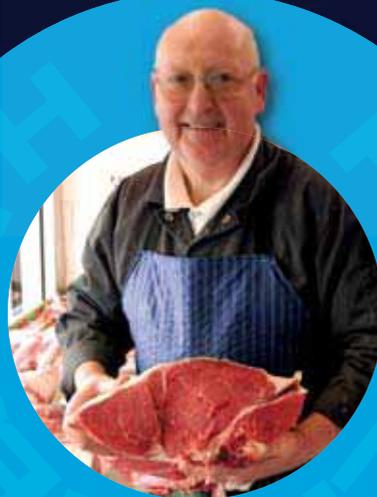


Annual Report & Accounts 2006/07

Protecting Public Health and Animal Welfare





An Executive Agency of the Food Standards Agency

Annual Report & Accounts 2006/07

Protecting Public Health and Animal Welfare

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Chief Executive's Overview

I joined the Food Standards Agency in November 2006 and used the time before taking up post as MHS Chief Executive, in January 2007, to familiarise myself with the FSA, our parent organisation, and to 'shadow' my predecessor, Chris Lawson. This valuable time allowed me to start my new role with a sound foundation of background knowledge, built up during visits to livestock markets, red and white meat slaughterhouses, and cutting premises in various parts of the country, and meetings with key figures in the meat industry, in Government, and among other MHS stakeholders.

MHS performance in 2006/07 was delivered by an organisation which has been in existence for more than 11 years, and which has remained relatively unchanged during this period. The following pages speak for themselves in describing our successes, which include:

- Monitoring the welfare at slaughter – and the hygienic processing for human consumption – of some 800 million food animals and birds, in around 1,500 slaughterhouses and meat cutting premises in Great Britain;
- Achieving five of the six objectives (and one in part) in the assessment of our performance against corporate objectives for 2006/07;
- Supporting Defra in containing the highly pathogenic H5N1 avian influenza outbreak in East Anglia;
- Retaining our Charter Mark status after a re-assessment visit;
- Meeting our financial target to operate within the delegated budget, with a net operating cost of £33.3 million (£0.9 million favourable compared to budget);
- Implementing a new health and safety staffing structure;
- Reducing the number of days lost due to long-term sickness absence by 13 per cent; and
- Achieving procurement savings of £160,000.

When I arrived last year, the FSA was just initiating a review of the delivery of official controls in approved meat premises. This came about at the suggestion of the MHS Board. The MHS readily recognises that its role is part of the wider meat production chain, and that to be successful it is important to work with stakeholders throughout this chain.

I welcome the FSA's review as an excellent opportunity for the MHS to conduct this stock-take of our business, and am encouraged by the

commitment and focus of MHS staff taking part in this review so that we can develop and improve the service in the future.

Even without the impetus of a review by the FSA, the MHS had already identified the need to introduce greater flexibility into the service to better meet the requirements of our meat industry stakeholders. Achieving flexibility requires good management and people skills and greater responsiveness, which is why we are investing in a Leadership Development Programme for all MHS staff with managerial responsibilities.

2006/07 may well prove to be the final year in which the MHS existed in pretty much the form in which it was established. Later in this annual report you will read more details of this MHS Transformation Programme which aims to reduce costs, cut waste, ensure greater input into the formulation of policy and legislation, streamline our management structure, enhance our IT capability, and develop an improved relationship with the meat industry.

The transformation programme forms the backbone of a bid we are making to the FSA Board in July this year – only a few weeks away, at the time of writing – to persuade them to back a transformed MHS as the preferred option for the continued delivery of official controls in approved meat premises, ensuring that food is produced safely and hygienically from well cared-for animals.

I look forward with relish to rising to the challenges in the remainder of 2007/08, and in the years beyond.



Steve McGrath
Chief Executive

25 May 2007

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Annual Report

Background to the MHS – its origins and structure

The 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 to become part of the newly-created FSA. Full details of the MHS Senior Management Team and the MHS Board (and its relationship with the FSA Board) are set out in the chapter on Corporate Governance which starts on page 34 of this report.

Stakeholders and Customers

The MHS has a wide variety of stakeholders with individual or collective interests in how we operate, what we do, and how well we do it. These include GB Rural Affairs Ministers; the FSA Board; the FSA Executive; the Department for Environment, Food and Rural Affairs (Defra); other Government Departments; meat and farming industry representative organisations; Food Business Operators (FBOs); local authorities; consumers; and those who have an interest in animal welfare at slaughter, and the protection of public health and animal welfare.

The MHS is the only Government agency that is present in licensed/approved fresh meat establishments, and has access to animals and birds at the point of slaughter. It is, therefore, uniquely placed to facilitate testing and surveillance on behalf of other Government Departments and agencies. It conducts this work under formal Service Level

Agreements (SLAs) with the customers for its services.

The MHS works closely with Trading Standards Officers (TSOs) of local authorities in investigating the validity of cattle passports under the Cattle Identification Regulations 1998, and breaches of animal welfare under the Welfare of Animals (Transport) Order 1997. It also continues to have contact with local authorities via Food Liaison Committees, the Local Authority Co-ordinators of Regulatory Services (LACORS), the FSA's Enforcement Division, and directly with individual local authority Environmental Health Departments.

The MHS has renewed its efforts to engage with consumer groups and will explore, with the secretariat of the FSA's Meat Hygiene Policy Forum, all options for effective engagement with consumer organisations.

MHS Industry Forum

The MHS Industry Forum continued to provide an important arena for organisations representing FBOs in the meat industry to discuss financial and operational matters with the MHS. The forum met three times during 2006/07. Agenda items included veterinary audits, the lifting of the beef export ban, time costs and MHS charges, the removal of vertebral column in bovines, avian influenza, and the FSA's review of the delivery of official controls in licensed/approved meat premises.

Parliamentary Business

The MHS provides contributions and replies to Parliamentary Questions (PQs) asked of Government Departments, notably the FSA (through the Department of Health), Defra, and the Scottish Executive. During 2006/07 full responses were provided to seven PQs, six of which related to proposed changes to veterinary supervision arrangements. In addition, three contributions to PQ Answers were provided for Defra and three for the FSA.

Management of Relationships with Customers

In 2006/07, the MHS continued to measure levels of customer satisfaction with its service. The annual Industry Customer Satisfaction Survey provides a snapshot of opinion at one specific time of year and the Customer Perception Survey provides constant monthly feedback and an ongoing view of customer perceptions. For SLA customers, we measure levels of customer satisfaction through a facilitated focus group. All these results provide the MHS with feedback on areas capable of improvement.

The Industry Customer Satisfaction Survey was distributed to a total of 960 licensed/approved premises in January 2007. While the return rate was six per cent down on the previous year, 20 per cent remains a good result for this type of survey. An overall satisfaction target was set to achieve a five per cent increase – from 6.6 in 2005/06, to 6.9 in 2006/07. The result was only 6.4 (on a 1–10 scale). However, it is pleasing to note that 90 per cent of respondents were ‘satisfied’ or ‘extremely satisfied’ with the performance of premises-based MHS staff. Within this result is a movement of six per cent of respondents from ‘satisfied’ to ‘extremely satisfied’.

Feedback from the perception survey remained positive, with 94 per cent of FBOs describing their working relationship with the MHS as ‘good’ or ‘very good’ (compared to 95 per cent in 2005).

Satisfaction among FSA and Defra customers is measured by participative focus group sessions with key contacts. The MHS aimed to achieve a five per cent increase in satisfaction from 2004/05 rates – a rise in the FSA score from 5.7 to 6.0, and a rise in the Defra score from 6.8 to 7.1. The Defra score was 7.8, which represents a 15 per cent increase. Unfortunately the FSA score was 5.4, which represents a five per cent decrease. However, it is interesting to note that FSA participants felt the service they receive from the MHS is either staying the same or improving.

Dealing with complaints

In 2006/07, a total of 40 complaints were referred to an MHS Director or the MHS Chief Executive, four of which were found in the complainant’s favour. At the end of 2006/07, 34 complainants had received full replies of which 19 were full responses within our Service Standard target of 20 working days, and a further 10 were full responses after an interim response. In five cases, there was no response within the Service Standard target or appropriate interim response. Of the remaining six complaints, one is still under investigation, and the remaining five are ongoing complaints. Details of the complaints procedure, complaints statistics, and anonymised individual complaints, can be found on the FSA website at www.food.gov.uk

Charter Mark

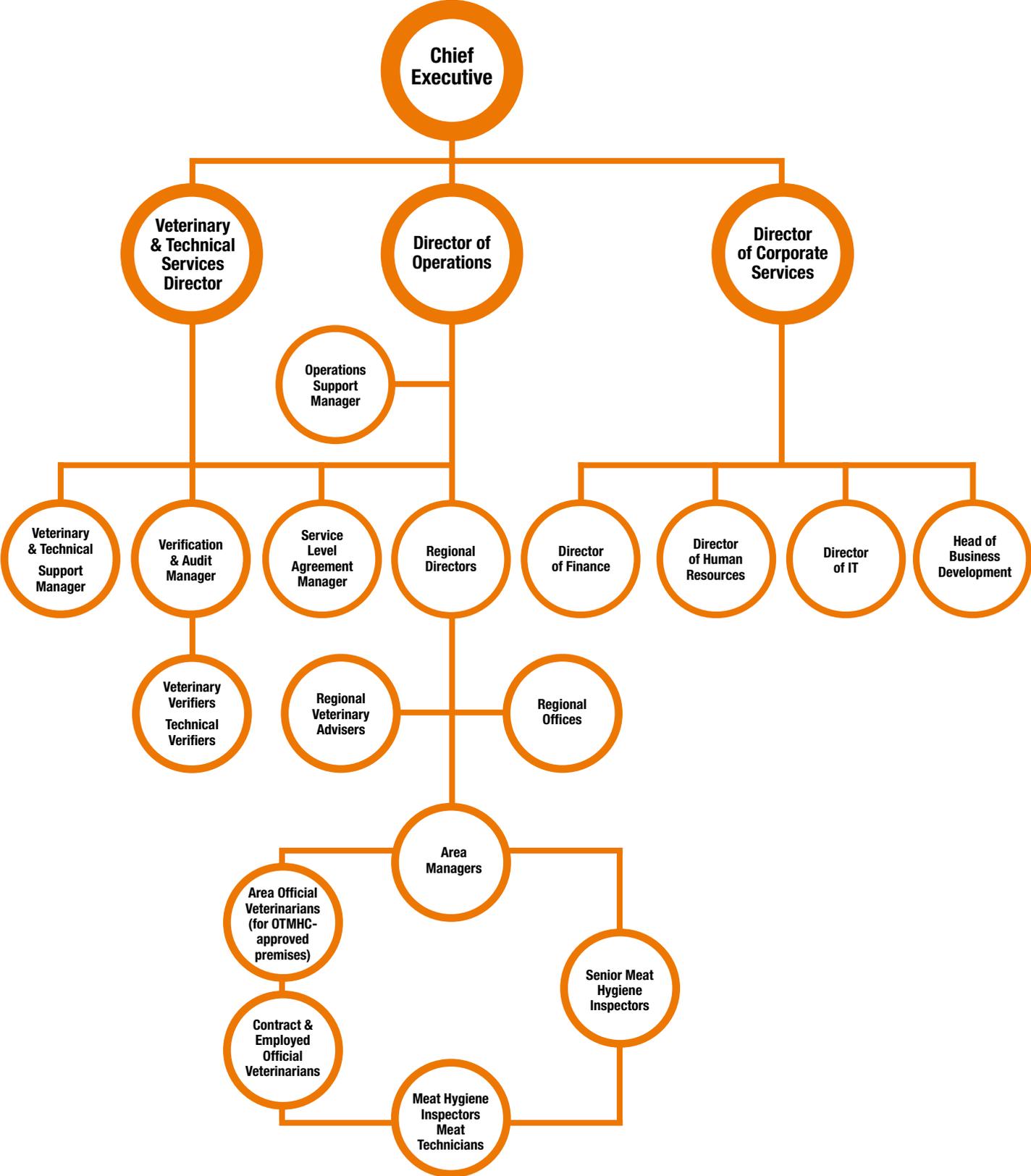
The MHS holds the Charter Mark award which is the Government’s national standard for excellence in customer service. It is unique among quality improvement tools, in that it puts the customer first. Charter Mark examines our standards; how we build and maintain relationships with industry and other stakeholders; our ability to demonstrate service improvements, and consideration of our impact on the wider community. In February 2007, the Charter Mark assessor undertook a surveillance visit and decided that the MHS had not only demonstrated continuous improvement against the official criteria, but also identified several areas of best practice.

ISO 9001:2000 standard

The MHS holds the ISO 9001:2000 standard, a quality management system that leads an organisation towards improved performance. A five-day assessment was completed in January 2007 with visits to headquarters, FBO premises, and the MHS North and Scotland Regional Offices. The assessor’s findings included the positive attitudes of the MHS staff towards their work, and good relationships between inspection staff and OVs.

Delivering Services

MHS Structure (as at 31 March 2007)



Our operational staff

The Operations Directorate is responsible for MHS service delivery in licensed/approved fresh meat premises in Great Britain. The Director of Operations is supported by five Regional Directors who are responsible for staff in the regional offices and those working in licensed premises across the regions.

A map showing the MHS regional boundaries is shown on the inside back cover of this report, together with contact details for headquarters and the regional offices.

The majority of MHS staff work in inspection teams located in licensed/approved premises. The inspection teams comprise:

- Official Veterinarians (OVs);
- Senior Meat Hygiene Inspectors or Senior Poultry Meat Inspectors (SMHIs/SPMIs);
- Meat Hygiene Inspectors or Poultry Meat Inspectors (MHIs/PMIs);
- Meat Technicians (MTs).

Licensed/approved premises vary in size and the species slaughtered. MHS staff provide inspection services to these premises 24 hours a day, 365 days a year as required.

What operational staff do in licensed/approved premises

Through inspection, verification, audit, and the enforcement of legislative requirements, the MHS is responsible for ensuring that FBOs fulfil their responsibilities for the production of safe food and the protection of animal health and welfare in approved meat establishments in Great Britain. Approved meat establishments include slaughterhouses; cutting plants; meat preparations and meat products establishments and cold stores on the same site as slaughterhouses and cutting plants, and game handling premises.

After the FBO has accepted animals for slaughter, they are inspected by an OV for any signs of animal disease and poor welfare. The MHS works closely with local authorities and the former State Veterinary Service (SVS) – now known as Animal Health (AH) – on any welfare problems that might arise on-farm or in transit.

MHS staff verify that FBOs have accepted only correctly-identified animals, and that traceability is maintained throughout the process of production of fresh meat. The work of the MHS includes examining cattle passports to ascertain the age of each animal.

