



Annual Report & Accounts 2008/09

Protecting Public Health and Animal Health and Welfare



An Executive Agency of the Food Standards Agency

Annual Report & Accounts 2008/09

Protecting Public Health and Animal Health and Welfare

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Contents

Chief Executive's overview	4
Annual Report	
Annual Report	6
Management commentary	10
Corporate governance	24
Remuneration report	28
Annual Accounts	
Statement of Accounting Officer's responsibilities	37
Statement on Internal Control 2008/09	38
Audit Certificate	43
Annual Accounts 2008/09	45
Appendix	
Assessment of performance targets in 2006/07 and 2007/08	73

Chief Executive's overview

Ensuring the protection of public health and animal health and welfare at slaughter remained our key priority in 2008/09. As the regulator of the meat industry, the Meat Hygiene Service (MHS) must deliver the most efficient and effective service possible whilst maintaining consumer protection through delivering the European Union (EU) official controls on meat hygiene. I am proud to say over the last year we never lost sight of this despite the many organisational changes that we have made within the MHS.

I am determined to ensure that Food Business Operators (FBOs) fully meet their responsibilities for producing safe meat. Official controls are delivered by MHS staff on demand, 24 hours a day, seven days a week, 365 days a year 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 work hard to ensure safe meat is produced by FBOs and animal welfare is protected.

In the last 12 months, the MHS has sought to become more effective and make efficiency gains through our Transformation change programme. It is never pleasant to have to reduce the size of an organisation as there will always be an impact on people's working lives, together with their families, however for the MHS it has been a necessary task. We need the right level of resources for the job we do today in 2009 and as this year's accounts show, we are clearly meeting our objectives. FBOs also have a key part to play in using MHS resources more effectively and efficiently by working with Business Managers in agreeing individual Business Agreements. The FSA Board decision in April 2009, to recommend the introduction of time based charging to Ministers, will also help to streamline the cost of the MHS to industry and taxpayer alike.

In last year's Annual Report I stated that we would deliver further cost reductions of nearly £5 million in real terms in 2008/09 on top of those already delivered in 2007/08. In fact we delivered £9.2m, 84% better than planned, and we are on track to reduce costs still further to £70.3million by 2010/11 – a real terms reduction of 32% since 2006/07. Our headcount has been reduced from an average of 2,023 in 2006/07 to an average of 1,595 in 2008/09, a reduction of 21%. We now have irrefutable evidence of change and in April 2009 the FSA Board congratulated the MHS on the progress made in modernising the regulatory service.

Under Transformation, we have sought to have a more proactive relationship with industry and the trade media and it is rewarding to see that this has generated more open communication.

Last year we put our new operational management structure in place. This included the appointment of two Business Directors, 12 Business Managers and 37 Lead Veterinarians; the appointment of fourteen service delivery contractors (six of which cover remote Scottish islands); and Official Veterinarians formally becoming the team leader for inspection staff. The MHS's new operational structure will be in place during 2009 and I have no doubt that the benefits of this structure for industry, MHS and consumer alike will become clearly evident over time.

The statistics of the meat industry in Great Britain never cease to impress me. It is important not to forget the scale and complexity of the work that MHS regulates. Over the past twelve months we have inspected over 775 million birds; 15.6 million sheep, lambs and goats; 7.9 million pigs and more than 2 million cattle. Overall industry compliance with official controls is good but in response to food businesses that were not complying fully with EU legislation we took 242 formal and 1,571 informal

enforcement actions. I want all of the meat industry to acknowledge they have a responsibility to improve their own level of compliance with the small number of persistently non-compliant businesses being addressed. I think few would disagree that encouraging a compliance culture is the most effective and economic way forward. As such, in the coming year the Business Directors will work to better balance the MHS focus between taking enforcement action appropriately and correctly where that is necessary, as well as being more pro-active in working with FBOs to ensure their compliance through education and co-operation to prevent enforcement action.

I am very proud of the way staff in the MHS have responded over the last year to the challenges of a changing organisation while at the same time maintaining their high standards of work in often challenging environments. And, I am pleased with the way many in industry have engaged with us. Above all, I am confident that we will continue to review, challenge and improve the way we work in order to ensure the protection of public health and animal health and welfare at slaughter remains our number one priority.



Steve McGrath
Chief Executive
19 June 2009

Annual Report

Background to the MHS

The Meat Hygiene Service (MHS) is 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 (now part of the Department for Environment, Food and Rural Affairs – Defra) to become part of the FSA.

The MHS is 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 FBO arrangements and their proper application.

The principal activities of the MHS include:

- 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 animal identification.
- Providing export certification.

¹ Slaughterhouses, cutting plants and game handling establishments are termed as Food Business Operators or FBOs by the MHS

Delivering services

During 2008, the MHS started the move towards a new operational structure as part of the Transformation change programme.

Two Business Directors were appointed covering the North and South of Great Britain respectively. They have responsibility for all aspects of operational delivery which is managed at a local level through 12 Business Managers.

The new structure (designed around geographical clusters of approved meat premises) maximises the effectiveness of MHS service delivery, and ensures greater flexibility and accountability at a local level. Each Business Manager manages a cluster group – three or four clusters of slaughterhouses, game handling establishments and cutting plants – in Great Britain. The Business Manager also provides a link between a cluster group and the central services provided by the MHS headquarters in York.

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 now the team leader for Meat Hygiene Inspectors working in approved meat premises. They are supported by their Lead Veterinarian and Senior Meat Hygiene Inspectors. Remaining Meat Technicians will be phased out during 2009.

The new structure was implemented fully in February 2009, when new contracts with service delivery partners went live. Under the new contract arrangements, there are now only 14 suppliers (six cover remote Scottish islands), increasing efficiency and providing the opportunity for greater consistency in MHS service delivery.

A new Delivery Planning Unit was established in September 2008 with responsibility for national operational support across core business services.

Approved meat premises vary in size and species slaughtered. The MHS carries out official control duties in these premises 24 hours a day, 365 days a year, as required. Business Managers started to roll out Business Agreements² between the MHS and FBOs in October 2008 and are due to be completed by end of June 2009. These capture the needs of individual FBOs, and provide a strong framework for the MHS to deliver both official controls and animal health and welfare effectively.

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/meatpremlcence

²The Business Agreement document confirms the resources necessary for the MHS to carry out the requirements of the Food Hygiene Regulations and other duties as specified by other government clients

Health and safety

2008/09 saw the second year of delivery against the three year MHS Health and Safety Strategy. Key pieces of work included the introduction of a new general risk assessment methodology; an extensive project on work-related stress; and, a range of important additions to the MHS Health and Safety Manual. MHS Health and Safety staff also delivered health and safety training to all those organisations contracted to deliver official controls on our behalf.

MHS liaison with industry and the Health and Safety Executive (HSE) continued through membership of the Meat Trades/HSE Joint Working Party and the British Poultry Council/HSE Liaison Group. 2008/09 also saw intensive application of an ergonomics risk assessment methodology across a number of sites where a review of MHS resources was being conducted.

The establishment of a revised data management regime has enabled Health and Safety staff to drill down and extensively analyse injury and work-related ill health data. Work on minimising slip, trip and fall injuries and also those associated with the use of knives will continue in 2009/10.

The operational based Health and Safety Advisers continued to complete site specific work across many FBO premises and remain committed to achieving positive results through effective co-operation and communication.

In total there were 147 accidents with injury (compared to 178 in 2007/08). 72 near miss incidents were recorded (compared to a 115 in 2007/08) and 15 cases of work related ill health (compared to 42 in 2007/08).

The number of days lost due to injury and occupational ill health accounted for 11% of all lost time. This figure reduced from 16% in 2007/08. Throughout 2008/09, once again there was a sustained reduction in this type of absence and the MHS remains confident that it is in a good position to meet the 2010 strategic targets.

RIDDOR (Reportable accidents, Incidents, Diseases and Dangerous Occurrences) 2008/09 – 2007/08

Type of reportable incident	Number of incidents 2008/09	Number of incidents 2007/08
Fatal	0	0
Major injury	2	2
Injury resulting in more than three days off work	22	27
Disease	1	9
Dangerous occurrence	0	0
Total number of HSE reportable incidents	25	38

Diversity and equality statement

The MHS is committed to eliminating discrimination and encouraging diversity among its workforce. The aim is that our workforce will be truly representative of all sections of society, with each employee feeling respected and able to give of their best. The MHS ensures equality and fairness in all our employment practices and does not discriminate on grounds of gender, marital status, race, ethnic origin, colour, nationality, national origin, disability, sexual orientation, religion, or age.

All employees, whether part-time, full-time or temporary, contract or agency staff are treated fairly and with respect. Selection for employment, promotion, training or any other benefit is on the basis of aptitude, ability and merit in line with the Civil Service Commissioners' Recruitment Code. All employees are helped and encouraged to develop their potential, and the talents and resources of the workforce are fully utilised to maximise the efficiency of the organisation.

Employee relations

The MHS and UNISON have a formal employee consultation and negotiation framework, underlining the joint commitment to establishing clear and effective employee relations mechanisms. In addition, the MHS communicates regularly with its workforce through the MHS Intranet, established publications such as MHS News and MHS Update, and – on major organisational issues – by personal letter from the Chief Executive.

Information security

To ensure that the MHS manages risks related to information security effectively, Cabinet Office guidance and industry best practice is followed. In 2008/09, the MHS successfully maintained its ISO27001 certification for headquarters for the second of three years. In line with Cabinet Office instruction, all laptops and remote working tools were encrypted by September 2008. A full review and gap analysis has been undertaken and against the new HMG Security Policy Framework and an action plan developed to ensure full compliance during 2009/10. The MHS ensures that legislation is fully complied with and all software used is legally licensed. The MHS was awarded the silver level of certification against the FSSC-1:2004 standard for software compliance with stage one gold level targeted for 2009/10.

