with customer requirements**

Of the ten performance indicators for this objective, nine were met in full (including animal health and welfare, hygiene and assurance on delivery standards) and one in part (BSE controls).

MHS verification of BSE controls compliance remained exceptionally high. Out of just over 15.6 million sheep processed in 2008/09, three breaches were reported where the spinal cord was not removed from ewes. Out of just under 2.2 million bovines processed in 2008/09, there were three breaches. The first two breaches involved Over Thirty Month (OTM) bovines being processed as Under Thirty Month (UTM) and consequently not tested for BSE prior to being released into the human food chain. The third breach involved a carcase being dispatched whilst still containing a small piece of spinal cord. MHS verification of TSE/BSE controls compliance remains exceptionally high at 99.9997%.

As the vast majority of the indicators for this objective were met, and the one that was missed presented minuscule risk to public health, the MHS Board considered that Objective 1 had been substantially met.

**Objective 2 – To further develop teams with the right knowledge, information, behaviour and capability to deliver our services effectively**

Six out of the eight indicators supporting this objective were achieved, including developing a new staff appraisal system; developing a new healthcare strategy; and delivering leadership and management and technical competencies frameworks.

The diversity targets on gender, disability and ethnicity were not met due to the limited amount of external recruitment undertaken during a period of headcount reduction. The end of year position was:

| | Target | As at March 2009 |
|---|---|---|
| Disability – | | |
| Operational | 2.5% | 2.1% |
| Non-operational | 3.7% | 3.0% |
| Ethnicity | 4.1% | 3.8% |
| Gender | 18% | 15.7% |

The target of concluding modern terms and conditions has not yet been met, although substantial progress has been made. Discussions between MHS and UNISON facilitated by ACAS continue.

As the majority of the indicators for this objective were achieved, and one of the two that were not was largely out of sole MHS control, the MHS Board considered that Objective 2 had been substantially met.

**Objective 3 – To adopt appropriate electronic services where justified, in partnership with customers and end users**

Two out of the three corporate indicators supporting this objective were achieved. Highlights included:

- Decommissioning five regional offices during 2008/09 and moving headquarters in June 2008 was accomplished at the same time as upgrading broadband speeds and MHS IT equipment in some 250 Food Business Operators premises across GB.
- Systems were changed to match the new operational management structure based on 37 clusters.
- New contracts for Official Veterinarians and Meat Hygiene Inspectors were awarded and utilised on-line tendering.
- MHS successfully maintained its accreditation to ISO 27001 on Information Security Management Systems, and was awarded the silver level of certification against the FSSC-1:2004 standard for software compliance.

The corporate indicator not achieved was IS/IT strategy, which encompassed 11 supporting indicators covering a wide range of activities. Of these 11 supporting indicators, six were fully met. The supporting indicators not met were:

- Review stakeholder analysis – completed late due to work required to move MHS HQ back to Foss House.

- Upgrade broadband network – this was delayed due to problems with BT. This work was 86% complete at the year end with the remaining plants requiring complex, expensive solutions which may not now be pursued.
- Install new hardware in plants – this work was delayed through the linked broadband work and was 86% complete at the year end.
- Upgrade to Microsoft Office 2007 – this work was put on hold due to an unexpected delay in access to funding.
- Deliver enterprise reporting through SharePoint 2007 – this work was put on hold due to an unexpected delay in access to funding.

The MHS Board noted that progress on some indicators had been affected by issues out of MHS control, and considered that Objective 3 had been substantially met.

**Objective 4 – To operate within the key financial targets**

All corporate indicators supporting this objective were met, including both financial targets set for 2008/09 – gross cost and net cost.

The MHS Board considered that Objective 4 had been met.

**Objective 5 – To reduce the Cost Per Livestock Unit (CPLU) year on year**

The CPLU for 2008/09 was £12.16 against a target of £12.87.

The MHS Board considered Objective 5 to have been met.

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