Meat is inspected by MHS staff, and unfit meat is rejected. Meat from cattle, sheep, goats and pigs that passes inspection is stamped with a health mark. Meat from cattle, sheep and goats is additionally stamped to indicate that it is free from Specified Risk Material (SRM). SRM removal is important as a control of BSE risk. White meat and meat processed in cutting premises bears an identification mark, which is a responsibility of the FBO (although the MHS is responsible for verifying that FBOs use the identification marks in accordance with the regulations). Samples are taken and tested for residues of veterinary medicines, environmental contaminants, and diseases such as Transmissible Spongiform Encephalopathies (TSEs) and *Trichinella*.

If an FBO fails to produce safe meat, MHS staff take enforcement action in accordance with the relevant legislation. This ranges from informal advice, through to the serving of formal notices and prosecution, and, ultimately, to a recommendation that the licence or approval of an establishment to operate be revoked. Please see the section on enforcement on page 12. All legislation currently enforced by the MHS is listed at: www.food.gov.uk/foodindustry/meat/mhservice/mhsmanual2006/

Licensed/approved red, white and game meat establishments

The FSA project to approve all slaughterhouses, cutting plants and game handling establishments under the Food Hygiene Regulations that came into effect on 1 January 2006 has continued. Half of the

previously licensed premises have now been granted conditional or full approval. Those still to be assessed for approval operate under transitional arrangements (Article 4.5 of Regulation (EC) No. 853/2004). Where only conditional approval is granted, the MHS is helping the FSA by monitoring the correction of any deficiencies identified, until the premises are re-assessed for full approval. The approval programme is expected to be completed by March 2008.

The FSA has also started the approval process for about 180 catering butchers and 70 domestic wild game plants, which were exempt from licensing under the previous regulations, but now require approval as cutting plants and game handling establishments respectively. After the approval of each premises, the MHS takes over enforcement responsibility from the local authority.

As a general principle, the MHS is responsible for enforcing the regulations in establishments that require veterinary control, that is, slaughterhouses, cutting plants and game handling establishments. However, when other meat establishments normally under local authority control (such as cold stores, minced meat, meat preparations and meat products establishments) are co-located with a slaughterhouse, cutting premises or game handling establishment, the MHS is also responsible for enforcement in those establishments, in order to avoid dual MHS/local authority control.

A detailed list of approved premises in the UK can be found on the FSA website at: www.food.gov.uk/foodindustry/meat/meatplantsprems/meatpremlcence

Number of meat establishments in Great Britain which are either operating under the terms of Article 4.5 of Regulation (EC) No. 853/2004, or are conditionally/fully approved under Regulation (EC) No. 853/2004

| Type of establishment | England | Scotland | Wales | Great Britain |
|---|---------|----------|-------|---------------|
| RED MEAT | | | | |
| Slaughterhouse ¹ | 234 | 39 | 24 | 297 |
| Cutting plants | 445 | 79 | 41 | 565 |
| FARMED GAME | | | | |
| Farm slaughter facility ² | 49 | 9 | 4 | 62 |
| POULTRY MEAT | | | | |
| Slaughterhouses | 89 | 7 | 6 | 102 |
| Cutting plants | 301 | 21 | 31 | 353 |
| WILD GAME | | | | |
| Game handling establishments ³ | 32 | 17 | 3 | 52 |
| STORAGE OF RED, POULTRY OR GAME MEAT | | | | |
| Cold stores ⁴ | 30 | 8 | – | 38 |
| RE-WRAPPING OF RED, POULTRY OR GAME MEAT | | | | |
| Re-wrapping establishment ⁴ | 6 | 1 | 2 | 9 |
| MINCED MEAT AND MEAT PREPARATIONS ESTABLISHMENTS | | | | |
| Minced meat and meat preparations establishments ⁴ | 306 | 43 | 27 | 376 |
| MEAT PRODUCTS PROCESSING ESTABLISHMENTS | | | | |
| Processing establishments ⁴ | 63 | 17 | 10 | 90 |

1 Includes 14 former farmed game processing facilities, the activities of which are limited to the dressing of carcasses
 2 The former farmed game processing facilities are now known as farm slaughter facilities
 3 The former wild game processing facilities are now known as game handling establishments
 4 Co-located with a slaughterhouse, cutting plant or game handling establishment

Issuing of slaughterer's licences

Slaughterer's licences are issued under the Welfare of Animals (Slaughter or Killing) Regulations 1995, as amended, by the MHS on receipt of a Certificate of Competence signed by an OV or a Veterinary Officer (VO) employed by Animal Health.

In 2006/07, 474 such licences were issued. They may be suspended or revoked if, in the opinion of an OV or VO, the licence-holder becomes incompetent or does not abide by legislation to protect animal welfare at slaughter. One slaughterer's licence was suspended and then revoked during 2006/07, and two other licences were suspended.

For total annual throughput in earlier years, please view the relevant MHS Annual Report & Accounts at: www.food.gov.uk/foodindustry/meat/mhservice/mhsreportaccounts/

MHS Enforcement Policy

The MHS Enforcement Policy outlines the major functions of the MHS, the principles of enforcement that the MHS has agreed to adopt, and the standards that will be applied when carrying out enforcement work. It also seeks to ensure that any formal action in which the MHS engages is reasonable, consistent, and proportionate to the risk posed to public health and animal welfare.

Total throughput, by species, in 2005/06 and 2006/07

| Species | 2005/06 | 2006/07 |
|--|-------------|-------------|
| Poultry (all weights and ages) | 788,927,801 | 778,255,925 |
| Sheep (all weights) | 15,804,748 | 15,085,860 |
| Pigs (all weights) | 7,800,363 | 7,982,221 |
| Bovines aged between six weeks and 30 months of age | 1,910,334 | 1,805,772 |
| Bovines aged over 30 months for human consumption (excluding BAS* animals) | 69,753** | 393,276 |
| Game, and rabbits weighing less than 2 kg | 1,933,927 | 2,525,517 |
| Goats (all weights) | 7,141 | 7,115 |
| Wild boar (all weights) | 1,445 | 2,121 |

* Animals registered under the Beef Assurance Scheme (BAS) are very low BSE-risk cattle from a small number of specialist beef herds which, because of their special status, may be slaughtered for sale for human consumption at up to 42 months of age. The BAS closed on 7 November 2005.

** From 7 November 2005, when Over 30 Month bovines became eligible for the food chain provided that they had tested negative for BSE

Source: Operations Support Unit of the MHS

Formal and informal enforcement action by the MHS, 2006/07

| Formal Action | Number of Notices, 1 April 2006 – 31 March 2007 |
|---|---|
| Hygiene Emergency Prohibition Notice , served under the Food Hygiene (England) (Scotland) (Wales) Regulations 2006, giving an FBO a day's notice of the intention to apply to a court for the granting of a Hygiene Emergency Prohibition Order | Nil |
| Hygiene Improvement Notice served under the Food Hygiene (England) (Scotland) (Wales) Regulations 2006 | 777 |
| Remedial Action Notice served under the Food Hygiene (England) (Scotland) (Wales) Regulations 2006 | 346 |

| Informal Action | Number of Warnings, 1 April 2006 – 31 March 2007 |
|------------------------|--|
| Written warning | 6,637 |

Source: Veterinary & Technical Directorate of the MHS

Prosecutions

Legally, prosecutions are taken by the relevant enforcement authority. In practice, in England and Wales they are taken by the FSA, following a recommendation by the MHS, for all cases except animal welfare, cattle identification, and some animal by-product and TSE offences, where Defra prosecute. In Scotland the prosecutor is the Procurator Fiscal.

Prosecutions are usually only taken after oral representations have been made to the plant management. Usually – but not always – other enforcement tools (such as written advice/warnings, and/or statutory notices) will have been tried and found wanting before a prosecution is recommended by the OV.

Those recommendations are subject to a robust quality control process, passing through the hands of the Regional Veterinary Adviser, the Regional Director, FSA Investigations Branch, FSA Legal or – where appropriate – Defra lawyers. The final decision on whether or not to prosecute rests with prosecution lawyers acting on behalf of the FSA or Defra, in accordance with the Code for Crown prosecutors, taking into account any recommendation from the MHS. FSA lawyers take into account the MHS Enforcement Policy.

In Scotland, the decision to prosecute rests with the Procurator Fiscal who will consider cases reported by the FSA Legal Department on the basis of recommendations from the MHS, in accordance with the Prosecution Code issued by the Crown Office and the Procurator Fiscal Service.

In certain circumstances, cautioning (or, in Scotland, a formal warning) will be appropriate – for example, where the criteria for prosecution have been made out, but there have been admissions; there is no history known of the defendant; the offence is less serious, and there is evidence of remorse.

In 2006/07, the FSA Investigations Branch undertook to investigate 300 referrals by the MHS for possible prosecution. The breakdown of these was as follows:

Referrals by the MHS for possible prosecution, 2006/07

| Legislation | Number of referrals |
|--|---------------------|
| Food hygiene/safety | 110 |
| Transmissible Spongiform Encephalopathies (TSEs) | 72 |
| Animal welfare | 71 |
| Animal By-Products | 28 |
| Cattle identification | 19 |
| Total | 300 |

Source: Legal Services, Food Standards Agency

Referrals to prosecutors, and results of referral, 2006/07

| Prosecuting body | Total referrals | Convictions | Official cautions/warning letters | Referrals in court | Referrals withdrawn | Under review at prosecutors | No further action required |
|---|-----------------|-------------|-----------------------------------|--------------------|---------------------|-----------------------------|----------------------------|
| Department of Health/ Department for Work and Pensions (on behalf of the FSA) | 76 | 12 | 5 | 38 | 6 | 8 | 7 |
| Defra | 87 | 3 | 21 | 33 | 7 | 7 | 16 |
| Procurators Fiscal (Scotland only) | 29 | 6 | NIL | 8 | 4 | 5 | 6 |

Source: Veterinary & Technical Directorate of the MHS

BSE controls

Cattle, sheep and goats can be susceptible to a group of brain diseases known as Transmissible Spongiform Encephalopathies (TSEs). These include BSE in cattle, and scrapie in sheep and goats.

There are strict controls in place in the UK to protect people from BSE. The FSA monitors these controls and publicises any breaches, as well as the actions taken to prevent further failures.

Although no sheep or goats in the UK flock have been found to have BSE, there are a number of precautionary safety measures in place since it has been shown under laboratory conditions that sheep can be infected with BSE, and goats in the field can contract BSE.

Under EU law, FBOs are obliged to remove Specified Risk Material (SRM) from animals that are susceptible to TSEs. The SRM must then be stained and disposed of safely, in accordance with the regulations. SRM includes spinal cord, vertebral column and other body parts closely associated with the central nervous system, and comprises those parts of the animal most likely to contain BSE infectivity.

The MHS verifies that SRM has been removed; it is then stained and disposed of under MHS supervision.

In 2006/07 there were four domestic breaches of SRM controls where health-marked carcasses or part carcasses were found to contain SRM. Further details can be found at www.food.gov.uk/bse/facts/uksrmbreaches. In all cases, there was no risk to public health because the carcasses were detained and the SRM was removed and destroyed. An investigation into the circumstances of the failure to detect the SRM before health-marking was also launched in each case.

Despite these breaches, the MHS maintained a success rate of 99.9997 per cent for verifying that SRM had been removed, stained and disposed of in accordance with the regulations.

The Over Thirty Months (OTM) Rule

The OTM Rule, under which cattle over the age of 30 months were excluded from the food chain, was amended in November 2005 when the Government agreed that cattle over that age could enter the food chain on condition that the carcasses had been tested for BSE and proved negative.

However, it was decided that cattle born before 1 August 1996 should be permanently excluded from the food chain on the basis that they had been born before the ban on feeding mammalian meat and bone meal to cattle had become fully effective. In November 2005 it became a criminal offence to present a bovine born before 1 August 1996 for slaughter for human consumption. Further details – including the two breaches of the OTM Rule during 2006/07 – are available at: www.food.gov.uk/foodindustry/meat/otmreview

BSE Testing of Over Thirty Months (OTM) Bovines for Human Consumption (OTMHC)

At the end of March 2007, 68 slaughterhouses had been approved for handling OTM bovines under OTMHC. During 2006/07, nearly 400,000 OTM bovines were processed for human consumption and 174 bovines born before 1 August 1996 were illegally presented for slaughter at OTM-approved slaughterhouses. All were detected and destroyed. Details are as follows:

| Number of OTM bovines | 1 April – 31 March 2007 |
|---|-------------------------|
| Total slaughtered | 398,847 |
| Total tested negative for BSE and therefore entered the food chain | 398,648 |
| Total tested positive | 3 |
| Total 'no-tests'* | 196 |
| Numbers of pre-August 1996 bovines presented for slaughter or destroyed | 174 |

* The majority of 'no-test' reports to date have been due to poor sampling techniques by FBOs. In such cases, the carcase and all body parts (including the blood) are disposed of by incineration.

Older Cattle Disposal Scheme (OCDS)

Defra's Older Cattle Disposal Scheme, which began in January 2006, permits the disposal of bovines born before 1 August 1996 as they are permanently ineligible for entry into the food chain. As at 31 March 2007, eight approved establishments were participating in the OCDS, which is overseen by the Rural Payments Agency (RPA) but supervised by the MHS. Throughput of animals for 2006/07 was 135,533. It is expected that about 400,000 animals will be slaughtered under the scheme, which will end on 31 December 2008. For further details, please go to: www.defra.gov.uk/animalh/bse/otm/quanda.html

The brain stem sampling of selected cattle continued in OCDS premises, with the MHS supervising the collection of brain stem samples by the FBO.

Animal health and welfare

The MHS monitors on a daily basis the welfare of animals submitted for slaughter to verify that FBOs have the necessary safeguards in place. Operational staff work closely with Defra and local authorities on suspected welfare problems that arise on-farm or in transit, and in notifying suspicions of reportable diseases. The MHS also submits to Defra monthly reports of data collected at every slaughterhouse, allowing trends in animal welfare to be assessed.

In summer 2006, in support of the Government's animal health and welfare strategy, the MHS launched a series of laminated animal disease cards giving key information on important diseases for surveillance. The cards provide details of the causes of the diseases, their clinical symptoms, and action to take where positive cases are found.

Further details on animal health and welfare, and on the relevant legislation concerning the slaughter of farmed animals (including religious slaughter) can be found at: www.defra.gov.uk/animalh/welfare/farmed/slaughter.htm

Avian Influenza (AI)

In the first and final quarters of 2006/07, three episodes of Avian Influenza (AI) were detected in Great Britain. The first, involving the highly-pathogenic H5N1 strain, was confirmed in a wild swan that was found dead in Fife, Scotland, in April 2006. The second, later that month, occurred at two free-range poultry farms in Dereham, Norfolk, where a number of chickens were culled and a Restricted Zone (restricting movements of poultry, other captive birds and eggs – except under licence) was imposed. Tests later confirmed the presence of the low pathogenic H7N3 strain of AI.