Management commentary

MHS corporate objectives for 2008/09

Vision: Safe meat produced from well cared-for, healthy animals.

Purpose: To deliver official controls in approved meat premises to protect public health and animal health and welfare.

The corporate objectives within the Corporate Business Plan reflect the vision and purpose of the MHS. The objectives for 2008/09, with no implied order of importance, were:

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

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

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

Objective 4 – To operate within the key financial targets:
– Gross Costs of operations.
– Net Costs of operations.

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

The MHS introduced the Balanced Scorecard as a performance measurement tool in 2006/07. Following positive feedback from stakeholders, the Balanced Scorecard has continued to be used to manage performance within the MHS for 2008/09.

The balanced scorecard translates the MHS purpose into four key areas:

- Customers and Stakeholders.
- Finance.
- People.
- Internal Processes and Efficiency.

Listed within each of these quadrants are the corporate performance indicators and targets which needed to be achieved during 2008/09 in order to ensure attainment of the objectives.

Each MHS Directorate manages its own balanced scorecard, and these support the corporate balanced scorecard. Individual staff objectives link into the directorate balanced scorecards, allowing staff to easily see how their work contributes to the corporate objectives and vision.

MHS performance is monitored using a RAG (red, amber, green) system whereby each indicator is assessed against specified levels of performance and assigned a RAG status.

Green – performance is on track to achieve or exceed planned target.

Amber – performance is below the desired level, but actions and/or resources are in place to return performance to the desired level without further intervention.

Red – performance is below the desired level, and the actions and/or resources in place may not be sufficient to return to the desired level, necessitating further intervention.

An exception report is completed for any indicator showing red or amber status to explain the reasons why it is not on target, and the action proposed to return it to the desired level of performance. The MHS reports on its performance to the MHS Senior Management Team every month, and to each meeting of the MHS Board (on behalf of the FSA Board).

Assessment of MHS performance against corporate objectives, 2008/09

In line with Cabinet Office requirements for Executive Agencies, the MHS Framework Document requires 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 corporate objectives for the MHS rests with the MHS Board, on behalf of the FSA Board.

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 carcass 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.

Assessment of MHS performance against targets in earlier years

An assessment of MHS performance against targets in 2006/07 and 2007/08 appears as an appendix to this report. Similar assessments going back to 2000/01 are available in earlier MHS Annual Report and Accounts at: www.food.gov.uk/foodindustry/meat/mhservice/mhspublications/mhsreportaccounts/

Transforming the MHS

In July 2007, the FSA Board decided the 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 gains sought by the Board and 2008/09 saw many Transformation initiatives implemented or started. These include 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.

Substantial Transformation benefits have been delivered during 2008/09 – since 2006/07 gross expenditure has been reduced from £91.3m to £78.1m (including the effects on inflation); a reduction of 14%. The new operational structure, improved resource deployment and risk-based changes to the supervision of certain TSE controls have together enabled a reduction in staff numbers by 428 (357 operational and 71 administrative).

In April 2009, the FSA Board congratulated the MHS on the progress made in modernising.

The Transformation work streams

Title	Purpose	2008/09 update
Contract tendering	To tender a new series of contracts for the provision of veterinary and meat inspection services.	<p>The contract for provision of veterinary and meat inspection services started in February 2009.</p> <p>Monitoring against Key Performance Indicators (KPIs) has started and the projected savings are expected to be £6m.</p>
Charging for services	To devise an MHS charging policy which will, from 2009, require industry to be charged an increasing proportion of the cost of official controls.	<p>The FSA Board approved consultation on charging proposals to start from December 2008 to March 2009.</p> <p>(The FSA Board decision on the 2009/10 charges policy was agreed in April 2009 and is due for implementation from June 2009 (July 2009 finance period) after agreement from Ministers.)</p>
Reviewing the MHS structure	To take forward the clusters project, which focuses on the best way to revise the operational structure of the MHS to reduce costs and improve performance.	The final phase of the new structure was put in place with the appointment of the contract Lead Veterinarians in February 2009.
Internal Support Structure Projects (ISSP)	To examine the operational activities currently undertaken, and develop options for how these should be carried out in the future.	<p>All regional offices were decommissioned by the end of July 2008.</p> <p>The Delivery Planning Unit was created in September 2008 and the Transitional Hub decommissioned on the same date.</p>
Corporate Services Directorate (CSD) Review	To examine the opportunities for increasing efficiency and effectiveness of corporate service functions within and between the FSA and the MHS, and assess future options.	<p>The decision that CSD will be a 'One Agency' (joint FSA and MHS) department was announced in December 2008.</p> <p>A new programme is in place to carry this forward.</p>

Title	Purpose	2008/09 update
Veterinary Standards and Operational Policy	To introduce increased flexibility in the delivery of official controls, and implementation of improved veterinary management through the development of the Lead Veterinarian and Official Veterinarian roles.	<p>The Optimisation Review was completed in October 2008 with a new programme in place to take the changes identified forward.</p> <p>The setting up of Business Agreements (BAs) with individual establishments requires the review of MHS staffing levels in relation to FBO processes.</p> <p>Changes to official controls on SRM were implemented in January 2009.</p> <p>A new Plant Inspection Assistant course has been accredited and is readily available.</p> <p>(Proposals on reduced Official Controls in relation to Over Thirty Month Cattle were discussed by the FSA Board in May 2009.)</p>
Electronically-enabled MHS (e-MHS)	To develop and deliver improvements in MHS electronic communications systems, and to make them more user-friendly, less labour-intensive, and ultimately focused on the needs of the MHS.	<p>Deployment standards developed and implemented to ensure quality business IT systems are specified, designed, built, system tested, user acceptance tested and released into a 'live' production environment.</p> <p>e-MHS systems successfully deployed include:</p> <ul style="list-style-type: none"> • Establishments and people. • Animal welfare. • National Equine Database (NEDS). • Contractor timesheets. • Food Chain Information (FCI) and Collection and Communication of Inspection Results (CCIR) for pigs. <p>Work on the e-Learning Zone has enabled all employed and contract staff to complete training on Information Security and Diversity to meet corporate standards.</p>

Title	Purpose	2008/09 update
Information Technology (IT)	To ensure that the hardware and software infrastructure gives the MHS the ability to deliver a modern joined-up e-enabled service.	<p>The MHS email system was upgraded to enable the implementation of mobile phone and email services to provide all mobile phone users with new equipment and email functionality.</p> <p>The York Data Centre was relocated back to Foss House, the MHS headquarters building. A business continuity (BC) environment was implemented to enable the physical relocation of the hardware.</p> <p>The upgrading of IT in FBO plants hardware and networks provided a more cost effective solution with improved connectivity to e-enabled MHS services.</p> <p>SharePoint 2007 was implemented to a Microsoft approved design to enable information sharing and collaboration with internal and external MHS stakeholders. This enabled the contract tender for provision of veterinary and meat inspection services to be conducted electronically via a secure Extranet website.</p> <p>The client refresh project reduced the MHS carbon footprint. It is estimated £50,000 per year will be saved across all our FBO electricity.</p>

Title	Purpose	2008/09 update
Human Resources (HR)	To review the current terms and conditions of employment, reward systems, and performance management and organisational behaviours and values.	<p>Negotiations continue with UNISON on pay and new terms and conditions for staff for Year 2 (2008/09) of a two year pay deal.</p> <p>The new performance management system was implemented from April 2009, with training packages delivered to appraisers and appraisees to support the launch. The scheme covers measured and assessed work objectives, competencies and attendance criteria which will drive organisational behaviours and performance.</p>
Stakeholder management and communication	To produce a new newsletter (entitled Link) for FBOs; to achieve co-ordination in all communications with internal and external stakeholders, and provide advice on how messages can best be communicated while maximising opportunities for feedback.	Six issues of Link published from April 2008 to March 2009.

Transformation timetable, April 2008 – March 2009

Month	Event
April 2008	<p>Transition Hub commenced following the decommissioning of the York (North) Regional Office.</p> <p>Regional Office decommissioned in Cardiff (Wales).</p> <p>Ten Lead Veterinarians commenced appointments.</p>
May 2008	<p>Regional Office decommissioned in Edinburgh (Scotland).</p> <p>Business Manager induction carried out.</p> <p>Establishments and People launched as part of e-MHS.</p>
June 2008	<p>National Contract Manager commenced appointment.</p> <p>HQ function and MHS Data Centre relocated to Foss House, York.</p> <p>Regional Office decommissioned in Taunton (South and West).</p>
July 2008	<p>Business Director (South) commenced appointment.</p> <p>Regional Office decommissioned in Wolverhampton (Central).</p> <p>FSA Board sets policy for 2009 charges and agrees to go to consultation.</p> <p>Invitations To Tender (ITT) issued for new contracts to deliver veterinary and meat hygiene services.</p> <p>Supply for Services Extranet site launched.</p> <p>Review of Senior Meat Hygiene Inspectors Voluntary Severance/Voluntary Early Retirement applications.</p>
August 2008	<p>Upgrade of MHS email system completed.</p> <p>Meat Technician Voluntary Severance/Voluntary Early Retirement scheme launched.</p>
September 2008	<p>Four Lead Veterinarians commenced appointments.</p> <p>Delivery Planning Unit established to support operational staff.</p> <p>Transition Hub decommissioned.</p> <p>ITT closed for new contracts for deliver veterinary and meat hygiene services.</p>