The third episode came to light in February 2007, when Defra confirmed that the highly-pathogenic H5N1 strain had been discovered on a turkey farm in Holton, near Lowestoft, Suffolk. This strain last occurred in domestic poultry in the UK in 1991.

All the turkeys in 22 sheds of the Suffolk poultry farm were culled, some of them on welfare grounds, and others – which were considered clinically healthy – for disease control reasons. Within 10 days, Defra and the then State Veterinary Service (SVS) – now Animal Health (AH) had:

- Set up a Protection Zone (three kilometre radius), a Surveillance Zone (ten kilometre radius) and a Restricted Zone (2,090 square kilometres of North East Suffolk and South East Norfolk) around the infected premises
- Banned all organised bird gatherings, including fairs, markets, shows, exhibitions and pigeon races, in the Surveillance and Restricted Zones
- Completed the culling of 160,000 turkeys
- Banned shooting, hunting and the scaring of birds in the Protection and Surveillance Zones

The MHS had an active role in slaughterhouses that were either:

- designated to receive birds originating from the Protection, Surveillance and Restricted Zones; or
- situated within a zone that was subject to movement restrictions, but receiving and processing poultry from premises within an area free from disease control restrictions.

In addition, the MHS was a regular participant in daily briefing sessions involving Defra, the FSA, and other Government Departments and agencies. A report by the FSA found that the risk to workers in and around the infected premises was very low. Tests carried out on samples of meat from the cold store at the Holton site all proved to be negative for AI.

The Health Protection Agency (HPA) conducted human health risk assessments for staff of the SVS, farm workers, and those involved in the control operation (including MHS staff). As a precautionary measure those involved in disease control were offered the appropriate preventive treatment with antiviral drugs, seasonal flu vaccine, and AI personal protective equipment, in line with established protocols.

The Department of Health offered free 'flu vaccination during 2006/07 'flu season to those working in close contact with poultry as a precautionary public health measure. Immunising poultry workers with seasonal 'flu vaccine to prevent the potential re-assortment of a bird flu virus was one of the public health measures set out in the UK Influenza Pandemic Contingency Plan.

Information and guidance on avoiding risk of zoonotic infections when working with poultry that is suspected of having highly pathogenic avian influenza (HPAI) has been produced jointly by a Government and industry working group, and is available on the Defra website at: www.defra.gov.uk/animalh/diseases/notifiable/disease/ai/index.htm

Implementation of the EU food hygiene legislation (H123)

The EU Food Hygiene Regulations, commonly referred to as H123, came into force on 1 January 2006. They placed greater emphasis on Food Business Operators (FBOs) ensuring that all stages of the production, processing and distribution of food under their control satisfy relevant hygiene requirements. They also changed the role of the MHS from one of inspection and supervision, to audit and verification of FBOs' food safety management systems.

Throughout 2006/07, the MHS continued working with FBOs and contractors providing services on behalf of the MHS to embed the requirements arising from the new legislation. Some key areas of work are described below:

- Development of guidance for newly-appointed OV's who have completed the theoretical OV course, and must undergo at least 200 hours practical training in a range of approved meat establishments and pass an assessment test before being allowed to work independently.
- Starting work, in partnership with industry and other Government agencies and Departments, on the development of electronic systems for receipt of Food Chain Information (FCI) ahead of slaughter and for the Collection and Communication of Inspection Results (CCIR) to FBOs, producers, producers' vets and to Defra for surveillance.
- Launch of new instructions for MHS staff on HACCP (Hazard Analysis and Critical Control Point) hygiene systems, reflecting the UK's interpretation of the requirements in this area, and guidance provided to the industry on best practice in the Meat Industry Guide (MIG). The MIG can be viewed at: www.food.gov.uk/foodindustry/regulation/hygleg/

- A review of the arrangements introduced in January 2006 for auditing FBOs' food safety management systems. This audit scheme was a key change arising from the new legislation. An industry/ stakeholder workshop was held in January 2007 to consider the results of the review. Improvements to current arrangements will be introduced early in 2007/08.
- Reviewing instructions in the MHS Manual for Official Controls (MOC), first issued as a working draft in November 2005, to ensure that the MOC meets customer and user requirements. A user panel is helping with this review. The user panel includes industry representatives, and is also routinely consulted on new instructions for the MOC as they are developed.

Regulation 854/2004 offers greater flexibility in OV attendance in slaughterhouses and game handling establishments than was possible under the previous regime. Initial pilots were carried out in November 2006 to examine the possibility of reducing OV attendance in a number of different establishments across all five MHS regions. Following subsequent expressions of interest from FBOs for further involvement, the project was progressing to live trials on MHS attendance and implementation at the end of 2006/07. The trials will ensure that any changes to existing arrangements are cost-effective and sufficient to ensure the protection of public health and animal health and welfare.

The new OV and MHI syllabuses that had been developed to reflect the new legislative requirements both received external accreditation in May 2006. The new OV syllabus was accredited by the Royal College of Veterinary Surgeons (RCVS), and the qualifications in Meat Hygiene and Inspection were accredited by the Qualifications and Curriculum Authority (QCA).

Managing IT and Finance

IT

There were a number of major projects within the IT Department during 2006/07. The temporary move of MHS headquarters from Foss House to Monks Cross required a full hardware refresh in both user desktop and data centre environments. The opportunity was taken to upgrade operating software and applications systems to the latest software versions, and all this was achieved with minimal disruption to business.

Sixteen Senior Meat Hygiene Inspectors took part at their base plants in a pilot project to improve connectivity speed and performance. After a successful conclusion, the pilot was extended to include all premises within the 16 Seniors' spans of control. A further ten SMHIs joined in, with their full spans of control being moved to the new network. This allowed the full roll-out of a network enabling 95 per cent of all approved premises with IT to connect to the York Data Centre using broadband. Each premises is now able to have its desktop PC, the Senior's laptop, and the Official Veterinarian's laptop connected simultaneously. The majority of plants report improved speed and performance.

During the last year, the IT Department has been reviewed and restructured so that it can re-align itself to better support the requirements of the business.

2007/08 will see work begin on:

- the electronic collection and communication of inspection results on-line in approved premises;
- geographical information and resource planning systems which, between them, will help in the provision of electronic management information to front-line managers; and

- further enabling 'trusted partners' – such as veterinary contractors – to access information through the MHS Extranet. This will be required to fully roll-out the e-enforcing system which is currently being piloted, and which will improve communication to all staff on the progress of every recommendation for prosecution.

Finance

MHS Charging Policy

The MHS charges Food Business Operators (FBOs) for the official controls carried out in approved premises under the EU Official Feed and Food Controls Regulations (882/2004). MHS charges are made in line with the GB Charges Regulations, which changed during the year.

Initially, charges were made under the Charges Regulations that came into force on 1 January 2006. Charges to FBOs for work carried out on official controls were based on the lower of the standard/throughput charge, or the actual time costs. These charges were then subject to a minimum charge of 45 per cent of the standard/throughput charge.

In line with the regulations, throughput charges are specified in euros and are converted to £ sterling during invoice production using an exchange rate that is amended once a year. From January 2007 the new exchange rate resulted in standard charges being reduced by around 1.3 per cent.

New Charges

New hourly charge-out rates for industry were implemented from 29 May 2006 after the required consultation with industry customers and their representative bodies. Around 80–90 per cent of FBOs pay for official controls based on standard/throughput charges, not time costs. Therefore changes in hourly charge-out rates have little impact on most operators. Due to a past Ministerial rate freeze, the hourly charge-out rates used to calculate actual time costs are lower than the full cost of providing the service – but this gap is being reduced over time.

From 1 January 2007, new Charges Regulations came into force. Charges to FBOs for official controls were made on the same basis as before, except that the minimum charge of 45 per cent of the standard/throughput charge was abolished. This change resulted from the implementation of provisions in the EU Official Feed and Food Controls Regulations.

A further set of Charges Regulations came into force on 26 March 2007. Standard/throughput charges were increased by the Food Standards Agency (FSA) by 3.5 per cent above the 2006 standard charges, after appropriate consultation with the fresh meat industry.

Procurement

Procurement activity during the year included the letting of new contracts for the Leadership Development Programme, and for the acquisition of Personal Protective Equipment for operational staff. In addition, effective contract management resulted in better working relationships with a number of suppliers including those supplying courier services, stationery, the Manual for Official Controls and the Annual Report & Accounts, various items of printed material, and hotel bookings.

Managing People

The table below gives details of the MHS workforce as at the end of 2006/07. It should be noted that all contract staff and casual staff are expressed as full-time equivalents (ftes). The **average full-time equivalent** number of people (excluding contractors) employed by the MHS during 2006/07, by function, is given in Notes to the Accounts No 5, headed Staff Costs, on page 63.

People Development Activities

People development activities accounted for around 10,000 training days invested during 2006/07 in directly employed staff and those working on contract.

MHS workforce as at 31 March 2007 by job title/job function and employment status (ftes = full-time equivalents)

| Job title/job function | Permanent (1) | Casual (2) | Temp (3) | Contract (4) | All MHS |
|--|---------------|----------------|-----------|-----------------|--------------|
| Members of the MHS Senior Management Team | 4 | – | – | – | 4 |
| Regional Directors | 4 | – | – | – | 4 |
| Regional Veterinary Advisors | 15 | – | – | – | 15 |
| Area Official Veterinarians | 10 | – | – | – | 10 |
| Official Veterinarians | 14 | 1 fte | – | 299 ftes | 314 |
| Area Managers | 33 | – | – | – | 33 |
| Veterinary Verifiers | 6 | – | – | – | 6 |
| Technical Verifiers | 6 | – | – | – | 6 |
| Senior Meat Hygiene Inspectors/Senior Poultry Meat Inspectors | 95 | – | – | – | 95 |
| Meat Hygiene Inspectors/Poultry Meat Inspectors (ftes denotes full-time equivalents) | 874 | 30 ftes | – | 182 ftes | 1,086 |
| Meat Technicians | 134 | 2 ftes | – | – | 136 |
| Trainee Meat Hygiene Inspectors | 4 | – | – | – | 4 |
| Other management & admin staff | 200 | – | 12 | – | 212 |
| Total | 1,399 | 33 ftes | 12 | 481 ftes | 1,925 |

Source: MHS Human Resources and Finance Departments

(1) denotes permanent MHS employees

(2) denotes staff employed on casual contracts

(3) denotes staff employed on temporary contracts

(4) denotes Official Veterinary Surgeons and Meat Hygiene Inspectors/Poultry Meat Inspectors working for the MHS, but employed by a contractor.

Training carried out in 2006/07 specifically included:

- Investigation Skills Training: 12 courses were delivered in the MHS regions during October and November 2006, and a final course for managers from the regions and headquarters was held in York in February 2007.
- Meat Technology Training: 20 staff were trained on two courses. *Campylobacter* Prevalence Survey Sampling: this training combined a training film with an eLearning module for 68 staff involved in sampling for a VLA survey.

- Part Time Study: 24 people were supported on courses such as the MBA in Business Administration, Certificate/Diploma in Management, Management Skills Training, Certificate in Personnel Practice, Health and Safety, Animal Health and Welfare, and European Computer Driving Licence.
- Continuing Professional Development (CPD) for OVs and S/MHIs.

In addition, a range of management courses was covered; 884 staff completed an update session on SRM changes, and 107 staff completed courses on health and safety subjects and First Aid refresher training.

MHS eLearning Zone

The MHS eLearning Zone was launched in May 2006 to all employed and contract staff and is accessible from the Internet. It provides an effective way through which the MHS can give all its staff access to e-training at a time and location that suits them.

The site offers 50 skills development courses covering training needs identified during the annual appraisal round. It proved invaluable in enabling operational staff to review the impact of the new EU Food Hygiene Regulations.

Trainee Meat Hygiene Inspector Courses

The two trainee Meat Hygiene Inspector courses launched in 2006 were the first to cover the new MHI syllabus which changed as a result of the introduction on 1 January 2006 of the new EU Food Hygiene Regulations. In total, 50 trainees became dual-qualified MHIs (in red meat and white meat) on completion of the course. They included two Poultry Meat Inspectors who undertook training in red meat inspection, and 11 Meat Hygiene Inspectors who undertook training in poultry meat inspection.

Leadership Development Programme

During 2006/07, the MHS introduced a new way of supporting the development of management skills through implementation of a Leadership Development Programme (LDP). The MHS LDP is underpinned by a high-level Leadership and Management Competencies Framework that has been defined in conjunction with external consultants as part of the overall Leadership Development Project.

The LDP started in February 2007 and will run for a full calendar year. During that period, more than 300 managers will attend three two-day modules specifically designed to develop the leadership skills most desired in the MHS. The programme is about individuals developing their self-awareness and

personal style, and provides opportunities to focus on communication and influencing skills.

Investors in People

The MHS achieved Investors in People re-accreditation in June 2004, and will be further assessed against the Investors in People standard in September 2007.

In 2006/07 the MHS introduced a focus group comprising representatives from all MHS regions and headquarters Departments. The group has revised and updated the MHS Investors in People Action Plan, which was introduced following the 2004 Accreditation Report.

Recruitment

The MHS recruited 90 new employees during 2006/07 (compared with 102 in 2005/06), mainly as a result of staff turnover.

Overall, the total number of permanent and casual employees reduced during the year from 1,549 to 1,499. As in previous years, the MHS has recruited a number of qualified operational staff. Two courses for Trainee Meat Hygiene Inspectors were completed in September and October 2006.

Recruitment and selection within the MHS is based on the principles of fair and open competition and selection on merit. In 2006/07 there were 22 exceptions to the normal recruiting procedure, primarily fixed-term appointments.

The MHS has an established recruitment and selection process in place which is managed by the HR Advisers within the five MHS regions, as well as by the HQ HR Department. A formal Recruitment and Selection Policy and supporting Guidance Notes were issued in July 2006. They consolidate the existing recruitment and selection procedures within one comprehensive policy document. Also incorporated was the positive feedback from external audits of MHS recruitment activity undertaken on behalf of the Civil Service Commissioners.

The MHS is subject to audit by the Office of the Civil Service Commissioner to ensure compliance with the Civil Service Recruitment Code. It is also now in its third year of internal self-audit, using a framework provided by the Cabinet Office, to ensure compliance with the Commissioner's Recruitment Code.