Month	Event
October 2008	<p>Optimisation Review complete.</p> <p>Pilot installations commenced to refresh IT equipment in plants and upgrade the network.</p> <p>Business Agreements process started across GB.</p>
November 2008	<p>New contracts awarded to deliver veterinary and meat hygiene services to 14 contractors.</p> <p>MHS/UNISON Joint Management Agreement on a two year pay deal signed to seek a negotiated solution to changes to modernise pay and terms and conditions.</p>
December 2008	<p>Business Director (North) commenced appointment.</p> <p>Charges consultation starts.</p> <p>Announcement to integrate MHS and FSA Corporate Services into a single Group.</p> <p>Closure of Older Cattle Disposal Scheme Redeployment (OCDSR) resulting in staff redeployment and severance.</p>
January 2009	<p>Step 3 SRM implemented with transfer to the FBO the responsibility for aging of sheep and goats resulting in some staff redeployment and severance.</p> <p>Year 1 (2007/08) of pay award implemented.</p> <p>Roll out of new mobile phones with email functionality completed.</p>
February 2009	<p>New contracts start for delivering veterinary and meat hygiene services including 25 contract Lead Veterinarians in addition to the 12 employed Lead Veterinarians.</p> <p>IT in plants hardware refresh and network upgrade complete.</p>
March 2009	<p>Charges consultation closed.</p> <p>Integrated Corporate Services team established.</p>

MHS key performance indicators for 2009/10

Vision: Safe meat produced from well cared-for, healthy animals.

Purpose: To deliver official controls in approved meat premises to protect public health and animal health and welfare.

The MHS Group Plan for 2009/10 reflects the MHS vision and purpose.

The key performance indicators for the MHS for 2009/10 are:

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.

To meet our efficiency targets

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

Customer satisfaction

- Customer complaints.
- Industry perception of MHS.

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.

Management commentary 2008/2009

Financial performance

Financial results

The MHS net operating cost decreased overall by £6.1m, from £41.9m in 2007/08 to £35.8m in 2008/09. This included investment costs related to the MHS Transformation programme of £7.4m. Net operating cost for normal business activities reduced to £28.4m following the second phase of the Transformation programme, due mainly to significantly improved deployment of resources following the continuation of a frontline staffing review.

Total operating costs decreased by £12.4m from £97.6m in 2007/08 to £85.2m in 2008/09, inclusive of Transformation investment costs of £7.4m, predominantly severance and IT infrastructure costs. Gross operating costs for normal business activities decreased by £9.2m. Direct operational costs decreased by £6.4m mainly as a result of significantly reduced operational staffing levels and lower overtime. Administrative costs decreased by £2.8m due mainly to lower staff costs, following the closure of Regional Offices and the implementation of a revised operational management structure.

Operating income reduced by £6.3m to £49.4m, due mainly to lower Defra income of £5.6m as a result of a reduction in activity related to the Over Thirty Month Scheme and the closure of the Older Cattle Disposal Scheme. Lower FSA income of £1.7m resulted from a continued diminution in Specified Risk Material (SRM) activity, due partly to the cessation of sheep dentition work. Industry income increased by £1.3m as a result of increased headage and hourly rates, offset by marginally lower throughput.

The MHS was set financial performance targets for gross cost, net cost and cost per livestock unit, operating within the delegated resource and cash budget for 2008/09. Performance against these targets was met in full and is shown at note 2 of the accounts.

Change in accounting policy

A change in accounting policy relating to the valuation of fixed assets has been made to reflect consistency with the policy of the parent Department (FSA). Previously, assets were valued using the modified historical cost accounting basis, but this has now been replaced with valuation on an historic cost accounting basis. As a result, a prior periods adjustment has been incorporated in the restated figures, showing an increase of £471k in net book value and the release of a revaluation reserve of £56k.

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 £28.0m to £44.4m reflecting the poor overall economic climate. This deficit explains the net liability position on the MHS Balance Sheet.

Budget 2009/10

For 2009/10, the MHS has been delegated a net operating cost budget of £25m and a capital expenditure budget of £0.3m from the FSA. This delegation excludes £3.6m investment costs for the continued implementation of the Transformation programme.

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 6 of the accounts.

Supplier payment policy

It is Government policy that all departments and agencies should pay all invoices not in dispute within 30 days of receipt or the agreed contractual terms if otherwise specified. During 2008/09, 98% of all invoices were paid by their due date, against 99% in 2007/08. The agency seeks to pay small and medium sized entities within ten working days, following advice received from the Treasury.

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 43 and 44 of the Annual Accounts. The cost of audit services is £37,000. Auditors' remuneration and expenses does not include any amounts for non-audit work.

Staff absence

In 2008/09 staff absence as a result of physical and mental illness including injuries, disability or other health problems was approximately 18.4 days per employee, compared with 20.1 days per employee for 2007/08 and 22.4 days per employee for 2006/07.

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 is committed to sustainable development principles and to contributing to the UK Government’s strategic framework for sustainable development.

The MHS continues to progress its Sustainable Development Action Plan (SDAP) which addresses areas such as paper reduction and sustainable travel. The 2009/10 financial year will see the MHS embarking on a series of in-house campaigns for further reducing electricity and water usage within headquarters. The MHS headquarters already resides in a ‘green’ building which is 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 also takes part in extensive waste recycling activity.

The MHS is committed in supporting our local communities. The MHS was successful, once again, in achieving Charter Mark accreditation in 2008/09. Instances 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.

In the context of environmental protection, the production of this report has enabled the MHS to play a part in tackling climate change by working out and offsetting our carbon emissions with Climate Care, whose website is at www.climatecare.org

Corporate governance

The MHS Senior Management Team

Members of the MHS Senior Management Team (SMT) from 1 April 2008 to 31 March 2009 were:

Steve McGrath

Chief Executive

Jane Downes

Veterinary and Technical Director

Michael Greaves (to 31 December 2008)

Director of Operations

Peter Styler (from 7 July 2008)

Business Director (South)

Geoff Ogle (from 1 December 2008)

Business Director (North)

Jennifer Sergeant

Director of IT

Michael McEvoy (to 11 November 2008)

Director of Finance

Rob Mackintosh (from 19 November 2008)

Director of Finance

Katherine Davies (to 31 May 2008)

Director of Corporate Services

Lynne Bywater

Director of Human resources

Kevin Goddard, Head of Business Development, acts as Secretary to the SMT. It is corporately responsible for:

- Developing vision for the MHS, and reinforcing this through its decisions and actions.
- Ensuring that the purpose of the MHS is achieved.
- Achieving the corporate objectives 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 fulfils 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 operates under Government Accounting on a Gross Vote from the Food Standards Agency Class II Vote 4.

The MHS Board

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

Membership of the MHS Board during the year 2008/09

Ian Reynolds

FSA Deputy Chair

Maureen Edmondson

FSA Board member and Chair of the Northern Ireland Food Advisory Committee

Tim Bennett

FSA Board member

Tim Smith

FSA Chief Executive

Steve McGrath

MHS Chief Executive

Margaret Gilmore (from April 2008)

FSA Board member

Clive Grundy (from April 2008)

FSA Board member

Nigel Gibbens (from April 2008)

Chief Veterinary Officer

Defra

Deryk Mead (to May 2008)

MHS Board member

Celia Bennett OBE (to May 2008)

Independent external member

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: www.food.gov.uk/foodindustry/meat/mhservice/aboutmhs/mhsboard/

The Audit Committee

The MHS Audit Committee met on 19 May 2008.
The members comprised of:

Deryk Mead (Chair)
MHS Board member

Tim Bennett
MHS Board member and FSA Board member

Stephen Orledge
External independent member

In September 2008, the Audit Committees of the FSA and the MHS were merged to form a single Audit Committee. The merged Committee supports 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 provides greater transparency and accountability.

The Audit Committee comprises:

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 Unit (IAU) is 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 carry 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 Control (MOC). They also carry 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), has enabled the MHS to ensure that audit work undertaken by the Internal Auditors continues to contribute to external audit assurance needs. This has helped to eliminate duplication of audit effort.

EU Food and Veterinary Office (FVO) Missions

The 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.

The FVO undertook four missions to the UK in 2008/09, covering areas relevant to the work of the MHS, and visiting approved fresh meat establishments during the course of their visits. The dates and subjects were as follows:

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

Dates of visits	Subject of inspection
18–22 Feb 2008	To evaluate the system of controls on animal welfare during transport.
3–7 Mar 2008	To undertake a general review of DG (Sanco) 7713/2008.
17–26 Nov 2008	To evaluate the implementation of health rules on animal by-products.
16–23 Feb 2009	To evaluate the control of residues and contaminants and the use of veterinary medicinal products in food producing animals.

Remuneration report

This report for the year ended 31 March 2009 deals with the remuneration of the MHS Senior Management Team.

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.
- 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 are recruited by the Food Standards Agency, the parent organisation of the MHS. Contracts are awarded up to the individual's normal retirement age of 60,

which is the age at which the employee is entitled to receive their full pension benefits. 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 which pension scheme the individual belongs to. 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 includes the factors high-lighted 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 hold appointments which are open-ended. Early termination, other than for misconduct, would result 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).