Operational staff recruited to the MHS 1 April 2006 – 31 March 2007

| Job Title (Civil Service grade in brackets) | Total | Of which (from non-white ethnic group) | Of which (with disability) | Of which (female) |
|---|-----------|--|----------------------------|-------------------|
| Meat Hygiene Inspector (EO) | 42 | – | 1 | 15 |
| Total | 42 | – | 1 | 15 |

Source: Veterinary & Technical Directorate of the MHS

Office-based staff recruited to the MHS 1 April 2006 – 31 March 2007

| Grade | Total | Of which (from non-white ethnic group) | Of which (with disability) | Of which (female) |
|----------------|-----------|--|----------------------------|-------------------|
| SCS Pay Band 2 | 1 | – | – | – |
| SEO | 4 | – | – | 2 |
| HEO | 12 | – | 1 | 6 |
| EO | 8 | 1 | – | 4 |
| AO | 21 | 1 | – | 15 |
| AA | 2 | – | – | 1 |
| Total | 48 | 2 | 1 | 28 |

Source: Veterinary & Technical Directorate of the MHS

Retention

The MHS regularly monitors turnover of staff, having regard to levels of motivation and morale. At the end of 2006/07 the rate was 7.8 per cent. Annual turnover has been affected by some redundancy programmes due to closures of licensed/approved premises, primarily in the Wales Region. Reasons for leaving are regularly reviewed and any necessary follow-up action is taken by Regional or Headquarters HR Advisers, when the reason for leaving is not due to ill-health, redundancy or early retirement.

Towards Equality and Diversity

The Government's equality agenda centres on promoting equality and diversity in employment, and ensuring public services are fully accessible and responsive to the needs of all groups and communities served. It also emphasises the importance of pro-activity and partnership to promote equality and eliminate discrimination.

In response to this agenda – and recent and forthcoming legislation – the MHS has developed a revised Unified Diversity Strategy and Diversity Action Plan which was consulted on from January to March 2007, and has replaced the previous Race Equality Plan and Diversity Action Plan.

The new plan sets out specific aims and objectives across the full range of diversity issues including age, gender, ethnicity, disability, religion and belief and sexual orientation. Actions specified, which impact on the whole of the MHS, include work on recruitment, monitoring, training and policy development during the period from 2006 to 2008.

Actions taken during 2006/07 include:

- The appointment of Fiona Triller as Equality and Diversity Manager
- Diversity and equality statement developed and agreed
- Questionnaire issued to staff with disabilities, with a follow-up focus group which explored issues for feeding into the Strategy and Action Plan
- Review of recruitment and selection procedures to ensure inclusivity
- Monitoring statistical evidence
- Disability standard achieved (Two Tick symbol)
- Membership of Employers Forum on Disability and Employers Forum on Age
- Series of equality and diversity awareness sessions for MHS staff
- Focus group with potential disabled employees, in partnership with Jobcentre Plus

Percentage of MHS staff by Ethnic Origin, Disability Status, and Gender (as at 31 March 2007)

| Group | Target percentage, 2005/06 and 2006/07 | Actual percentage, 2005/06 | Actual percentage, 2006/07 |
|-----------------------------|--|--|--|
| From non-white ethnic group | 4.1% | 3.6% | 3.4% |
| With disability | 2.5% (operational) 3.7% (non-operational) | 2.2% (operational) 2.3% (non-operational) | 2.4% (operational) 3.2% (non-operational) |
| Female | 17.0% | 16.75% | 18.1% |

Source: MHS Human Resources Directorate

Health & Safety

2006/07 saw the introduction of a revised health & safety regime within the MHS. Under the professional supervision of Noel Sykes, the newly-appointed Health & Safety Manager, the MHS now has in place a restructured HQ Health & Safety Team and five Health & Safety Advisers, each working at regional level.

The MHS continues to work with and consult UNISON representatives, through the National Health & Safety Committee; and with the meat industry, through the MHS Industry Forum. At the top of the agenda for developing a new health & safety management system are a revised risk assessment methodology and improvements to the way in which incidents and injuries at work are investigated and reported on.

As a result of the death, in summer 2006, of an Official Veterinarian in the MHS Wales Region, the MHS produced a specific risk assessment methodology and procedural guidance aimed at preventing injury associated with escaped or fractious animals. These will be made available to the industry to help any FBOs who may need to re-visit their own health & safety systems. The MHS is a member of a national group currently producing industry guidance on cattle-handling and human safety.

As part of the Avian Influenza (AI) contingency planning process, the Health & Safety Team produced a general risk assessment designed to protect MHS staff in the event that they were involved in an outbreak of AI.

In early 2007 the Health & Safety Executive (HSE), reported on their findings from a sample audit of the MHS health & safety management system. This report will inform development of the MHS health & safety strategy over the coming years. The HSE recognised that the MHS had already identified some critical areas for development.

Accident Reports

The total number of incident reports (including injuries and 'near-misses') has steadily decreased from 406 in 2002/03, to 333 in 2003/04, to 291 in 2004/05, to 241 in 2005/06. In 2006/07 the number totalled 253. This latest figure reflects a conscious drive to improve the reporting rate of 'near-misses' which, in 2006/07, accounted for 19 per cent of all reports (12 per cent in 2005/06).

Incidents involving injury totalled 171, a reduction of ten per cent on the figure for 2005/06. Of these, 31 per cent were strains or sprains, 28 per cent were cuts/abrasions, 15 per cent involved bruising, and nine per cent were burns or scalds.

Table of reported accidents, incidents, diseases and dangerous occurrences 2006/07

| Type of reportable incident | Number of incidents |
|---|------------------------|
| Fatal | 1 (contract OV) |
| Major injury | 1 |
| Injury resulting in more than three days off work | 33 |
| Disease | 7 |
| Dangerous occurrence | 1 |
| Total Number of HSE Reportable Incidents | 43 |

The number of days lost due to injury in 2006/07 totalled 1,418, a 24 per cent reduction on the comparable figure of 1,885 days for 2005/06.

Employee Relations

During 2006/07, the MHS and UNISON updated the formal employee consultation and negotiation framework underlining the joint commitment to establishing clear and effective employee relations mechanisms, and working together for the mutual benefit of staff and the MHS.

Employee relations are conducted at both local and national level. National MHS /UNISON Joint Negotiating and Consultative Committee (JNCC) meetings are held on a quarterly basis. The JNCC is a negotiating and decision-making body whose remit includes pay negotiations, terms and conditions of employment, and a joint problem-solving approach to organisational issues.

Staff Survey, 2007

In November 2006, the MHS started work with Ipsos MORI on the first of two new staff surveys (the second will take place in 2009). For the 2007 survey, Ipsos MORI conducted a series of interviews with senior MHS staff and UNISON to review the core survey objectives.

Members of the staff survey working group met in York in January 2007 to review the objectives of the 2007 survey, and the existing questionnaire, to identify any changes. The working group was also involved in piloting the draft questionnaire, and their feedback was incorporated before the questionnaire was agreed by the SMT in February 2007.

The findings from the survey, which were presented to the SMT, Regional/HQ Directors, and UNISON representatives in May 2007, showed that as well as having a high return rate of more than 50 per cent of all staff surveyed, there have been improvements across many of the question areas in comparison with both the 2002 and 2004 surveys, which makes this the most positive set of employee feedback overall.

The results indicate areas of strength, such as the proportion of employees who want to be involved in what is happening in the MHS and who would speak

highly of the work the MHS does. These are contrasted by areas for improvement, such as the proportion of employees who would speak highly of the MHS as an employer.

The results were widely distributed across the MHS, backed up by briefing meetings with senior managers and trade union representatives, as well as cascade briefings by line managers in the field. The results have also been used by a focus group involving management, staff and union representatives to develop an action plan.

Managing Attendance

The overall rate of short and long-term sickness absence during 2006/07 ranged from 19 to 24.9 days per employee per year, a decrease in the levels recorded in 2005/06. The number of long-term sickness cases (a period of continuous absence for 28 days or longer) also reduced, in comparison with 2005/06. This is partly attributable to full implementation and bedding-down of a new Managing Attendance policy, which was launched in September 2005 and supported by training for all those with line management responsibilities.

On average, 8.1 days were lost per employee per year due to short-term sickness, while long-term sickness accounted for an average of 14.3 days. The average number of cases of long-term sickness per month was 71 in 2006/07, which represents around five per cent of all full-time permanent MHS staff.

Internal Communications

Throughout 2006/07, regular communication with staff was maintained by publication of MHS News, containing news from the Senior Management Team, operational information, updates on pay and other Human Resource policy areas, and details of those joining or leaving the MHS or moving within it.

The magazine MHS Update, produced three times a year, is sent to all staff. It is very much 'people-focused', containing features on staff and their pastimes and academic achievements, and news of visitors to MHS headquarters and regional offices.

The Future

Many of the activities described in this Annual Report & Accounts are ongoing, and a number are due to gather added impetus or come to fruition during 2007/08. They include:

Outcome of the FSA's Review of the Delivery of Official Controls in Approved Meat Premises

In October 2006, the FSA Board agreed to review the delivery of official controls in approved meat premises to ensure that the delivery was "providing necessary consumer protection in a targeted, risk-based and proportionate way that represents value for money for operators, taxpayers, consumers and government".

This review came about at the suggestion of the MHS Board, and because a small group of meat industry representatives had complained that the MHS was very quick to enforce the regulations, and not responsive to the operating schedules of FBOs. The group considered that the MHS was too costly and bureaucratic, and was not competitive.

By February 2007, under Phase I of the review, the review team had examined five basic model types for the delivery of official controls. Under Phase II of the review, the FSA Board asked for further analysis of two of the five options – namely, a transformed MHS, or delegating the delivery of official controls to independent control bodies (as permitted under the EU Food Hygiene Regulations that came into effect on 1 January 2006).

The results of Phase II of the review are due to be considered by the FSA Board at its meeting in Cardiff in July 2007, when a decision will be made on the way forward.

An MHS Transformation Programme Team has been working for nearly six months on a bid for the retention of a transformed MHS that is better managed, more efficient, and more responsive to the needs of its customers. Building on its foundation of "excellence in the provision of public services"

(Cabinet Office Charter Mark), the MHS is transforming service delivery and reducing costs by:

- Playing more of a role in the development and implementation of FSA and Defra policies and legislation to ensure that the MHS delivers a practical, effective and efficient service.
- Putting a greater proportion of MHS resources into front-line delivery teams, and bringing together the operational and veterinary management structures to maximise performance.
- Developing better partnerships with industry by providing a more flexible service based on earned autonomy.
- Investing in effective and efficient, fully-integrated IT systems that enable effective management and operational decisions, resource deployment, and transaction management.

The continuing threat of Avian Influenza (AI)

The threat of AI will remain for some time, whether it is the highly pathogenic H5N1 or a less virulent strain, and whether it is found in wild birds or domestic poultry flocks. The whole country remains vigilant, and the MHS remains conscious of the action that must be taken in the event of an outbreak. Further information is available at: www.defra.gov.uk/animalh/diseases/notifiable/disease/ai/index.htm

Temporary relocation of MHS headquarters to Monks Cross, York

To facilitate major re-building work at Foss House, York, MHS headquarters relocated in November 2006 to Monks Cross Office Park, some three miles due North of the City of York. The MHS anticipates moving back to Foss House in spring 2008.

3



Management Commentary

Business Activities

Principal activities

The MHS is the Government body responsible for official controls in all approved fresh meat premises. It carries out official controls by undertaking specific inspection tasks and determining through audit and verification whether the FBOs' arrangements will achieve this and are being properly applied.

The principal activities of the MHS include:

- Enforcing legislation on
 - o Hygiene;
 - o Specified Risk Material (SRM) and other animal by-products;
 - o Animal welfare at slaughter;
 - o Emergency controls related to animal disease outbreaks;
 - o The ban on the placing on the market of products derived from bovines born before 1 August 1996.
- Providing meat inspection and controls on health-marking.
- Collecting and dispatching samples for statutory veterinary medicines residue testing and Transmissible Spongiform Encephalopathies (TSE) examination and testing.
- Checking cattle identification.
- Providing export certification.
- Supervising, inspecting and monitoring the provision of services for the Older Cattle Disposal Scheme (OCDS).

Strategic and Business Planning

MHS corporate objectives for 2007/08

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 welfare

The MHS Corporate Business Plan, published in April 2007, embraces the three financial years 2007/08 to 2009/10. The corporate objectives within the Corporate Business Plan reflect the vision and purpose of the MHS. The objectives for 2007/08, with no implied order of importance, are:

Objective 1: To deliver customer requirements.

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

Objective 3: To e-enable all MHS processes, working in partnership with our customers where appropriate.

Objective 4: To operate within the delegated resource budget and delegated cash budget for 2007/08.

Objective 5: To improve efficiency.

For 2007/08, the MHS has continued to use the balanced scorecard approach to performance management which was implemented in 2006/07.

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

- Customers & Stakeholders
- Finance
- People
- Internal Processes & Efficiency

Listed within each of these quadrants are the corporate performance indicators and targets which need to be achieved during 2007/08 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).

The MHS Board's assessment of MHS performance against corporate objectives, 2006/07

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 protection of public health and animal welfare, 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 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 met in part.

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 per cent. 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 per cent of respondents felt that the level of MHS service was unchanged since the previous year; 21 per cent said that it had improved a little; ten per cent said that it had improved a lot; but 19 per cent 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 per cent 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 partly 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 per cent, performance was 2.4 per cent 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 per cent) 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 per cent. 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.

Assessment of MHS performance against targets in earlier years

An assessment of MHS performance against targets in 2004/05 and 2005/06 appears at the end of this report as Appendix 1. Similar assessments going back to 2000/01 are available in earlier Annual Report & Accounts at: www.food.gov.uk/foodindustry/meat/mhservice/mhsreportaccounts/

Financial Performance

Financial results

Net operating cost increased by £1.7m, from £31.6m in 2005/06 to £33.3m in 2006/07. This was due to inflationary pressures, offset in part by improved deployment of resources, and investment in projects to obtain future efficiencies.

Operating income increased by £1.4m to £58.0m, due mainly to additional £6.9m Defra income generated from the full-year effect of the supervision of controls associated with Over Thirty Month cattle for human consumption, and an increased level of TSE sheep testing. This more than offset the reduction of £3.3m in RPA income as a result of the introduction of the Older Cattle Disposal Scheme. FSA income also decreased by £2.3m due to a reduction in SRM activity, animal by-products and meat products work. Industry income decreased by £0.1m due to a small reduction in throughput during the year and a reduction resulting from changes to EU charges policy in January 2007 which abolished the minimum charge of 45 per cent of throughput charge rule, offset by a rise in time-related chargeout rates. The application of additional charges from working outside of agreed plant operating hours continued at a similar level to the previous year.