Current SMT members

Position	Date of continuous service	Notice period*
Steve McGrath Chief Executive (SCS Payband 2)	1 July 2003	6 weeks or 6 months in certain circumstances
Jane Downes Veterinary and Technical Director (SCS Payband 1)	1 April 1995	13 weeks or 6 months in certain circumstances
Geoff Ogle Business Director North (SCS Payband 1)	16 November 1984	13 weeks or 6 months in certain circumstances
Peter Styler Business Director South (SCS Payband 1)	1 September 1986	13 weeks or 6 months in certain circumstances
Robert Mackintosh Acting Director of Finance (Grade 6)	18 August 1986	13 weeks or 6 months in certain circumstances
Jennifer Sergeant Director of IT (Grade 6)	6 January 2003	7 weeks or 6 months in certain circumstances
Lynne Bywater Director of Human Resources (Grade 6)	17 December 2007	5 weeks or 6 months in certain circumstances
Kevin Goddard Business Development Manager (Grade 7)	28 July 1980	13 weeks or 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.

Former SMT members who left during 2008/09

Position	Date of continuous service	Notice period*
Michael Greaves Director of Operations (SCS Payband 1)	7 November 1994	N/A
Michael McEvoy Director of Finance (Grade 6)	20 June 1983	N/A
Kathryn Davies Director of Corporate Services (SCS Payband 1)	7 June 1976	N/A

* 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. Staff with less than two years service do not have any entitlement to notice.

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

For the Chief Executive and SMT early termination, other than for misconduct, will be 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. Former director, Kathryn Davies, had a beneficial loan relating to relocation costs, of which a balance of £8,284 remains outstanding.

The MHS made contributions to the PCSPS for SMT members at rates of either 23.2% or 25.5% 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 2008/09 or 2007/08.

Taxable benefits

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

Current SMT members

	2008/09 salary £'000	2008/09 pension provider	2008/09 total £'000	2007/08 salary £'000
Steve McGrath Chief Executive	125–130	PCSPS Premium	125–30	125–30
Jane Downes Veterinary and Technical Director	80–85	PCSPS Premium (Current) LGPS (Frozen)	80–85	75–80
Geoffrey Ogle Business Director North (from 1 December 2008)	20–25 Annual Equivalent 65–70	PCSPS Classic	20–25	N/A
Peter Styler Business Director South (from 7 July 2008)	50–55 Annual Equivalent 70–75	PCSPS Classic	50–55	N/A
Robert Mackintosh Director of Finance (from 19 November 2008)	20–25 Annual Equivalent 55–60	PCSPS Classic	20–25	N/A
Jennifer Sergeant Director of IT	60–65	PCSPS Premium	60–65	N/A
Lynne Bywater Director of Human Resources	55–60	PCSPS Nuvos	55–60	N/A
Kevin Goddard Business Development Manager	50–55	PCSPS Classic	50–55	N/A

Former SMT members who left during 2008/09

	2008/09 salary £'000	2008/09 pension provider	2008/09 total £'000	2007/08 salary £'000
Michael Greaves Director of Operations (to 31 December 2008)	55–60 Annual Equivalent 70–75	LGPS	55–60	75–80
Michael McEvoy Director of Finance (to 11 November 2008)	55–60 Annual Equivalent 75–80	PCSPS Premium	55–60	N/A
Kathryn Davies Director of Corporate Services (to 31 May 2008)	11–15 Annual Equivalent 65–70	PCSPS Premium	11–15	75–80

Compensation paid, significant awards to former senior managers

Kathryn Davies left under Compulsory Early Retirement Terms on 31 May 2008.

The total Compensation paid to Kathryn Davies is as follows:

- a lump sum compensation payment at date of leaving of £60–65k.
- an annual compensation payment of £30–35k payable until the age of 60.
- an annual compensation payment of £35–40k payable from the age of 60.

Mike Greaves left under Compulsory Early Retirement Terms on 31 December 2008.

The total Compensation paid to Mike Greaves is as follows:

- a lump sum compensation payment at date of leaving of £85–90k.
- an annual compensation payment of £25–30k payable until the age of 60.
- an annual compensation payment of £25–30k payable from the age of 60.

No compensation was paid to former senior managers in 2007/08.

MHS Board

The MHS Board is a sub committee of the FSA Board and members are remunerated by the FSA. Non-executive members, only, are paid attendance fees by the MHS.

Pensions benefits of Chief Executive and senior managers – current SMT members

	Total accrued pension at age 60 at 31/03/2009 and related lump sum £'000	Real increase in pension and related lump sum at age 60 £'000	CETV at 31/03/2009 to nearest £'000	CETV at 31/03/2008 to nearest £000 (*)	Real increase in CETV funded by employer to nearest £'000
Steve McGrath Chief Executive	10–15	0–2.5	199	153	29
Jane Downes Veterinary and Technical Director	10–15 plus lump sum 15–20	0–2.5 plus lump sum 0–2.5	268	231	18
Geoff Ogle Business Director North	15–20 plus lump sum 55–60	0–2.5 plus lump sum 2.5–5.0	254	255	(10)
Peter Styler Business Director South	15–20 plus lump sum 55–60	0–2.5 plus lump sum 5–7.5	313	274	28
Robert Mackintosh Director of Finance (from 19.11.08)	15–20 plus lump sum 50–55	0–2.5 plus lump sum 0–2.5	266	238	8
Jennifer Sergeant Director of IT	5–10	0–2.5	122	100	11
Lynne Bywater Director of Human Resources	0–5	0–2.5	18	4	9
Kevin Goddard Business Development Manager	15–20 plus lump sum 50–55	(2.5)–0 plus lump sum (2.5)–0	298	275	(3)

* These figures may be different from the closing figures in the 2007/08 accounts for the MHS. This is due to the updating of the CETV factors in order to comply with the Occupational Pension Scheme (Transfer Values)(Amendment) Regulation 2008.

Former SMT members who left during 2008/09

	Total accrued pension at age 60 at 31/03/2009 and related lump sum £'000	Real increase in pension and related lump sum at age 60 £'000	CETV at 31/03/2009 to nearest £'000	CETV at 31/03/2008 to nearest £000 (*)	Real increase in CETV funded by employer to nearest £'000
Michael Greaves Director of Operations	30-35	(7.5)-(5.0)	703	683	(20)
Michael McEvoy Director of Finance (to 11.11.08)	30-35	(2.5)-0	426	410	(4)
Kathryn Davies Director of Corporate Services	35-40	(2.5)-0	552	549	(2)

* These figures may be different from the closing figures in the 2007/08 accounts for the MHS. This is due to the updating of the CETV factors in order to comply with the Occupational Pension Scheme (Transfer Values)(Amendment) Regulation 2008

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 his 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.gov.uk/pensions

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% 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 in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax, which may be due when pension benefits are taken.

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

19 June 2009

Annual Accounts 2008/09

For the year ended 31 March 2009

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has 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 of its net resource outturn, resources applied to objectives, 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 has 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 2008/09

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports achievement of the Meat Hygiene Service's policies, aims and objectives, while safeguarding the public funds and agency assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

The Meat Hygiene Service (MHS) is 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 am accountable to the FSA Board, for the functions set out in the MHS Framework Document and for achievement of annual corporate objectives. The MHS operates within England, Scotland and Wales (GB), but not Northern Ireland.

I am a member of the MHS Board, a sub-committee of the FSA Board, which is responsible for good governance (including setting objectives and monitoring performance) of the MHS, and for ensuring that the MHS fulfils 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 has designated me as Agency Accounting Officer by formal letter of appointment. I report for line management purposes to the FSA Chief Executive, who is also a member of the MHS Board. I am a

member of the FSA's Executive Management Board, which manages and regularly reviews the FSA's strategic risks. I am also a member of the FSA's Risk Committee.

The MHS system of internal control includes:

- A Senior Management Team chaired by me which meets monthly.
- Internal Audit arrangements which comply with Government standards applicable in 2008/09, including a risk-based audit programme linked to the strategic risks of the MHS. Regular reports are issued by Internal Audit and an annual report which includes an independent annual opinion on the adequacy and effectiveness of the MHS system of internal control.
- A joint FSA/MHS Audit Committee, constituted in line with HM Treasury guidance, which advises me as Accounting Officer. The Committee meets at least four times a year and has a fully non-executive membership.
- A risk management process which aims to provide reasonable assurance that business objectives can be achieved reliably. The process promotes local accountability and risk ownership as an essential part of risk management. It prioritises risk based on likelihood and impact, and enables the Senior Management Team to manage effectively the strategic risks to business objectives. The Audit Committee advises on the strategic processes for risk management.

- The Senior Management Team and MHS Board both receive reports on business and financial performance at every meeting.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of 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 has been in place in the Meat Hygiene Service for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

A comprehensive risk management policy and procedure approved by the Senior Management Team has been embedded in the organisation. Training has been provided to those managers with authority to make decisions about risk treatment, recognising that some risks will need to be referred upwards to more senior management for treatment. All team leaders are encouraged to discuss risk management issues, including identification,

evaluation and controls, with their staff at their regular team meetings, including at Senior Management Team meetings.

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

The MHS risk management policy and procedure has been reviewed to ensure that it continues to be fit for purpose. Work is in hand to integrate the MHS and FSA risk policies and procedures and a new single approach will be launched during 2009/10.

The risk and control framework

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

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

The Senior Management Team discusses its risk appetite annually with due regard to the strategic context of its work and the expectations of its stakeholders, and has concluded that the organisation's risk appetite is low.

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

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

The Business Development Unit takes an overview of risk management to encourage and promote the sharing of best practice across the MHS. The Senior Management Team manages corporate level risks and reviews these monthly. Such risks may include business continuity issues (for example animal disease outbreak or industrial action), change management, staff absence, or lack of investment. All managers are similarly encouraged to discuss risk management issues at their team meetings. Risk registers are maintained for major projects, which follow the principles of PRINCE 2 methodology, reflecting the size, scale, or complexity of the project.

Since July 2007, the MHS has been implementing a major transformation programme. A formal programme and project management structure ensures the timely delivery of the programme elements and manages risks to the programme. Regular reports to the Programme Board and the MHS Board include a risk register.

The MHS takes the management of data security seriously. To ensure that risks related to information security are managed effectively, Cabinet Office guidance and industry best practice is followed. In 2008/09, this MHS successfully maintained its ISO27001 *Information Security Management* Systems certification for headquarters for the second of three years. In line with Cabinet Office instructions, all laptops and remote working tools were encrypted by September 2008. A full review and gap analysis has been undertaken against the new HMG Security Policy Framework and an action plan developed to ensure full compliance during 2009/10. The MHS ensures that legislation is fully complied with and all software used is legally licensed. The MHS was awarded the Silver level of certification against the FSSC-1:2004 standard for Software Compliance with achievement of Stage One Gold level targeted for 2009/10. No losses of sensitive or personal data were reported during the year.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Meat Hygiene Service who have 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 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 is in place.

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

The Head of Internal Audit's opinion is that based on the internal audit work undertaken during the year, the MHS has a generally adequate and effective framework of risk management, control and governance processes. There was some risk that business objectives may not be achieved in relation to a significant proportion of areas covered by the audit work and arrangements for periodic audits of Food Business Operator and those for managing sickness related absenteeism were assessed as requiring significant improvements to achieve business objectives.

However, in most of these areas management had already identified and started to implement the fundamental changes considered necessary to secure achievement of business objectives which also addressed some of the audit concerns and, in response to audit reports, have taken or are in the process of taking appropriate action to further improve risk management control and governance processes.

I ensure that the Senior Management Team and Audit Committee see all internal and external business audit reports, including key controls testing and the annual Internal Audit report. An Audit Implementation Steering Group has recently been established, headed up by the two Business Directors. This group takes a strategic overview of audit risk and has been established to provide assurance that there is effective delivery of official controls through effective implementation of internal and external audit recommendations.

A monitoring system is in place to ensure that all internal and external business audit report recommendations are implemented. A progress report on implementation of internal and external audit recommendations is prepared for each Audit Committee meeting. This progress report ensures that weaknesses are addressed and ensures continuous improvement.

A programme of internal audit work, informed by the risk registers, is developed and discussed with the Audit Committee prior to the commencement of each financial year.

Significant internal control problems

The Report of the Public Inquiry set up to inquire into the circumstances that led to the Outbreak of *E.coli* O157 infection in South Wales in September 2005 was published on 19 March 2009. The key finding of the Inquiry for the MHS was that the risk of contaminated raw meat leaving the abattoir implicated in the outbreak was higher than it should have been. The report found that the systems of control in place in 2005 should have been such as to minimise the risks associated with the practices which led to the outbreak.

Since the e-coli outbreak in 2005, the FSA and MHS have already undertaken much work which has had an impact on the reduction of contamination risks. For the MHS this includes a re-structuring of Operational management to ensure a consistent and robust approach to compliance of regulations and enforcement. Although the new structure has only recently been fully implemented, the MHS is confident that ongoing improvements will positively contribute to addressing many of the recommendations made.

A programme of work is being developed by FSA and MHS and is being taken forward under a Programme Board, led by the FSA Chief Scientist and Head of the Food Safety Group, and including the MHS Chief Executive. 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 Programme Board will define the themes and priorities, actions and outcomes, that fall to FSA and MHS, review progress that has already been made towards addressing the recommendations and determine what further action and new initiatives are necessary.

Signed:



S McGrath

MHS Chief Executive and Accounting Officer

19 June 2009

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 (MHS) for the year ended 31 March 2009 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement 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 Agency, the Chief Executive and auditor

The Agency and Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government and Resources and Accounts Act 2000 and HM Treasury directions made there under and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the

Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information, which comprises the Management Commentary and Corporate Governance sections, included in the Annual Report, is consistent with the financial statements. I also report whether 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.

In addition, I report to you if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chief Executive's Overview, the Annual Report Section and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the

Agency's affairs as at 31 March 2009, and of the net operating cost, recognised gains and losses and cash flows for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury's directions issued under the Government Resources and Accounts Act 2000; and
- information which comprises the Management Commentary and Corporate Governance sections included in the Annual Report, is consistent with the financial statements.

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.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS
25 June 2009

Operating cost statement for the year ended 31 March 2009

	Note	2008/09 £'000	2007/08 £'000
Inspection and veterinary staff costs	5	34,928	38,628
Contract inspection and veterinary costs	5	25,262	27,834
Other operational costs	7	1,123	1,237
Direct costs		61,313	67,699
Administrative staff costs	5	7,989	11,707
Other administration costs	7	8,561	7,670
Administrative costs		16,550	19,377
Gross operating costs		77,863	87,076
Transformation investment costs	5(iii) & 7	7,353	10,557
Total operating costs		85,216	97,633
Operating income	4	(49,393)	(55,743)
Net operating cost		35,823	41,890

Net operating cost for normal business was **£28.4m** compared to £31.3m in 2007/08 (Note 2).

Administrative staff costs include £0.8m pension service costs relating to MHS staff in the LGPS.

All income and expenditure is derived from continuing operations.

The notes on pages 49 to 72 form part of these accounts.

Statement of recognised gains and losses for the year ended 31 March 2009

	Note	2008/09 £'000	2007/08 £'000
Net deficit		35,823	41,890
Actuarial loss/(gain)	6 (iv)	15,338	(17,772)
Recognised loss relating to the year		<u>51,161</u>	<u>24,118</u>

The notes on pages 49 to 72 form part of these accounts.

Balance sheet

as at 31 March 2009

	Note	31 March 2009 £'000	Restated 31 March 2008 £'000
Fixed assets			
Tangible assets	9	1,310	984
Intangible assets	10	164	184
		<u>1,474</u>	<u>1,168</u>
Current assets			
Debtors	12	7,673	8,237
Cash at bank and in hand	17	4,838	2,152
Total current assets		<u>12,511</u>	<u>10,389</u>
Current Liabilities			
Creditors: amounts falling due within one year	13	(9,458)	(15,609)
Total current liabilities		<u>(9,458)</u>	<u>(15,609)</u>
Net current assets/(liabilities)		<u>3,053</u>	<u>(5,220)</u>
Total assets less current liabilities		<u>4,527</u>	<u>(4,052)</u>
Provisions for liabilities and charges	15	(46,311)	(28,240)
Total assets less total liabilities		<u>(41,784)</u>	<u>(32,292)</u>
Taxpayers Equity			
Reserves			
General fund	16	(41,784)	(32,292)
		<u>(41,784)</u>	<u>(32,292)</u>



S McGrath
Chief Executive
19 June 2009

The notes on pages 49 to 72 form part of these accounts.

Cash flow statement

for the year ended 31 March 2009

	Note	31 March 2009 £'000	Restated 31 March 2008 £'000
Reconciliation of operating cost to operating cash flows			
Net deficit (excluding interest received)		(35,830)	(41,894)
Adjustment for interest received		7	4
Net deficit (including interest received)	14	<u>(35,823)</u>	<u>(41,890)</u>
Adjustment for non cash transactions		(847)	(722)
Adjustments for movement in working capital other than cash		(5,587)	8,316
Adjust for transfer to/(from) provisions	14	2,733	(1,098)
Net cash (outflow) from operating activities		<u>(39,524)</u>	<u>(35,394)</u>
Analysis of capital expenditure and financial investment			
Purchases of fixed assets	9 & 10	(790)	(700)
Net cash (outflow) from investing activities		<u>(790)</u>	<u>(700)</u>
Analysis of financing			
Resource funding from the FSA	16	43,000	36,000
Net cash inflow from financing		<u>43,000</u>	<u>36,000</u>
Net cash requirement		<u>2,686</u>	<u>(94)</u>
Increase/(decrease) in cash	17	<u>2,686</u>	<u>(94)</u>

The notes on pages 49 to 72 form part of these accounts.

Notes to the accounts

for the year ended 31 March 2009

1 Accounting Policies

a) Basis of preparation

The financial statements have been prepared under the historical cost convention.

Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Government Financial Reporting Manual.

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, will prepare the financial statements for 2009–10 in accordance with the 2009–10 IFRS-based Government Financial Reporting Manual (iFREM).

b) Tangible and Intangible fixed assets

On 1 April 2008 the Meat Hygiene Service revised its capitalisation policy. With effect from that date all individual tangible fixed assets with a purchase cost in excess of £5,000 (including irrecoverable VAT and delivery) are capitalised at cost.

Individual tangible fixed assets that were purchased prior to 1 April 2008 with a purchase cost of between £2,000 and £5,000 (including irrecoverable VAT and delivery) will continue to remain as capitalised assets.

Under FRS15, the MHS has taken the decision to move to historic cost accounting with effect from 1 April 2008. Therefore, assets are no longer re-valued as under current cost accounting. The new policy is considered appropriate as it is in line with a change in policy by the Food Standards Agency (FSA), the parent agency of the MHS. 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 tangible and intangible assets have been estimated as follows:

Tangible assets:

Computer infrastructure equipment	4 years
Office machinery	7 years
Furniture, fixtures and fittings	7 years
Computer Software (system specific)	4 years

Intangible assets:

Software licenses	2–5 years
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The MHS does not currently own any land, buildings or vehicles.

Profits or losses arising on the disposal of tangible fixed assets are calculated by reference to the carrying value of the asset.

c) Income

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

d) Operating leases

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

e) Notional charges

Costs for interest on capital and external audit are charged on a notional basis and included in the accounts.