Gross administration costs increased by £3.1m inclusive of higher staff costs £0.5m, which resulted from pay inflation for 2006/07 and increased pension costs offset by reduced staffing levels and lower overtime. Other administration costs increased by £2.6m, including higher contractor costs £3.0m as a result of the full-year effect of the deployment of dedicated resources to supervise Over Thirty Month

cattle for Human Consumption (OTMHC) and increased meat hygiene inspection staff to cover for permanent staff reductions, offset by lower official veterinary staff activity. Staff overheads decreased by £0.3m due to lower travel and subsistence costs, but were offset by higher early retirement costs. Interest payable to the Local Government Pension Scheme decreased by £0.8m but IT costs were £0.2m higher mainly due to small value hardware and software purchases now expensed rather than capitalised.

As a result of the actuarial calculations relating to the Local Government Pension Scheme, a pension provision of £46.7m, increased from £27.3m, and a net pension cost of £0.1m have been included.

The MHS was set financial targets to operate within the delegated resource budget and delegated cash budget for 2006/07. Performance against targets is shown at note 2 of the accounts. The MHS achieved both the resource and cash finance targets.

Balance Sheet

Total assets less total liabilities shows a net liability position of £43.4m compared to £22.2m in the previous year, an increase in net liabilities of £21.2m. This resulted mainly from an increase in the pension liability for the LGPS of £19.4m, calculated using the Financial Reporting Standard criteria. Net current assets decreased by £1.4m due to a decrease in debtors of £0.7m, mainly in Government debtors, offset by a decrease in creditors £0.1m, with cash balances reduced by £0.8m. Fixed assets decreased by £0.3m as depreciation exceeded capital expenditure.

Fixed assets

As at 1 April 2006, assets with a value of £789,000 were held by the MHS. These assets comprised computer equipment, computer software (system specific), software licences, vehicles, furniture, fittings and office machinery. During the year to 31 March 2007, £298,000 was spent on tangible and intangible assets. After depreciation and disposals, the net book value of fixed assets decreased to £515,000.

Budget 2007/08

For 2007/08, the MHS has been delegated a net operating cost budget of £34.9m and a capital expenditure budget of £0.3m from the FSA. This delegation does not include savings or initial costs arising from the implementation of the review of the delivery of official controls in approved meat premises, currently being undertaken.

Pensions

The MHS contributes to two separate pension schemes. The majority of staff (56%) 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 2006/07, 99 per cent of all invoices were paid by their due date, maintaining a similar performance of 99 per cent in 2005/06.

Auditors

The accounts have been audited by the Comptroller and Auditor General.

The audit certificate is on pages 53–54 of the Annual Accounts. The cost of audit services is £33,000. Auditors' remuneration and expenses does not include any amounts for non-audit work.

The MHS workforce

The MHS operational workforce varies in numbers throughout the year, but on average consists of a combination of around 1,700 directly-employed, casual and contracted staff in hygiene inspection teams working in some 1,500 licensed/approved fresh meat premises throughout Great Britain. By discipline, there are around 320 full-time equivalent veterinary surgeons; 1,200 meat hygiene inspectors, and 140 meat technicians.

In addition, the MHS employs around 200 administrative and managerial staff based at its headquarters in York and in its regional offices in Cardiff, Edinburgh, Taunton, Wolverhampton and York.

A table giving details of the MHS workforce – by job title/job function and employment status – as at 31 March 2007 appears on page 19.

Managing Risks

Anything that may prevent the MHS from achieving a business objective is considered to be a 'risk'. The MHS accepts that it is not possible to run its business in a risk-free environment, and makes contingency plans as necessary.

The MHS risk management process puts efficient processes in place to provide reasonable assurance that business objectives can be achieved reliably. The Senior Management Team considers effective risk management to be an essential factor in the successful management of its business.

The MHS approach to risk management:

- raises risk awareness throughout the MHS, promoting local understanding of risk, and embedding a risk management culture throughout the organisation;
- contributes positively to, and is integrated with, the MHS business planning process;
- promotes local ownership of, and action on, risk;

- includes accountability and risk ownership as an essential part of risk management;
- prioritises risk based on likelihood and impact;
- enables the SMT to manage effectively the strategic risks to the business.

Risk registers record risks at four levels:

- Area and team level;
- Regional and Unit/Department level;
- Directorate level;
- Senior Management Team level.

Risk registers are formally reviewed on a regular basis. Exceptions are reported and managed through normal management reporting channels.

Corporate level risks are managed by the SMT and are reviewed monthly. Such risks may include business continuity issues (for example, industrial action or an animal disease outbreak), health & safety, major projects, finance and IT.

The Audit Committee is responsible for verifying that risk and change in risk is monitored. It also receives assurances about risk management, and comments on the appropriateness of the risk management and assurance processes in place.

The environment and sustainability

The goal of sustainable development is to enable 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. Sustainable development is an area in which the MHS continues to progress. The development of an action plan was included as a corporate target for 2006/07. The MHS Sustainable Development Action Plan and the MHS Community Strategy are available on the FSA website at www.food.gov.uk/foodindustry/meat/mhservice/mhssustainactionplan

In February 2007 the Charter Mark assessor continued to award the MHS best practice accolade for its work on achieving positive results from involvement with the community, commenting that “the outstanding clarity, and planned basis of the corporate approach, maintains the best practice rating”.

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

It should also be noted that this document has been produced on paper called Revive Silk which is recycled stock made up of 75 per cent post-consumer waste, and 25 per cent surplus pulp from the manufacturer of various different types of paper.

HR policies

The MHS HR policy review programme aims to ensure that HR policies support MHS values and behaviours, reflect legislative obligations and support the effective delivery of the MHS business strategy and objectives.

The MHS has sought to streamline the policy development and review process with the establishment of the HR Policy Development Group. This group is made up of a cross-section of staff from across the regions and headquarters. Group members consult widely with their colleagues on changes to HR policy.



Corporate Governance

The MHS Senior Management Team (formerly the MHS Management Board)

The MHS Management Board (MHSMB) was re-named the MHS Senior Management Team (SMT) as from 7 February 2007. Members of the MHS SMT as at 31 March 2007 were:

Steve McGrath

Chief Executive

Mike Greaves

Director of Operations and Deputy Chief Executive

Jane Downes

Veterinary & Technical Director

Kathryn Davies

Director of Corporate Services

Kevin Goddard

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

- Developing vision and values for the MHS, and reinforcing these 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 and approving the MHS Financial Budget.
- Ensuring that the organisation fulfils its statutory responsibilities (for example, health & 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 Food Standards Agency Class II Vote 4.

The MHS Board

The MHS Board, a sub-committee of the FSA Board, operates at arm's length from the day-to-day management of the MHS by providing strategic direction and holding the MHS to account for its performance.

Membership of the MHS Board, as at 31 March 2007

Chrissie Dunn (Chair)

FSA Board Member

Ian Reynolds (Deputy Chair)

Deputy Chair of FSA Board (from February 2007)

Maureen Edmondson

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

Baroness Valerie Howarth of Breckland, OBE

FSA Board Member (until February 2007)

John Harwood

FSA Chief Executive

Alick Simmons

FSA Veterinary Director

Celia Bennett OBE

Independent external member

Deryk Mead CBE

Independent external member

Debby Reynolds, Chief Veterinary Officer, also attends meetings as an adviser to the Board.

The Terms of Reference of the MHS Board are:

- (i) to give strategic direction to the MHS within the overall strategy agreed by the FSA Board, the relevant legal requirements, and any other relevant constraints or targets which may be set by the Treasury or the appropriate Ministers
- (ii) subject to (i), to set appropriate targets for the MHS and to monitor its performance, and thence and otherwise to hold the MHS to account on behalf of the FSA Board.

The MHS Board also acts as the Pay and Performance Committee for the MHS Chief Executive. The FSA Board has formally delegated responsibility to the MHS Board to act on its behalf, within the MHS Board's Terms of Reference. However, the FSA Board retains ultimate responsibility and to facilitate this, the Chair of the MHS Board reports formally on its work to an open meeting of the FSA Board at least twice a year.

Papers and agendas for Board meetings, and minutes of previous meetings, are available on the FSA website at www.food.gov.uk/enforcement/meathyg/mhservice/mhsboard

The Audit Committee (formerly the Audit & Risk Committee)

In 2006, the FSA commissioned a review of the remit of the FSA and MHS Audit Committees to ensure that both organisations follow best practice with regard to the membership, structure and responsibilities of their respective Audit Committees. Additionally, the Treasury issued a draft Audit Committee Handbook in July 2006 which made a number of important recommendations.

As a result of the review, the FSA Board endorsed new Terms of Reference for the MHS Audit Committee. These included changes to the membership to incorporate members from the MHS Board, as well as at least one independent member. The new Audit Committee held its first meeting on 29 March 2007. It comprises:

Deryk Mead (Chair)

MHS Board member

Ian Reynolds*

Deputy Chair of FSA and MHS Boards

Bill McLaughlin**

External independent member

* The FSA Board agreed in February 2007 to allow Dr Reynolds to be a member of the MHS Audit Committee on a temporary basis.

** Mr McLaughlin has been a member of the MHS Audit Committee and its predecessor since December 2002, and his appointment has been extended by six months until 30 June 2007. This will provide the new committee with continuity, and with a member who has appropriate financial qualification and experience.

The MHS Audit Committee's role is to advise the MHS Board and the MHS Chief Executive (as Accounting Officer for the MHS) on control and governance, assurance, and the process of risk identification and reporting and to conclude upon the adequacy and effective operation of the organisation's overall internal control system.

Verification and Audit

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

VAU auditors carry out internal audits to assess compliance with the relevant controls under food hygiene and animal health and welfare legislation, as set out in the MHS 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 cooperation with external auditors from the FSA and the National Audit Office (NAO), has enabled the MHS to ensure that audit work undertaken by the VAU continues to contribute to the audit assurance needs of these and other external agencies. This has helped to reduce levels of audit on the MHS and duplication of audit effort.

In line with EU guidance, the VAU adopted a systemic approach to the audit of official controls from April 2006. This approach requires auditors to assess the effectiveness of official controls and grade them as good, adequate or weak with recommendations to improve effectiveness. More than 96 per cent of the controls assessed during the course of 2006/07 were found to be good or adequate. A robust system for monitoring the implementation of recommendations made as a result of audit was also introduced during the year, and this indicates that more than 90 per cent of recommended actions have been implemented.

VAU auditors also played an important role in providing audit assurance to the Implementation Review Group (IRG) on the effectiveness of controls at establishments participating in the Over Thirty Months for Human Consumption scheme.

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 D-G 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 2006/07, covering areas relevant to the work of the MHS, and visiting licensed fresh meat premises during the course of their visits. The details of each visit are summarised in the table overleaf.

EU Food and Veterinary Office (FVO) Missions 1 April 2006 – 31 March 2007

| Mission dates | Subject of mission | Overall assessment |
|------------------------------|---|--|
| 31 May – 13 June 2006 | To evaluate official controls related to the safety of food of animal origin, and animal welfare at slaughter | The inspectors expressed some concerns regarding official controls in some of the premises visited, following implementation of the new EU Hygiene Regulations in January 2006. A follow-up mission is planned for June 2007 to evaluate progress. |
| 20 – 29 November 2006 | To evaluate the implementation of protective measures against BSE | The inspectors concluded that UK control systems are generally effective and reliable, in particular those for BSE testing of cattle intended for human consumption. |
| 29 January – 2 February 2007 | To evaluate the implementation of official controls for gelatine, and measures in place for the rules concerning gelatine for human consumption and for animal nutrition and technical use. | The inspectors were very complimentary regarding the MHS controls on hides from bovine animals retained pending a test result for BSE. A final report of the mission had not been received by the competent authority at the time of writing. |
| 26 February – 2 March 2007 | To evaluate the operation of the ovine (sheep) and caprine (goat) identification systems in the UK. | The inspectors remarked that UK controls on sheep identification had improved since the last mission. Their final report had not been received by the competent authority at the time of writing. |

Managing Conflicts of Interest

The policy on managing conflicts of interest, first introduced in July 2003, provides guidance to staff on declaring interests, activities or relationships that conflict – or may be perceived by others to conflict – with their ability to discharge their duties in an honest and impartial manner. Eight declarations were made during 2006/07. The policy will be reviewed during 2007/08. Further information is available from the MHS Business Development Unit, Kings Pool, Peasholme Green, York YO1 7PR (e-mail: mhsenquire@mhs.gov.uk).

‘Whistle-Blowing’ Policy

Mike Lillywhite, a retired senior civil servant, has been the Independent Adjudicator for the MHS since 2001. His appointment ended in May 2007.

During 2006/07 Mr Lillywhite dealt with three cases – fewer than in previous years – each of which was initiated via telephone calls to him from MHS staff.

One case concerned a complaint that MHS senior management had failed to deal appropriately and expeditiously with a series of complex issues relating to the appointment procedures for Area Managers, and disciplinary issues. After the Independent Adjudicator’s intervention, senior management acknowledged the delays and agreed that action would be expedited.

The second case concerned complaints about alleged poor standards of meat hygiene inspection attributed to the inadequate skills and experience of contract MHIs. The Independent Adjudicator concluded that these issues should properly be addressed by line management, and were not appropriate to be considered under the whistle-blowing procedure.

The third case concerned the return to work of a colleague who, the complainant felt, threatened his health and safety. Following the intervention of the Independent Adjudicator, the move was delayed pending further consideration by the relevant Regional Director.

The Independent Adjudicator received four other telephoned complaints. In each case, he provided advice to the complainants who agreed to pursue their complaints through their line managers.

As in previous years, the Independent Adjudicator has noted that while the MHS has excellent and comprehensive procedures for dealing with staff grievances, the implementation of these procedures in a timely fashion continues to be difficult. The Independent Adjudicator has recommended that the MHS should give higher priority to timely implementation of these procedures.

Requests for information under the Freedom of Information Act 2000

In 2006/07 the MHS received 16 requests under the Freedom of Information Act (FoIA) 2000. The MHS also contributed information for a further 10 requests received by the FSA under the FoIA. In addition, the MHS provides information in response to routine inquiries as part of normal business and correspondence-handling. Further details are available at: www.food.gov.uk/aboutus/how_we_work/foia/foirelease/

5



Remuneration Report

This report, for the year ended 31 March 2007, deals with the remuneration of the MHS Senior Management Team (SMT), previously referred to as the MHS Management Board.

Remuneration Policy

The policy on the remuneration of Senior Civil Servants within the MHS is set by the Senior Salaries Review Body (SSRB). Its 29th Annual Report was published in March 2007 and accepted by the Government on the same date.

It is recognised that effective performance management is critical in creating a high performance culture in the Senior Civil Service (SCS). At the beginning of the year, which runs from April to March, the individual and line manager identify appropriate performance and development objectives. There are in-year performance reviews, with a formal review at the six-month point. There is then the end-of-year performance review, where the performance and development objectives are reviewed. The line manager then makes appropriate reward recommendations.