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

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

f) Pension costs

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

g) 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.

h) Cash at Bank

OPG bank balances continue to be shown as current assets or liabilities.

i) Reserves/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

The Pension provision relates to valuation of Local Government Pension Scheme (LGPS) under FRS17, this is an actuarial calculation which is described in more detail in Note 6.

(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 the PCSPS (Note 6) 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 has been created in respect of several onerous leases which relate to office space occupied by the former regional offices of the MHS (which closed early in the financial year). The amount provided has been calculated by reference to the periods specified in the leases.

(iv) Provision for personal injury claims

A provision has been created to cover the estimated amounts required to settle the claims and costs for a number of personal injury cases for which the MHS had admitted liability. The amount provided has been calculated by reference to similar cases and reviewing correspondence applicable to the cases.

j) Provision for bad and doubtful debts

A provision has been made in full against balances relating to industry debtors that are in receivership or subject to liquidation. In addition, a full provision has been made in respect of industry and staff debts where no payment has been received in the last three months. A 50% provision has been made against all other industry debts that are over six months old.

2 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	Actual	Favourable/ (adverse) Variance	2007/08 Actual
		£'000	£'000	£'000	£'000
Gross operating costs	(a)	84,760	77,863	6,897	87,076
Operating receipts		(52,600)	(49,393)	(3,207)	(55,743)
Net operating cost		<u>32,160</u>	<u>28,470</u>	<u>3,690</u>	<u>31,333</u>
Transformation investment Costs		4,200	7,353	(3,153)	10,557
Total	(b)	<u>36,360</u>	<u>35,823</u>	<u>537</u>	<u>41,890</u>
Capital		300	270	30	297
Capital for Transformation Programme		500	520	(20)	403
Total		<u>800</u>	<u>790</u>	<u>10</u>	<u>700</u>

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	2007/08 Actual
	£	£	£	£
Gross operating cost per livestock unit (excluding Transformation costs)	12.87	12.16	0.71	13.21

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	(36,360)	(35,823)	537
Capital	(800)	(790)	10
Fixed asset disposals	–	–	–
Non cash transactions	(499)	(847)	(348)
Movement in working capital	(4,773)	(5,587)	(814)
Transfer to provisions	432	2,733	2,301
Net	<u>(42,000)</u>	<u>(40,314)</u>	<u>1,686</u>

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

3 Related party transactions

The MHS is an executive agency of the FSA which is regarded as a related party. During the year, the MHS has had a significant number of material transactions with the FSA, Defra and the Rural Payments Agency (RPA).

The MHS undertakes work under a Service Level Agreement, mainly on SRM (Specified Risk Material) for the FSA. Work for Defra includes 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 is undertaken principally for the RPA.

As at 31 March 2009, £230,000 was due from Defra, £190,000 from the RPA and a payment of £1,153,000 in advance had been received from the FSA in respect of these activities.

No amounts have been written off in the year in the 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.

4 Income

Income was derived entirely within GB from the following sources:

	2008/09	2007/08
	£'000	£'000
Industry income	25,039	23,772
Government income		
FSA income	10,439	12,157
Defra income	10,111	15,534
RPA income	<u>3,613</u>	<u>3,801</u>
Other income	<u>191</u>	<u>479</u>
Total income	<u>49,393</u>	<u>55,743</u>
Segmental Analysis:		
England	37,451	42,914
Scotland	6,686	7,871
Wales	<u>5,256</u>	<u>4,958</u>
	<u>49,393</u>	<u>55,743</u>

5 Staff costs

(i) Staff costs for the year comprised:

	2008/09 Total £'000	2008/09 Permanently employed staff £'000	2008/09 Others £'000	2007/08 Total £'000
Wages and salaries	33,524	33,218	306	40,998
Social security costs	2,725	2,697	28	3,150
Other pension costs (Note 6i)	5,325	5,301	24	5,947
FRS17 LGPS Pension scheme service costs (Note 6ii)	841	841	–	1,491
Agency temporary staff	410	–	410	325
Contract inspection and veterinary costs	25,262	–	25,262	27,834
Total staff costs	68,087	42,057	26,030	79,745
Less recoveries in respect of outward secondments	(33)	(33)	–	(174)
	68,054	42,024	26,030	79,571

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

	as at 31 March 2009	Average 2008/09	as at 31 March 2008	Average 2007/08
Meat Hygiene Inspectors and Meat Technicians	835	928	998	1,074
Contracted Meat Hygiene Inspectors	122	162	164	175
Official Veterinarians and Lead Veterinarians	22	25	36	37
Contracted Official Veterinarians	250	275	289	300
Contracted Lead Veterinarians	25	4	–	–
Managerial and administrative staff	166	179	243	257
Agency temporary staff	22	22	23	17
	1,442	1,595	1,753	1,860

(iii) Staff costs analysed by function comprise:

		2008/09	2008/09	2008/09	2007/08
		Total	Normal	Transformation	
		£'000	business	investment	£'000
			£'000	£'000	
Inspection and veterinary staff costs:	Employed	34,979	34,928	51	38,994
	Contract	25,262	25,262	–	27,834
Administrative staff costs		7,005	7,148	(143)	11,426
Pension scheme service costs (Note 6ii)		841	841	–	1,491
		68,087	68,179	(92)	79,745

The negative figure of £92k relates to the release of accruals made in 2007/08 for administration staff redundancies that were no longer required in 2008/09. There were two early retirements on ill-health grounds, but no additional accrued pension liabilities in the year.

6 Pension arrangements

(i) For 2008/09 pension costs were a total of £5.3m (£2.2m and £3.1m below).

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

In 2007/08, pension costs were £5.9m (£2.6m and £3.3m).

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 2009, contributions of £2.2m 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 2009, these rates varied from 17.1% to 25.5% depending on the grade of the relevant employee.

The salary bands are the same for the year commencing 1 April 2009, however the rates have been revised and will vary from 16.7% to 24.3%.

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. For the year ended 31 March 2009, contributions of £3.1m were paid to the fund at the rate determined by the Actuary appointed to the fund.

For the year ended 31 March 2009, this rate was 17.9% of pensionable remuneration. The rate is unchanged for the year commencing 1 April 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 2009/10 £1.6m will be paid.

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

An updated valuation, under FRS17 criteria, resulted in a calculated deficit of £44.4m as at 31

March 2009 compared with a calculated deficit of £28.0m as at 31 March 2008. The projected unit method of valuation has been used to calculate the service cost under FRS17. The actuary has estimated the employer's contributions for 2009/10 to be £4.6m. The major assumptions used were:

	31/3/09	31/3/08
Inflation/pension increase rate	3.1%	3.6%
Salary Increases	4.6%	5.1%
Expected Return on Assets	6.4%	7.0%
Discount Rate	6.9%	6.9%

Mortality

Life expectancy is based on the actuarial PFA92 and PMA92 tables, projected to the calendar year 2033 for non-pensioner 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

	2008/09 £'000	2007/08 £'000
Opening defined benefit obligation	127,767	141,154
Current service cost	2,663	4,809
Interest cost	8,953	7,682
Contributions by members	1,204	1,435
Actuarial losses/(gains)	(13,568)	(23,307)
Past service costs/(gains)	1,623	–
Losses/(gains) on curtailments	1,974	336
Estimated unfunded benefits paid	(141)	(140)
Estimated benefits paid	(3,254)	(4,202)
Closing defined benefit obligation	127,221	127,767

Movement in assets

	2008/09 £'000	2007/08 £'000
Opening fair value of employer's assets	99,777	94,419
Expected return on assets	7,149	6,928
Contributions by members	1,204	1,435
Contributions by employer	6,837	6,732
Contributions in respect of unfunded benefits	141	140
Actuarial gains/(losses)	(28,908)	(5,535)
Unfunded benefits paid	(141)	(140)
Benefits paid	(3,254)	(4,202)
Closing fair value of employer assets	82,805	99,777

The assets in the scheme and expected return were:

	Long term rate of return expected at 31 March 2009	Value at 31 March 2009 £'000	Long term rate of return expected at 31 March 2008	Value at 31 March 2008 £'000
Equities	7.0%	47,199	7.5%	59,598
Target return funds	5.5%	8,281	6.3%	19,256
Alternative assets	6.0%	20,701	6.7%	17,931
Cash	4.0%	<u>6,624</u>	4.8%	<u>2,992</u>
Total market value of assets		82,805		99,777
Present value of scheme liabilities		<u>(127,221)</u>		<u>(127,767)</u>
Net pension deficit		<u>(44,416)</u>		<u>(27,990)</u>

(ii) Analysis of amount charged to operating deficit

	2008/09 £'000	2007/08 £'000
Current service cost	2,664	4,809
Past service cost	1,623	–
Curtailments and settlements	<u>1,974</u>	<u>336</u>
	6,261	5,145
Employer contributions to be set off	<u>(5,420)</u>	<u>(3,654)</u>
Amount charged to operating cost (Note 5)	<u>841</u>	<u>1,491</u>

(iii) Analysis of net amount charged to operating cost

	2008/09 £'000	2007/08 £'000
Expected return on pension scheme assets	(7,149)	(6,928)
Interest on pension scheme liabilities	<u>8,954</u>	<u>7,682</u>
Amount charged to operating cost (Note 7)	<u>1,805</u>	<u>754</u>

(iv) Analysis of amount recognised in the statement of recognised gains and losses

	2008/09 £'000	2007/08 £'000
Actual return less expected on scheme assets	(15,347)	(8,949)
Experience gains and losses arising on scheme liabilities	9	6,177
Changes in assumptions underlying the present value of scheme liabilities	0	20,544
Actuarial gain/(loss) recognised in the statement of recognised gains and losses	<u>(15,338)</u>	<u>17,772</u>