The SSRB report and the Government both support a longer-term reward strategy, especially the emphasis on bonus as the primary reward for delivery of in-year priority business objectives. To that end, the non-consolidated bonus pot has been increased from 6.5 per cent to 7.6 per cent of the SCS pay bill in 2007, and is set to increase to

10 per cent by 2008. Bonuses are expected to be awarded to between 60 and 75 per cent of the SCS, with a maximum bonus of 20 per cent of salary. Any bonus for the Chief Executive and other MHS SMT members has yet to be determined. Assessment will be based on individual and organisational performance targets. Further information about the work of the Senior Salaries Review Body can be found at www.ome.uk.com

Senior Civil Servants in the MHS are recruited by our parent organisation, the Foods Standards Agency. 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.

Service Contracts

The following is a summary of the service contracts for each of the Senior Civil Servants within the MHS.

Service contract summary

| Position | Date of continuous service | Contract unexpired term | Notice period* | Notes |
|---|----------------------------|---------------------------|---|---------------------------------|
| Steve McGrath (Chief Executive) (SCS Payband 2) | 1 July 2003 | 6 years, 11 months | 5 weeks 6 months in certain circumstances | |
| Chris Lawson (Chief Executive to 15 March 2007) (SCS Payband 2) | 3 August 1970 | | | Retired on 15 March 2007 |
| Kathryn Davies (Director of Corporate Services) (SCS Payband 1) | 7 June 1976 | 10 years, 3 months | 13 weeks 6 months in certain circumstances | |
| Jane Downes (Veterinary & Technical Director) (SCS Payband 1) | 1 April 1995 | 7 years, 7 months | 13 weeks 6 months in certain circumstances | |
| Michael Greaves (Director of Operations) (SCS Payband 1) | 7 November 1994 | 6 years | 13 weeks 6 months in certain circumstances | |

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

The Chief Executive and all other members of the SMT 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 Inland Revenue as a taxable emolument. Kathryn Davies has a beneficial loan relating to relocation costs.

Benefits in kind

| | 2006/07 Salary £000 | 2006/07 Benefit £ | Pension | Total | Total |
|--|------------------------|----------------------|---------------|------------------------|------------------------|
| | | | | 2006/07 Salary £000 | 2005/06 Salary £000 |
| Chief Executive | | | | | |
| Steve McGrath from 1 November 2006 annual equivalent | 65–70 115–120 | – – | PCSPS Premium | 65–70 115–120 | – |
| Chris Lawson until 15 March 2007 annual equivalent | 95–100 100–105 | – – | PCSPS Classic | 95–100 100–105 | – 100–105 |
| Directors | | | | | |
| Kathryn Davies (Director of Corporate Services) | 65–70 | 600 | PCSPS Premium | 65–70 | 65–70 |
| Jane Downes (Veterinary & Technical Director) | 70–75 | – | PCSPS Premium | 70–75 | 65–70 |
| Michael Greaves (Director of Operations) | 70–75 | – | LGPS | 70–75 | 70–75 |

Pensions benefits of Chief Executive and senior managers

| | Total accrued pension at age 60 at 31/03/07 and related sum £000 | Real increase in pension & related lump sum at age 60 £000 | CETV at 31/03/2007 to nearest £000 | CETV at 31/03/2006 to nearest £000 | Real increase in CETV funded by employer to nearest £000 |
|--|---|---|--|--|---|
| Chief Executive | | | | | |
| Steve McGrath from 1 November 2006 | 5–10 | 0–5 | 100 | 75 | 21 |
| Chris Lawson until 15 March 2007 | 175–180 | 5–10 | 1,054 | 1,018 | 34 |
| Directors | | | | | |
| Kathryn Davies (Director of Corporate Services) | 25–30 | 0–5 | 449 | 430 | 7 |
| Jane Downes (Veterinary & Technical Director) | 25–30 | 0–5 | 178 | 149 | 21 |
| Michael Greaves (Director of Operations) | 110–115 | 10–15 | 460 | 413 | 29 |

The MHS made contributions to the PCSPS for SMT members at rates of either 23.2 per cent or 25.5 per cent, depending on salary. Contributions to the LGPS were made at the rate of 15.6 per cent of salary.

Non cash remuneration

No non-cash remuneration was paid to senior managers in 2006/07.

Compensation paid, significant awards to former senior managers

None was paid to former senior managers in 2006/07.

MHS Board

The MHS Board is a sub committee of the FSA Board and members are remunerated by the FSA. Two non-executive members, only, are paid attendance fees by the MHS. Celia Bennett was paid a total of £0–5k in 2006/07. Deryk Mead was paid a total of £0–5k in 2006/07.

Principal Civil Service Pension Scheme (PCSPS)

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium and classic plus. Benefits in classic 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.

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 but members may give up (commute) some of their pension to provide a lump sum. Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products.

The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-

provided risk benefit cover (death in service and ill-health retirement).

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

Local Government Pension Scheme (LGPS)

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

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

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially-assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme.

A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The CETV figures, and from 2003–04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the LGPS or Civil Service pension arrangements and, for PCSPS, for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

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

Signed:



Steve McGrath

Chief Executive and Accounting Officer

25 May 2007



Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, H M 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 H M 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; and
- 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.

As far as I am aware, there is no relevant audit information of which the MHS's auditors are unaware: and I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that MHS's auditors are aware of that information.



Statement on Internal Control 2006/07

1. 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 Government Accounting.

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.

The FSA Board has established the MHS Board as a formal sub-committee to give strategic direction to the MHS, set objectives for the MHS and monitor its performance, on behalf of the FSA Board. I provide reports to the MHS Board on issues relating to our core work of meat inspection, audit and verification, our management systems and resources, as well as regular updates on our progress towards achieving the corporate objectives.

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.

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, including a risk-based audit programme linked to the strategic risks of the MHS and an audit of corporate governance and controls. Regular reports are issued by internal audit, which include an independent annual opinion on the adequacy and effectiveness of the MHS system of internal control;
- An Audit Committee, constituted in line with HM Treasury guidance, to advise me as Accounting Officer. The Committee meets 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 verifies that risk and change in risk is monitored.
- The Senior Management Team and MHS Board both receive reports on business and financial performance at every meeting.

2. 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 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. 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. The Audit Committee discusses risk management at each meeting.

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 HQ 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 is being reviewed to ensure that it continues to be fit for purpose, and will be re-issued during 2007/08.

4. The risk and control framework

The MHS approach to risk management is implemented across the MHS. Managers at four levels (frontline, middle management, Directorate, Senior Management Team) 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.

Minutes and papers of Audit Committee meetings are copied to all Senior Management Team members to note and follow up any specific issues raised by the Committee. The Chief Executive, Director of Corporate Services, and the Secretary to the Senior Management Team attend all Committee meetings, thereby providing a direct link to the Senior Management Team. In addition the Director of Finance attends Audit Committee meetings. During 2006/07, the Chair of the Audit Committee reported in person on the Committee's activities at one of Senior Management Team's monthly meetings.

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 discusses risk management issues at each meeting, and similarly, all managers are 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.

5. 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, 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 (including Senior Management Team members) covering scope of responsibility; capacity to handle risk; review of effectiveness; and significant control problems.

Three internal audits on risk management and one on business continuity planning have all evidenced continuous improvement in embedding risk management procedures across the MHS.

The Head of Internal Audit's opinion, based on the internal audit work undertaken during the year, is that the MHS has a generally adequate and effective framework of risk management, control and governance processes which provides reasonable assurance that the Agency's business objectives will be achieved.

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. A monitoring system is in place to ensure that all internal and external business audit report recommendations are implemented. A commitment has been given to the Audit Committee that, as far as is practicable, each audit report's recommendations will be completed

within 12 months of issue of the final audit report. A progress report on implementation of internal and external business audit recommendations is prepared for each Audit Committee meeting, and is also issued to the Senior Management Team. This progress report ensures that weaknesses are addressed and ensures continuous improvement.

All external and internal technical audit reports are seen by the relevant Regional Director, who ensures that OVs (and their contractor, where applicable) and Area Managers agree and implement appropriate corrective action. Annual technical audit reports are issued to the Senior Management Team and Audit Committee. A programme of internal audit work (business and technical), informed by the risk registers, is developed and discussed with the Audit Committee prior to the commencement of each financial year.

The Senior Management Team and Audit Committee have identified Health & Safety management as an issue of concern. However, the recruitment of a new Health & Safety Manager and newly created Regional Health & Safety Advisers in 2006 is addressing this concern.

6. Significant internal control problems

None

Signed:



Steve McGrath
Chief Executive and Accounting Officer

25 May 2007



Audit Certificate

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

I certify that I have audited the financial statements of the Meat Hygiene Service for the year ended 31 March 2007 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 Cashflow 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 Resources and Accounts Act 2000 and HM Treasury directions made thereunder 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, certain information given in the Annual

Report on pages 6 to 51, 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. 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 opinion

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

Audit Opinion

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 2007, and of the net operating cost, recognised gains and losses and cashflows 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 directions issued under the Government Resources and Accounts Act 2000; and
- the information given within the Annual Report on pages 6 to 51 is consistent with the financial statements.

Audit 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.

John Bourn
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

5 June 2007





Annual Accounts 2006/07

Operating Cost Statement

for the year ended 31 March 2007

| | Note | 2006/2007 £'000 | 2005/2006 £'000 |
|-----------------------------------|------|--------------------|--------------------|
| Administration costs | | | |
| Staff costs | 5 | 51,069 | 50,520 |
| Other administration costs | 7 | 40,258 | 37,726 |
| Gross administration costs | | 91,327 | 88,246 |
| Operating income | 4 | (58,037) | (56,640) |
| Net operating cost | | 33,290 | 31,606 |

Statement of Recognised Gains and Losses

for the year ended 31 March 2007

| | Note | 2006/2007 £'000 | 2005/2006 £'000 |
|--|------|--------------------|--------------------|
| Net deficit | | 33,290 | 31,606 |
| Unrealised surplus on the revaluation of tangible fixed assets | 9 | (1) | (3) |
| Actuarial loss/(gain) | 6d | 19,744 | (19,643) |
| Total recognised loss/(surplus) relating to the year | | 53,033 | 11,960 |
| Total losses and (gains) since the last report | | 53,033 | |

The notes on pages 60–73 form part of these accounts

Balance sheet

as at 31 March 2007

| | Note | 31 March 2007 £'000 | 31 March 2006 £'000 |
|--|------|------------------------|------------------------|
| Fixed assets | | | |
| Tangible assets | 9 | 494 | 733 |
| Intangible assets | 10 | 21 | 56 |
| | | <u>515</u> | <u>789</u> |
| Current assets | | | |
| Debtors | 12 | 7,355 | 8,118 |
| Cash at bank and in hand | 17 | 2,246 | 3,030 |
| Total current assets | | <u>9,601</u> | <u>11,148</u> |
| Current liabilities | | | |
| Creditors: amounts falling due within one year | 13 | (6,411) | (6,545) |
| Total current liabilities | | <u>(6,411)</u> | <u>(6,545)</u> |
| Net current assets | | <u>3,190</u> | <u>4,603</u> |
| Total assets less current liabilities | | <u>3,705</u> | <u>5,392</u> |
| Provisions for liabilities and charges | 15 | (47,110) | (27,611) |
| Total assets less total liabilities | | <u>(43,405)</u> | <u>(22,219)</u> |
| Taxpayers Equity | | | |
| Reserves | | | |
| General fund | 16 | (43,455) | (22,269) |
| Total current liabilities | 16 | 50 | 50 |
| | | <u>(43,405)</u> | <u>(22,219)</u> |



Steve McGrath
Chief Executive and Accounting Officer

25 May 2007

The notes on pages 60–73 form part of these accounts

Cash flow statement

for the year ended 31 March 2007

| | Note | 31 March 2007 £'000 | 31 March 2006 £'000 |
|---|--------|------------------------|------------------------|
| Reconciliation of operating cost to operating cash flows | | | |
| Net deficit | | (33,290) | (31,606) |
| Adjustment for non cash transactions | 14 | (645) | (617) |
| Adjustments for movement in working capital other than cash | 14 | 629 | (2,435) |
| Adjust for transfer (from) / to provisions | 14 | (245) | 1,775 |
| Net cash inflow/(outflow) from operating activities | | (33,551) | (32,883) |
| Analysis of capital expenditure and financial investment | | | |
| Purchases of fixed assets | 9 & 10 | (298) | (675) |
| Proceeds of disposal of fixed assets | 9 & 7 | 65 | 35 |
| Net cash outflow from investing activities | | (233) | (640) |
| Analysis of financing | | | |
| Resource funding from FSA | 16 | 33,000 | 33,500 |
| Net cash inflow from financing | | 33,000 | 33,500 |
| Net cash requirement | | (784) | (23) |
| Increase/(decrease) in cash | 17 | (784) | (23) |

The notes on pages 60–73 form part of these accounts

Notes to the Accounts

for the year ended 31 March 2007

1 Accounting policies

a) Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified to include the revaluation of tangible fixed assets at their value to the business by reference to their current cost. Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Government Financial Reporting Manual.

b) Tangible and Intangible fixed assets

Individual tangible and intangible fixed assets with a purchase cost in excess of £2,000 are capitalised and are revalued annually using appropriate indices, provided by the Office for National Statistics, to the net replacement cost. Depreciation is provided on a straight line basis, calculated on the revalued amounts, 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 |
| Vehicles | 4 years |
| Computer Software (system specific) | 4 years |

Intangible assets:

| | |
|-------------------|-----------|
| Software licenses | 2–5 years |
|-------------------|-----------|

Revaluation surpluses and deficits arising from temporary changes in value are credited or charged to the revaluation reserve. Permanent diminutions in value are charged to the operating cost statement except to the extent that a revaluation surplus exists in respect of the same asset. Realised revaluation surpluses are retained within the revaluation reserve.

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.

2 Key performance targets

The MHS was set the following financial performance target by the FSA:-

To operate within the delegated resource budget and the delegated cash budget for 2006/07.

(i) Resource target

| | Budget £'000 | Actual £'000 | Favourable / (adverse) Variance £'000 |
|----------------------------|-----------------|-----------------|--|
| Total administrative costs | (90,600) | (91,327) | (727) |
| Operating receipts | 56,382 | 58,037 | 1,655 |
| Net operating cost | <u>(34,218)</u> | <u>(33,290)</u> | <u>928</u> |
| Capital | (300) | (298) | 2 |

The target to operate within the resource budget has been met.

(ii) Cash target

| | Budget £'000 | Actual £'000 | Favourable / (adverse) Variance £'000 |
|-----------------------------|-----------------|-----------------|--|
| Net operating cost | (34,218) | (33,290) | 928 |
| Capital | (300) | (298) | 2 |
| Fixed asset disposals | – | 65 | 65 |
| Non cash transactions | (200) | (645) | (445) |
| Movement in working capital | (1,000) | 629 | 1,629 |
| Transfer to provisions | – | (245) | (245) |
| Net | <u>(35,718)</u> | <u>(33,784)</u> | <u>1,934</u> |

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

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 RPA.

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:

| | 2006/2007 | | 2005/2006 | |
|--------------------------|---------------|---------------|--------------|---------------|
| | £'000 | £'000 | £'000 | £'000 |
| Industry Income | | 23,428 | | 23,517 |
| Government Income | | | | |
| FSA Income | 13,357 | | 15,653 | |
| Defra Income | 16,870 | | 9,967 | |
| RPA Income | 4,061 | 34,288 | 7,360 | 32,980 |
| Other Income | | 321 | | 143 |
| Total Income | | 58,037 | | 56,640 |
| Segmental Analysis: | | | | |
| England | | 44,990 | | 44,205 |
| Scotland | | 8,153 | | 7,784 |
| Wales | | 4,894 | | 4,651 |
| | | 58,037 | | 56,640 |

5 Staff costs

a) Staff costs for the year comprised:

| | 2006/2007 Total £'000 | 2006/2007 Permanently employed staff £'000 | 2006/2007 Others £'000 | 2005/2006 Total £'000 |
|--|-----------------------------|---|------------------------------|-----------------------------|
| Wages and salaries | 41,204 | 40,862 | 342 | 40,897 |
| Social security costs | 3,363 | 3,336 | 27 | 3,341 |
| Other pension costs (note 6a) | 6,087 | 6,027 | 60 | 6,051 |
| FRS17 LGPS Pension Service scheme costs (note 6b) | 415 | 415 | – | 231 |
| Sub total | <u>51,069</u> | <u>50,640</u> | <u>429</u> | <u>50,520</u> |
| Less recoveries in respect of secondments | <u>(172)</u> | <u>(172)</u> | <u>(–)</u> | <u>(31)</u> |
| | <u>50,897</u> | <u>50,468</u> | <u>429</u> | <u>50,489</u> |

b) The average full time equivalent number of people (excluding contractors) employed by the MHS during the year by function, were as follows:

| | 2006/2007 | 2005/2006 |
|--|--------------|--------------|
| Meat Hygiene Inspectors and Meat Technicians | 1,184 | 1,244 |
| Official Veterinarians | 42 | 45 |
| Managerial and administrative staff | 237 | 218 |
| Total temporary staff | <u>15</u> | <u>21</u> |
| | <u>1,478</u> | <u>1,528</u> |

In addition an annual average full time equivalent of 213 Meat Hygiene Inspectors, 312 Official Veterinarians and 20 Administrative staff were engaged under contracts during the year compared with 113, 337 and 19 respectively for 2005/06 (Costs shown in Note 7).

c) Staff costs analysed by function comprise:

| | 2006/2007 £'000 | 2005/2006 £'000 |
|--|--------------------|--------------------|
| Administrative staff costs | 9,421 | 8,745 |
| Inspection and veterinary staff costs | 41,233 | 41,544 |
| Pension scheme service costs (note 6b) | <u>415</u> | <u>231</u> |
| | <u>51,069</u> | <u>50,520</u> |

There were four early retirements on ill-health grounds, but no additional accrued pension liabilities in the year.

6 Pension arrangements

a) For 2006/07 pension costs were a total of £6,100,000 (£2,700,000 and £3,400,000 below). In addition £1,625,000 was paid to reduce the pension deficit provision. In 2005/06, pension costs were £6,100,000 (£2,500,000 and £3,600,000).

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. The Scheme Actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2003. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation and www.civilservice-pensions.gov.uk.

For the year ended 31 March 2007, contributions of £2.7m 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 2007, these rates varied between 17.1% and 25.5% depending on the grade of the relevant employee.

The contribution rates are unchanged for the year commencing 1 April 2007 although the salary bands have been revised.

LGPS

The majority 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 2007, contributions of £3.4m were paid to the fund at the rate determined by the Actuary appointed to the fund. For the year ended 31 March 2007, this rate was 15.6% of pensionable remuneration. The latest full actuarial review of the scheme considered the position at 31 March 2004. This valuation concluded that the general position has deteriorated since the last valuation due to:

- continued depressed performance of investment markets.
- improving life expectancy, both for current and prospective pensioners.
- early retirements due to redundancy, ill health etc

On the basis of the full actuarial valuation the MHS Fund deficit was £26.1m. The agency agreed to increase the funding to the scheme, payable from 1 April 2005, for 20 years.

The next full actuarial review of the scheme, considering the position at 31 March 2007, is due to be published in autumn 2007. An updated valuation, under FRS17 criteria, resulted in a calculated deficit of £46.7m as at 31 March 2007 compared to a calculated deficit of £27.3m as at 31 March 2006. The major assumptions used were:

| | 31 March 2007 | 31 March 2006 |
|-------------------|---------------|---------------|
| Price increase | 3.2% | 3.1% |
| Salary increases | 4.7% | 4.6% |
| Pension increases | 3.2% | 3.1% |
| Discount rate | 5.4% | 6.0% |

The assets in the scheme and expected return were:

| | Long term rate of return expected at 31/03/07 | Value at 31/03/07 £'000 | Long term rate of return expected at 31/03/06 | Value at 31/03/06 £'000 |
|-------------------------------------|---|----------------------------|---|----------------------------|
| Equities | 7.7% | 58,801 | 7.3% | 52,948 |
| Target return funds | 6.4% | 21,112 | 6.0% | 15,997 |
| Alternative assets | 6.8% | 11,972 | 6.5% | 9,902 |
| Cash | 4.9% | 2,534 | 4.6% | 5,160 |
| Total market value of assets | | 94,419 | | 84,007 |
| Present value of scheme liabilities | | (141,154) | | (111,267) |
| Net pension deficit | | (46,735) | | (27,260) |

b) Analysis of amount charged to operating deficit

| | 2006/2007 £'000 | 2005/2006 £'000 |
|---|--------------------|--------------------|
| Service cost | 3,687 | 3,725 |
| Past service cost | – | – |
| Curtailments & settlements | 271 | 111 |
| Employer contributions to be set off | 3,958 | 3,836 |
| Amount charged to operating cost (note 5) | (3,543) | (3,605) |
| | 415 | 231 |

c) Analysis of net amount charged to operating cost

| | 2006/2007 £'000 | 2005/2006 £'000 |
|---|--------------------|--------------------|
| Expected return on pension scheme assets | (5,811) | (4,759) |
| Interest on pension scheme liabilities | 6,752 | 6,461 |
| Amount charged to operating cost (note 7) | 941 | 1,702 |

d) Analysis of amount recognised in the Statement of Recognised Gains & Losses

| | 2006/2007 £'000 | 2005/2006 £'000 |
|--|--------------------|--------------------|
| Actual return less expected on scheme assets | 823 | 10,688 |
| Experience gains and losses arising on scheme liabilities | (92) | (477) |
| Changes in assumptions underlying the present value of scheme liabilities | (20,475) | 9,432 |
| Actuarial (loss) / gain recognised in the Statement of recognised gains & losses | (19,744) | 19,643 |

Movement in deficit during the year

| | 2006/2007 £'000 | 2005/2006 £'000 |
|--|--------------------|--------------------|
| Opening deficit | (27,260) | (45,130) |
| Movement in year | | |
| Current Service cost | (3,687) | (3,725) |
| Contributions – employer | 3,543 | 3,605 |
| Payment of deficit | 1,625 | 160 |
| Settlement/Curtailments | (271) | (111) |
| Past service cost | – | – |
| Other finance net interest charged | (941) | (1,702) |
| Actuarial (loss) / gain | (19,744) | 19,643 |
| Closing deficit – LGPS Pension Provision (note 15) | <u>(46,735)</u> | <u>(27,260)</u> |

History of experience gains and losses

| | 2006/2007 £'000 | 2005/2006 £'000 | 2004/05 £'000 | 2003/04 £'000 | 2002/03 £'000 |
|---|--------------------|--------------------|------------------|------------------|------------------|
| Difference between experience and actual return on scheme assets | | | | | |
| Amount (£'000) | 823 | 10,688 | 1,774 | 7,706 | (19,026) |
| Value of assets (£'000) | 94,419 | 84,007 | 64,672 | 59,644 | 45,107 |
| Percentage of scheme assets | 0.9% | 12.7% | 2.7% | 12.9% | (42.2%) |
| Experience gains/(losses) on scheme liabilities | | | | | |
| Amount (£'000) | (92) | (477) | (221) | 299 | 299 |
| Total present value of liabilities (£'000) | 14,154 | 111,267 | 109,808 | 101,629 | 86,183 |
| Percentage of scheme liabilities | (0.1%) | (0.4%) | (0.2%) | 0.3% | 0.3% |
| Total amount recognised in the Statement of Total Recognised Gains & Losses | | | | | |
| Amount (£'000) | (19,744) | 19,643 | (653) | 1,418 | (22,710) |
| Total present value of liabilities (£'000) | 141,154 | 111,267 | 109,808 | 101,629 | 86,183 |
| Percentage of scheme liabilities | (14.0%) | 17.7% | (0.6%) | 1.4% | (26.4%) |

7 Other administration costs

| | 2006/2007 | | 2005/2006 | |
|--|-----------|--------|-----------|--------|
| | £'000 | £'000 | £'000 | £'000 |
| Rentals under operating leases | | | | |
| Other operating leases | | 122 | | 53 |
| Non cash items | | | | |
| Depreciation | 523 | | 568 | |
| Loss/(Profit) on disposal of fixed assets | (16) | | 4 | |
| Cost of capital charge | (1,185) | | (1,222) | |
| Auditors remuneration and expenses | 33 | | 33 | |
| Provision of early retirement costs | 345 | (300) | 224 | (393) |
| Operational costs | | 1,202 | | 1,138 |
| OV and MHI contract costs | | 29,460 | | 26,421 |
| Accommodation costs | | 1,972 | | 1,889 |
| Staff overheads | | 3,788 | | 4,104 |
| Administration costs | | 1,505 | | 1,385 |
| IT costs | | 1,489 | | 1,309 |
| Provision for bad debts | | 37 | | 119 |
| Bad debts (recovered) / written off | | 46 | | 4 |
| Interest payable to pension scheme (note 6c) | | 941 | | 1,702 |
| Interest received | | (4) | | (5) |
| Total other administration costs | | 40,258 | | 37,726 |

Auditors remuneration and expenses does not include any amounts for non audit work.

8 Analysis of notional charges

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

| | 2006/2007 £'000 | 2005/2006 £'000 |
|------------------------|--------------------|--------------------|
| External audit fee | 33 | 33 |
| Cost of capital charge | (1,185) | (1,222) |
| | <u>(1,152)</u> | <u>(1,189)</u> |

For 2006/07 a credit of £1,295k is applicable to the average LGPS pension provision held during the year. This is offset by the cost of capital charge, £110k, calculated in accordance with the Treasury guidelines at a rate of 3.5 per cent per annum on the monthly average net assets employed.

9 Tangible fixed assets

| | Computer equipment & software £'000 | Office equipment £'000 | Furniture & fittings £'000 | Motor vehicles £'000 | Total £'000 |
|----------------------------------|--|------------------------------|----------------------------------|----------------------------|----------------|
| Cost or valuation | | | | | |
| At 1 April 2006 | 1,359 | 108 | 144 | 166 | 1,777 |
| Additions in year | 289 | – | – | – | 289 |
| Surplus (deficit) on revaluation | (91) | (5) | 1 | 1 | (94) |
| Disposals in the year | – | – | – | (167) | (167) |
| At 31 March 2007 | <u>1,557</u> | <u>103</u> | <u>145</u> | <u>0</u> | <u>1,805</u> |
| Accumulated depreciation | | | | | |
| At 1 April 2006 | 709 | 89 | 139 | 107 | 1,044 |
| Charge for the year | 445 | 4 | – | 11 | 460 |
| Adjustment on revaluation | (71) | (5) | 1 | – | (75) |
| Disposals in the year | – | – | – | (118) | (118) |
| At 31 March 2007 | <u>1,083</u> | <u>88</u> | <u>140</u> | <u>0</u> | <u>1,311</u> |
| Net book value | | | | | |
| At 1 April 2006 | <u>650</u> | <u>19</u> | <u>5</u> | <u>59</u> | <u>733</u> |
| At 31 March 2007 | <u>474</u> | <u>15</u> | <u>5</u> | <u>0</u> | <u>494</u> |

10 Intangible fixed assets

| | Software licences £'000 |
|---------------------------------|-------------------------|
| Cost or valuation | |
| At 1 April 2006 | 487 |
| Additions in the year | 9 |
| Deficit on revaluation | (31) |
| At 31 March 2007 | <u>465</u> |
| Accumulated amortisation | |
| At 1 April 2006 | 431 |
| Charge for the year | 43 |
| Adjustment on revaluation | (30) |
| At 31 March 2007 | <u>444</u> |
| Net book value | |
| At 1 April 2006 | <u>56</u> |
| At 31 March 2007 | <u>21</u> |

11 Depreciation

| | 2006/2007 £'000 | 2005/2006 £'000 |
|---|--------------------|--------------------|
| Depreciation charge for the year based on historical cost | 503 | 533 |
| Permanent diminution in value on computer equipment and software licences | 125 | 147 |
| Revaluation adjustment | (105) | (112) |
| | <u>523</u> | <u>568</u> |

12 Debtors

| | 31 March 2007 £'000 | 31 March 2006 £'000 |
|---|------------------------|------------------------|
| Amounts falling due within one year | | |
| Trade debtors net of provision for bad and doubtful debts | 3,862 | 4,086 |
| Owed by Government | 1,556 | 2,587 |
| VAT recoverable (net) | 1,288 | 1,127 |
| Other debtors | 69 | 86 |
| Prepayments | 552 | 184 |
| | <u>7,327</u> | <u>8,070</u> |
| Amounts falling due beyond one year | | |
| Other debtors | 11 | 13 |
| Trade debtors | 8 | 30 |
| Prepayments | 9 | 5 |
| | <u>28</u> | <u>48</u> |
| | <u>7,355</u> | <u>8,118</u> |

Other debtors falling due beyond one year relate to employee car loans. These loans are repayable within five years. Prepayments falling due beyond one year relate to software maintenance, subscriptions, car leases and telecomms charges. Trade debtors have made arrangements to pay in full.