Movement in deficit during the year

	2008/09 £'000	2007/08 £'000
Opening deficit	(27,990)	(46,735)
Movement in year:		
Current Service cost	(2,664)	(4,809)
Contributions – employer	5,420	3,654
Payment of deficit	1,558	3,218
Settlement/curtailments	(1,974)	(336)
Past service cost	(1,623)	0
Other finance net interest charged	(1,805)	(754)
Actuarial (loss)/gain	<u>(15,338)</u>	<u>17,772</u>
Closing deficit – LGPS Pension Provision (Note 15)	<u>(44,416)</u>	<u>(27,990)</u>

History of experience gains and losses

	2008/09	2007/08	2006/07	2005/06	2004/05
	£'000	£'000	£'000	£'000	£'000
Difference between experience and actual return on scheme assets					
Amount (£'000)	(15,347)	(8,949)	823	10,688	1,774
Value of assets (£'000)	82,805	99,777	94,419	84,007	64,672
Percentage of scheme assets	(18.5%)	(9.0%)	0.9%	12.7%	2.7%
Experience gains/(losses) on scheme liabilities					
Amount (£'000)	9	6,177	(92)	(477)	(221)
Total present value of liabilities (£'000)	127,221	127,767	141,154	111,267	109,808
Percentage of scheme liabilities	0.0%	4.8%	(0.1%)	(0.4%)	(0.2%)
Total amount recognised in the statement of total recognised gains and losses					
Actuarial gain/(loss) (£'000)	(15,338)	17,772	(19,744)	19,643	(653)
Total present value of liabilities (£'000)	127,221	127,767	141,154	111,267	109,808
Percentage of scheme liabilities	(12.1%)	13.9%	(14.0%)	17.7%	(0.6%)
Cumulative actuarial gain/loss (£000)	1,678	17,018	(754)	18,990	(653)

7 Other costs

	2008/09	2007/08
	£'000	£'000
Rentals under operating leases:		
Other operating leases	156	152
Non-cash items:		
Depreciation and amortisation	480	524
Loss/(Profit) on disposal of fixed assets	4	–
Cost of capital credit	(1,368)	(1,279)
Auditors remuneration and expenses	37	33
Provision for personal injury claims	217	–
Early retirement provision – LGPS	<u>82</u>	<u>(7)</u>
Accommodation costs	1,502	1,996
Staff overheads	2,621	3,116
Administration costs	1,648	1,387
IT costs	1,413	884
Provision for bad debts	(84)	164
Bad debts (recovered)/written off	55	(50)
Interest payable to pension scheme (Note 6iii)	1,805	754
Interest received	<u>(7)</u>	<u>(4)</u>
(i) Total other administration costs	<u>8,561</u>	<u>7,670</u>
(ii) Other operational costs	<u>1,123</u>	<u>1,237</u>
Investment costs including severance, IT investment and programme delivery	6,246	8,981
Early retirement provision – PCSPS*	1,199	–
(iii) Transformation investment costs	<u>7,445</u>	<u>8,981</u>

* Relates entirely to early retirements under Transformation.

Auditors remuneration and expenses includes £3,000 in relation to work carried out towards the adoption of International Financial Reporting Standards in 2009/10.

8 Analysis of notional charges

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

	2008/09 £'000	2007/08 £'000
External audit fee	37	33
Cost of capital credit	(1,368)	(1,279)
	<u>(1,331)</u>	<u>(1,246)</u>

For 2008/09 a credit of £1,267,000 is applicable to the average LGPS pension provision held during the year. This is increased by an additional cost of capital credit of £101,000, calculated in accordance with the Treasury guidelines at a rate of 3.5% per annum on the monthly average net assets employed.

9 Tangible fixed assets

	Computer equipment & Software £'000	Office equipment £'000	Furniture & fittings £'000	Total £'000
Cost or valuation				
At 1 April 2008	3,264	94	145	3,503
Additions in Year	757	–	–	757
Disposals in the year	(4)	(8)	–	(12)
At 31 March 2009	<u>4,017</u>	<u>86</u>	<u>145</u>	<u>4,248</u>
Accumulated depreciation				
At 1 April 2008	2,284	90	145	2,519
Charge for the year	426	1	–	427
Disposals in the year	(3)	(5)	–	(8)
At 31 March 2009	<u>2,707</u>	<u>86</u>	<u>145</u>	<u>2,938</u>
Net book value				
At 1 April 2008	<u>980</u>	<u>4</u>	<u>–</u>	<u>984</u>
At 31 March 2009	<u>1,310</u>	<u>–</u>	<u>–</u>	<u>1,310</u>
Prior period adjustments included for restatement to historic cost accounting				
Cost	1,196	(14)	–	1,182
Accumulated depreciation	<u>787</u>	<u>(7)</u>	<u>–</u>	<u>780</u>
Net book value	<u>409</u>	<u>(7)</u>	<u>–</u>	<u>402</u>

10 Intangible fixed assets

	Software Licences £'000
Cost or valuation	
At 1 April 2008	835
Additions in the year	<u>33</u>
At 31 March 2009	<u>868</u>
Accumulated amortisation	
At 1 April 2008	651
Charge for the year	<u>53</u>
At 31 March 2009	<u>704</u>
Net book value	
At 1 April 2008	<u>184</u>
At 31 March 2009	<u>164</u>
Prior period adjustments included for restatement to historic cost accounting	
Cost	267
Accumulated depreciation	<u>198</u>
Net book value	<u>69</u>

11 Depreciation

	2008/09 £'000	2007/08 £'000
Depreciation charge for the year based on historical cost	480	517
Permanent diminution in value on computer equipment and software licences	0	83
Revaluation adjustment	<u>0</u>	<u>(76)</u>
	<u>480</u>	<u>524</u>

With effect from 1 April 2008 the MHS no longer re-values its assets under modified historic cost accounting principles.

12 Debtors

	31 March 2009 £'000	Restated 31 March 2008 £'000
Amounts falling due within one year:		
Trade debtors net of provision for bad and doubtful debts	2,618	2,359
Balances with other central government bodies	420	1,135
VAT recoverable (net)	845	1,177
Other debtors	33	69
Prepayments and accrued income	<u>3,709</u>	<u>3,436</u>
	7,625	8,176
Amounts falling due beyond one year:		
Other debtors	0	1
Trade debtors	45	59
Prepayments	<u>3</u>	<u>1</u>
	<u>48</u>	<u>61</u>
	7,673	8,237

There are no **Other debtors** falling due beyond one year (the balance as at 31 March 2008 related to employee car loans). **Prepayments** falling due beyond one year relate to subscriptions and car leases. **Trade debtors** have made arrangements to pay in full.

13 Creditors

Amounts falling due within one year

	31 March 2009 £'000	31 March 2008 £'000
Amounts owed to contractors providing veterinary and inspection services	1,944	2,434
Overtime payments to staff	378	405
Trade creditors	94	36
Accruals and payments on account	5,561	11,132
National Insurance	371	442
Income tax	445	506
Other creditors	665	654
	<u>9,458</u>	<u>15,609</u>

Accruals include Transformation costs of £3.2m and pay award to be paid in 2009/10.

14 Reconciliation of operating result to net cash outflow from operating activities

	31 March 2009 £'000	31 March 2008 £'000
Net (deficit)	(35,823)	(41,890)
Depreciation charge for the year (note 11)	480	524
Loss on disposal of fixed assets	4	–
Notional charges (note 8)	(1,331)	(1,246)
Increase/(decrease) in provisions (Note 15)	2,733	(1,098)
Decrease/(increase) in debtors	564	(882)
(Decrease)/increase in creditors	(6,151)	9,198
Net cash inflow/ (outflow) from operating activities	<u>(39,524)</u>	<u>(35,394)</u>

15 Reconciliation of the movement in provisions

(i) LGPS Pension provision

	LGPS Pension Provision £'000
As at 1 April 2008	27,990
Arising during year	2,646
Payment to reduce deficit	(1,558)
Actuarial loss arising	<u>15,338</u>
As at 31 March 2009	<u>44,416</u>

(ii) Early retirement provision

	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	<u>(124)</u>	<u>(76)</u>	<u>(200)</u>
As at 31 March 2009	<u>208</u>	<u>1,123</u>	<u>1,331</u>

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 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) Other provisions

	Onerous Lease Provision £'000	Personal Injury Claims Provision £'000
As at 1 April 2008	–	–
Arising during year	347	217
Utilised during year	<u>–</u>	<u>–</u>
As at 31 March 2009	<u>347</u>	<u>217</u>

(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	<u>46,311</u>

16 Reconciliation of the movement in reserves

	General Fund £'000	Revaluation Reserve £'000	Total £'000
Arising at 1 April 2008*	(32,292)	–	(32,292)
Funding movement in the year (Note 8)	(1,331)	–	(1,331)
Net surplus/(deficit)	(35,823)	–	(35,823)
Resource funding from FSA	43,000	–	43,000
Surplus on revaluation (Note 9)	–	–	–
Actuarial gain (Note 6d)	<u>(15,338)</u>	<u>–</u>	<u>(15,338)</u>
As at 31 March 2009	<u>(41,784)</u>	<u>–</u>	<u>(41,784)</u>

* 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 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.

The MHS is 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.

17 Analysis of changes in cash and cash equivalents during the year

	31 March 2008 £'000	Cashflow £'000	31 March 2009 £'000
Balances held with OPG	1,871	2,754	4,625
Balances with other financial institutions and in hand	281	(68)	213
	<u>2,152</u>	<u>2,686</u>	<u>4,838</u>

18 Capital commitments

At the end of the year there were commitments of £9,000 for the purchase of capital items.

At the end of the previous year there were commitments of £34,000 for the purchase of capital items.

19 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.

	2008/09 £'000	2007/08 £'000
Expiry within one year	40	79
Expiry within two to five years	372	106
	<u>412</u>	<u>185</u>

20 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 £159,000.

No provision has been made in the accounts this year for any of these cases, however a provision of £217,000 has been made for cases where liability had been admitted. There was no provision at the end of the prior year.

21 Losses and special payments

Included in Other Costs (Note 7), administration costs, are Losses and Special Payments which amounted to £602,000 relating to 27 cases (£142,000 relating to 35 cases in 2007/08). In addition a provision of £217,000 was created in respect of estimated future payments relating to these and a further four cases.

The majority of the cases refer to compensation and personal injury claims. One payment of £320,000 was made relating to a personal injury case.

22 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.

There were no post balance sheet events.

23 Financial instruments and associated risks

'FRS 25, 26 and 29 – Derivatives and Other 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 FRS29 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.

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' income comes from industry customers and government customers (see Note 3).

The maximum exposure as at 31 March 2009 is in receivables from customers, disclosed in the debtors note (Note 12).

Interest rate risk

The MHS has no borrowings nor interest bearing deposit accounts. The MHS' financial assets and liabilities carry nil rates of interest. The MHS is not, therefore, exposed to interest rate risk. The following table shows the interest rate profile of the Agency's financial assets and liabilities:

Financial assets

Currency	Total £'000	Floating rate £'000	Fixed rate £'000	Non-interest bearing £'000
As at 31 March 2009				
Sterling	4,886	–	–	4,886
Other	–	–	–	–
Gross financial asset	4,886	–	–	4,886
As at 31 March 2008				
Sterling	2,213	–	–	2,213
Other	–	–	–	–
Gross financial asset	2,213	–	–	2,213

Financial liabilities

Currency	Total £'000	Floating rate £'000	Fixed rate £'000	Non-interest bearing £'000
As at 31 March 2009				
Sterling	46,326	44,416	–	1,910
Other	–	–	–	–
Gross financial asset	46,326	44,416	–	1,910
As at 31 March 2008				
Sterling	28,285	27,990	–	295
Other	–	–	–	–
Gross financial asset	28,285	27,990	–	295

Non-interest bearing financial liabilities comprise: Early retirement provisions, provision for personal injury claims and onerous lease provision, laundry contract and photocopier contract. Floating rate financial liabilities comprise: LGPS pension provision.

Foreign currency risk

The Agency has no foreign currency incomes or expenditure.

Fair values

A comparison, by category, of book values and fair values of the Agency's financial assets and liabilities as at 31 March 2009 is as follows:

	Book value £'000	Fair value £'000	Basis of valuation
Financial assets:			
Cash	4,838	4,838	Cash basis
Debtors over 1 year	48	48	
Investments	–	–	
Total	<u>4,886</u>	<u>4,886</u>	
Financial liabilities:			
Overdraft	–	–	
Creditors over 1 year:			
LGPS pension provision	44,416	44,416	
Early retirement provisions	1,331	1,331	
Personal injury claims provision	217	217	
Onerous leases provision	347	347	
Contracts with embedded derivatives	15	15	
Provisions under contracts	–	–	
Loans	–	–	
Total	<u>46,326</u>	<u>46,326</u>	

24 Prior period adjustment

The entries relating to the change in fixed asset valuation policy (which has been treated as a Prior Period Adjustment, PPA) are as follows:

- (i) Revaluation reserve of £56,000 released to the General Fund.
- (ii) Write back of asset revaluation of £471,000 to the General Fund.
- (iii) Increase in Cost of Tangible Fixed Assets of £1,182,000, comprising £1,196,000 Computer Equipment and (£14,000) Office Equipment.
- (iv) Increase in Accumulated Depreciation of Tangible Fixed Assets of £780,000, comprising £787,000 Computer Equipment and (£7,000) Office Equipment.
- (v) Increase of Cost of Intangible Fixed Assets of £267,000 relating to Software Licences.
- (vi) Increase in Accumulated Depreciation of Intangible Fixed Assets of £198,000 relating to Software Licences.

Since these entries are Prior Period Adjustments and the historic cost accounting has been applied from 1 April 2008, there is no effect on the 2008/09 results of the MHS. However the prior period adjustments result in a £527,000 reduction in the (credit) balance on the General Fund.

The change would have resulted in a difference in the depreciation charge for 2007/08 of £7k. This is not considered material to the financial statements, therefore the Operating Cost Statement has not been adjusted.

Appendix

Assessment of performance targets in 2006/07 and 2007/08

2006/07

The MHS Board met on 25 April 2007 and assessed MHS performance against the corporate objectives set for 2006/07. It concluded that five of the six objectives had been met, and that Objective 2 had been substantially met.

Objective 1 – To deliver customer requirements, as set out in our Service Level Agreements

The MHS met the required level of performance for the indicators on public health, animal health and welfare, and Charter Mark, but not the indicator on BSE controls.

In relation to BSE controls, there were four cases where spinal cord in a bovine carcass was identified at cutting premises (the carcasses did not enter the human food chain), one case where an OTM bovine (aged 10 days over 30 months) was processed in a UTM plant, and one case where an OTM bovine was processed at an OTM plant but was released into the human food chain without being tested for BSE. In all six cases, both FBO and MHS staff failed to identify that there was non-compliance. The risk to public health from these six breaches was miniscule. During 2006/07, 2,234,702 UTM and OTM bovines were processed for human consumption, which equates to a bovine BSE controls compliance rate of 99.9997%. While this is a good performance, the MHS is not complacent and is continuing to strive for zero breaches. As the majority of the indicators for this objective were met and the BSE controls compliance rate was so high, the MHS Board considered that Objective 1 had been met.

Objective 2 – To improve consumer, government and industry knowledge and understanding of our work, and satisfaction with our service delivery

The MHS met the required level of performance for the indicators on Defra customer satisfaction, sustainable development and consumer awareness. The indicators on FSA and industry customer satisfaction are areas for improvement. Although the overall industry satisfaction score for 2006/07, assessed by the annual industry survey, is slightly lower than for 2005/06, 50% of respondents felt that the level of MHS service was unchanged since the previous year; 21% said that it had improved a little; ten per cent said that it had improved a lot; but 19% felt that it had declined. There is no known reason for the overall satisfaction score. It may have been affected by an accepted need for change, and uncertainty following the MHS Board proposal that the delivery of official controls be reviewed.

The government customer satisfaction ratings are assessed by means of a participative, independently facilitated focus workshop. The MHS achieved a 15% increase in Defra satisfaction, but did not meet the indicator to increase FSA satisfaction by five per cent. However, the FSA and the MHS met in March 2007 to identify how the Service Level Agreement – and clarification of the respective FSA and MHS roles – can be improved. During 2007/08, the MHS intends to review and improve its approach to assessing customer satisfaction. The MHS Board considered that Objective 2 had been substantially met.

Objective 3 – To embed legislative changes, in particular the EU Food Hygiene Regulations

While the MHS only fully met one of its three indicators for this objective, the other two indicators – relating to proposing changes to industry and government charge-out rates – were ‘near misses’. These two indicators were impacted by FSA decisions on other changes to charges, necessitating detailed discussion with the FSA, which resulted in delays. All veterinary and technical legislative changes were implemented within the timescale agreed with government customers. Although the indicators on proposing changes to hourly charges by the end of December were missed, because the consultation documents were shared and agreed with the MHS Board and issued before the end of 2006/07, the MHS Board considered that Objective 3 had been met.

Objective 4 – To equip all our staff with the necessary skills, knowledge and information to enable them to deliver our services effectively

The MHS achieved the targets set for important indicators on leadership development, health and safety management, staff survey, and long-term sickness. While the short-term sickness target was narrowly missed by 1.3%, performance was 2.4% better than in 2005/06.

In relation to diversity, two of the indicators were near misses and two were not achieved. However, for three of the four indicators, representation was higher than last year.

A relatively low and stable turnover (7.8%) has limited the MHS opportunity for further increases in representation. The MHS Board considered that Objective 4 had been met.

Objective 5 – To operate within delegated resource budget and delegated cash budget for 2006/07

The MHS achieved all three performance indicators for this objective. The MHS Board considered that Objective 5 had been met.

Objective 6 – To improve efficiency

The MHS met four out of five performance indicators for this objective.

The cost per livestock unit indicator outturn exceeded the budget by 1.8%. The cost per livestock unit budget is set by dividing the budgeted gross MHS costs by the total predicted livestock units to be processed by industry. Gross costs include all ‘business as usual’ work undertaken by the MHS for industry, FSA and Defra, and any planned project work. The cost per livestock unit indicator outturn was affected by higher-than-budgeted gross costs because of unplanned additional government activity including sheep TSE testing and animal by-products, and lower-than-anticipated industry throughput. The increase in gross costs was, however, fully matched by an increase in income.

In the early part of the financial year, the OTM for human consumption programme had an adverse effect on the cost per livestock unit indicator, due to the impact of the MHS staffing up to meet the industry estimate of OTM processing which was not realised. Corrective action to reduce the number of contract staff for OTM inspection was taken throughout the year. This saw the cost per livestock unit indicator reduce steadily during the second half of 2006/07. The cost per livestock unit indicator was also adversely affected by difficult-to-achieve cost reductions in OV attendance at co-located slaughterhouses/cutting premises, following the introduction of the new Food Hygiene Regulations in 2006, and the cost of MHS staff redundancies following slaughterhouse closures.

As all the indicators bar one for this objective were met, the MHS Board considered that Objective 6 had been met.

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.



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