13 Creditors: Amounts falling due within one year

| | 31 March 2007 £'000 | 31 March 2006 £'000 |
|--|------------------------|------------------------|
| Amounts owed to contractors providing veterinary and inspection services | 2,159 | 2,198 |
| Overtime payments to staff | 371 | 379 |
| Trade creditors | 36 | 116 |
| Accruals | 1,515 | 1,738 |
| National Insurance | 509 | 499 |
| Income tax | 577 | 557 |
| Other creditors | 1,244 | 1,058 |
| | <u>6,411</u> | <u>6,545</u> |

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

| | 31 March 2007 £'000 | 31 March 2006 £'000 |
|---|------------------------|------------------------|
| Net surplus/(deficit) | (33,290) | (31,606) |
| Depreciation charge for the year (note 11) | 523 | 568 |
| Loss/(profit) on disposal of fixed assets | (16) | 4 |
| Notional charges (note 8) | (1,152) | (1,189) |
| Increase in provisions (note 15) | (245) | 1,775 |
| (Increase)/decrease in debtors | 763 | (1,767) |
| Increase/(decrease) in creditors | (134) | (668) |
| Net cash inflow/(outflow) from operating activities | <u>(33,551)</u> | <u>(32,883)</u> |

15 Reconciliation of the movement in provisions

| | Early Retirement Provision £'000 | LGPS Pension Provision £'000 | Total £'000 |
|--------------------------------|--|------------------------------------|----------------|
| As at 1 April 2006 | 351 | 27,260 | 27,611 |
| Arising/(released) during year | 345 | 4,899 | 5,244 |
| Utilised during year | (321) | (3,543) | (3,864) |
| Payment to reduce deficit | – | (1,625) | (1,625) |
| Actuarial loss arising | – | 19,744 | 19,744 |
| As at 31 March 2007 | <u>375</u> | <u>46,735</u> | <u>47,110</u> |

The Early Retirement Provision represents the full additional costs of benefits beyond the normal benefits provided by the LGPS (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.

16 Reconciliation of the movement in reserves

| | General Fund £'000 | Revaluation Reserve £'000 | Total £'000 |
|------------------------------|-----------------------|------------------------------|-----------------|
| Arising at 1 April 2006 | (22,269) | 50 | (22,219) |
| Funding movement in the year | (1,152) | – | (1,152) |
| Net surplus/(deficit) | (33,290) | – | (33,290) |
| Resource funding from FSA | 33,000 | – | 33,000 |
| Actuarial loss (note 6d) | (19,744) | – | (19,744) |
| As at 31 March 2007 | <u>(43,455)</u> | <u>50</u> | <u>(43,405)</u> |

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 2006 £'000 | Cashflow £'000 | 31 March 2007 £'000 |
|--|------------------------|-------------------|------------------------|
| Balances held with OPG | 2,488 | (508) | 1,980 |
| Balances with other financial institutions and in hand | 542 | (276) | 266 |
| | <u>3,030</u> | <u>(784)</u> | <u>2,246</u> |

18 Capital commitments

At the end of the year there were no commitments for the purchase of capital items. At the end of the previous year there were no commitments 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.

| | 2006/2007 |
|---------------------------------|-----------|
| Expiry within one year | – |
| Expiry within two to five years | 253 |
| Expiry thereafter | – |
| | <hr/> |
| | 253 |

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 £271,000.

No provision has been made in the accounts this year for any of these cases. There was no provision at the end of the prior year.

21 Losses and special payments

Included in Other Admin Costs (Note 7), administration costs, are Losses and Special Payments which amounted to £125,000 relating to 51 cases (£49,000 relating to 29 cases in 2005/06). The majority of the cases refer to compensation and personal injury claims.

22 Post balance sheet events

There were no post balance sheet events. This Annual Report & Accounts has been authorised for issue on 25 June by the MHS Chief Executive & Accounting Officer.

23 Financial instruments and associated risks

MHS has no borrowings and relies primarily on departmental grants for its cash requirements, and is therefore not exposed to liquidity risks.

MHS also has no material deposits, and all material assets and liabilities are denominated in sterling, so it is not exposed to interest rate risk or currency rate risk.

Appendix 1

Assessment of performance targets in 2004/05 and 2005/06

2004/05

General assessment

Overall, 2004/05 proved to be a most challenging year for the MHS. Significant time and effort was applied during the year to a number of important initiatives and developmental work, including, in particular, preparation for the implementation of the new EU food hygiene regulations in 2006 (leading, among other things, to the recently launched consultation on a new draft MHS Manual for Official Controls) and the introduction of a robust testing regime for BSE on the proposed change to the OTM rule. These significant activities were carried out against the background of the continuing need for effective daily supervisory and inspection work in plants, which was undertaken within firm budgetary control and with increased reported levels of compliance by MHS staff with the MHS Operations Manual. During 2004/05, the MHS also took responsibility for the Secretariat for the MHS Board which was established by the FSA Board to improve MHS governance arrangements.

However, the failure of some 300 plants to fully implement HACCP is of concern, as is a deterioration in trust and communications between the MHS and some parts of the fresh meat sector. In addition, the finding in the early part of the year of the failure to test all 24–30 month old casualty bovines for BSE was particularly disappointing, as was the fact that a number of over-age bovines were found to have entered the human food chain later in the year. However, the MHS reacted promptly to these latter two findings to introduce corrective measures and worked with the FSA, Defra and others to analyse and develop solutions to deal with the more fundamental issues that were highlighted in the Wall Report on the failure to test all relevant 24–30 month old casualty animals for BSE.

Objective 1 – To apply hygiene, by-products, animal welfare, BSE, TSE and HACCP legislation, and the Clean Livestock Policy, in line with Enforcement Concordat principles, with the aim of improving levels of operator compliance

The following data is relevant to an assessment of performance in this area:

- good reported levels of operator compliance throughout the year in the areas of the Clean Livestock Policy, Animal Welfare at Slaughter and SRM controls;
- slight downward trends for informal and formal enforcement action which may be an indication of improving levels of operator compliance;
- a high level of informal enforcement action relative to formal action which suggests, but cannot confirm, that the hierarchy of enforcement is being followed in line with Enforcement Concordat principles;
- the indication that most enforcement action relates to a relatively small number of non compliant plants, suggesting that the majority of plants are generally compliant; and
- increasing levels of compliance of MHS staff with the requirement of the MHS Operations Manual.

In contrast to these positive indications, however, the failure of some 300 plants to fully implement HACCP is of concern and further action is needed to improve compliance levels in this area. In addition, the failure to test all eligible 24–30 month old casualty bovines for BSE in 2003/04, a problem which carried over into early 2004/05, and the fact that a small number of OTM bovines were found to have entered the human food chain later in 2004/05, were significant failings.

However, scientific advice relating to these BSE issues was that the risk to public health was very small, reflecting amongst other things that further controls (e.g. SRM removal) were in place to protect public health. In addition, the MHS reacted quickly to take corrective action and played its full part in the subsequent analysis of the underlying reasons for

the problems (of which some, but by no means all, relate to the MHS) so that longer term solutions can be developed. However, in spite of this, these were significant problems with clear potential to lessen consumer confidence in the way that food safety controls are handled in the fresh meat sector. While recognising that there is always a risk of human error occurring, 100% compliance must be the aim, and we note the MHS acceptance that such failures are unacceptable.

Overall, the MHS Board notes with concern the serious failings outlined above, but is of the view that the MHS made some significant progress in this area during the year.

Objective 2 – To operate within delegated resource budget and delegated cash budget for 2004/05

Year-end accounts indicate that a £2.8m (9%) saving was made against the MHS resource budget. After allowing for a reclassification of expenditure which occurred in 2004/05, MHS net operating costs remained the same as in the previous year, inflation costs being absorbed by efficiency savings. In addition, the cost of the Maclean subsidy to the FSA was reduced by £5m to £22.7m, before exceptional pension costs. This was a highly commendable performance delivered in very difficult circumstances.

Objective 3 – To improve the expertise, knowledge, motivation and skills of staff and develop the internal culture necessary to deliver organisational objectives

The success of the MHS is hugely dependent on the effectiveness and efficiency of its staff. This objective is therefore crucial to the success of the MHS and it was pleasing to note that some significant progress was made in this area during 2004/05, in particular:

- over 8,000 person training days were delivered through the MHS Corporate People Development Plan and the associated Corporate Training Plan;
- targets were met in the Diversity Action Plan for the employment of ethnic minority and female staff;

- the MHS achieved re-accreditation to Investors in People for the third time; and
- there were reported reductions in adverse safety events and those resulting in injury at work of 13% and 7% respectively from the levels in 2003/04.

In contrast to these positive factors, however:

- the results of the Staff Survey were disappointing in comparison with the previous survey in 2002. However, these were perhaps predictable given the major change programme under way within the MHS and the continuing delays in finalising the pay and grading review and 2004 pay award, which remain major issues of staff concern;
- although staff turnover levels for employed staff increased from around 6% in previous years to 7.2% in 2004/05 the overall figure is comparatively low against the average for general industry of 15%;
- the level of sickness absence remained at over 6% having increased to this level in 2003/04 from a previous level of a little over 5%; and
- the latest available comparison of MHS sickness absence with that of other Government Departments with a similar mix of 'field' and office staff (based on data contained in the Cabinet Office report, 'Analysis of Sickness Absence in the Civil Service (2003)') shows the MHS to have the second highest level of sickness absence.

The MHS Board is pleased that there has been some good progress in this area, but notes the adverse trends summarised above. Sustained efforts are needed to maintain the progress that has been made and to achieve improvements in those areas that gave cause for concern in 2004/05. This is particularly so given the many changes that MHS staff will be facing in 2005/06, including the implementation of the new European food hygiene regulations, the implementation of the recommendations of the Wall Report and the planned change to the OTM rule.

Objective 4 – To improve levels of customer satisfaction with MHS performance as a professional and fair organisation

There are a number of positive indications from the reported data, in particular:

- very high levels of performance were achieved against the service standards set for Central Government Departments and Agencies by the Cabinet Office. These included the maintenance of well utilised telephone and email enquiry lines, and a complaints procedure through which 39 complaints were received, three of which were found in the complainants' favour;
- the retention of certification to the ISO 9001:2000 quality standard for management systems; and
- the successful re-award of the Charter Mark which recognises a customer focused approach to service delivery. This included two recommendations of best practice for the MHS Community Strategy and the MHS Risk Management Policy.

The MHS carried out a customer satisfaction survey of plant operators during the year but received a rather disappointing response rate of just under 20 per cent. Therefore, while there were some positive indications from the survey (e.g. over 80 per cent of respondents who had had enforcement action taken against them indicated that they understood why the enforcement action had been taken and almost half of these respondents felt that the action taken was appropriate) little weight can be given to this information.

Of particular concern is that there was an apparent deterioration in trust and communications between the MHS and some parts of the fresh meat industry. There were a number of factors that contributed to this situation, but the MHS accepts that it must improve its relationships with industry and that, as part of this, it must become more of a listening organisation. The MHS is also focused on improving its relationships with Government stakeholders and the delivery of better, proactive communications with all stakeholders is a key element of the MHS 2005/06 Business Plan.

Overall, the MHS Board is satisfied that progress has been made in a number of areas, but is particularly concerned at the apparent deterioration in the MHS relationship with some parts of the industry and looks forward to the MHS improving this situation.

Objective 5 – To improve efficiency

As mentioned under objective 2, the results for the financial year show a £2.8m (nine per cent) saving against the resource budget. In addition, the total MHS cost per livestock unit, the primary measure of MHS efficiency performance, was two per cent lower in 2004/05 than that in 2003/04. Various initiatives continued during the year to improve efficiency, including progress with the IT in Meat Plants Project, the introduction of e-Procurement and improvements in operational resource planning and deployment. These will continue in 2005/06. The Board notes the good progress that has been made in this area.

2005/06

The MHS Board met on 4 May 2006 and assessed MHS performance against the aims set for 2005/06. It concluded that four of the five aims had been met, and that Aim 3 had been met in part.

Aim 1: Apply hygiene, by-products, animal welfare, BSE, TSE and HACCP legislation, and the Clean Livestock Policy, in line with Enforcement Concordat principles, with the aim of improving levels of operator compliance

In terms of MHS performance measured by audit non-compliances, the MHS has had a very successful year. There were no critical audit non-compliances, and the number of major non-compliances for the specific areas selected by the MHS Board were the lowest on record. Targets for minor non-compliances were set for the first time. Three of these targets were met, but the target for animal by-products was exceeded (by 4.1 minor non-compliances per 100 audit visits). The MHS has put corrective action in place for this indicator through its regional offices, and an improvement in compliance is expected over the coming months.

While the MHS achieved the target set for the implementation in small premises of HACCP systems, it narrowly missed (by two per cent) the target set for large premises. This equates to three premises. While the MHS was keen to close this gap, during the fourth quarter of 2005/06, the implementation of the new EU Food Hygiene Regulations led to a number of changes in the definition and approach to HACCP. As a result, the MHS Board agreed to assess performance based on nine months' performance to 31 December 2005.

While there was a single SRM systems breach in sheep relating to two carcasses (none in bovines), which the MHS takes extremely seriously, this equates to a compliance rate of better than 99.99 per cent.

Following a single OTM breach in April 2005, there were 11 consecutive months in 2005/06 without any breaches. In addition, all pre-August 1996 bovines presented for processing, following the OTM rule change, have been stopped from entering the human food chain.

As the vast majority of the indicators for this aim were met (13 out of 17*), and the SRM and OTM compliance rates were so high, the MHS Board considered that Aim 1 had been met.

* Three indicators were not assessed by the MHS Board, as the audit activity (by others) on which they were based did not occur as planned in 2005/06.

Aim 2: Operate within delegated resource budget for 2005/06

As the MHS unaudited draft accounts for 2005/06 show a £2.6m, 7.5 per cent favourable position (one indicator met out of one) the Board considered that Aim 2 had been met.

Aim 3: Improve the expertise, knowledge, motivation and skills of staff and develop the internal culture necessary to deliver organisational objectives

The MHS Board and MHSMB both recognised the importance of improving MHS staff attendance rates,

particularly within the group of staff on long-term sickness absence. The MHS Board set a target for a five per cent reduction in long-term sickness cases and, in autumn 2005, the MHSMB launched a new policy and procedures, supported by training for line managers. As at 31 March 2006, there were 61 long-term sickness cases, a 24 per cent reduction on the position at the beginning of 2005/06.

While the MHS has achieved only one of its four diversity targets (on gender), it has been hampered by a relatively low and stable turnover rate (seven per cent). Marginal improvements have been achieved in ethnic representation and non-operational staff with a disability.

Although targets were not set for the following work areas, they were the subject of much activity which contributed to Aim 3:

- Progress on addressing areas for improvement identified by the staff survey carried out in 2004;
- Health and Safety management;
- Investors in People action plan;
- Corporate Training Plan;
- Pay and Grading Review.

As two of five indicators were met, the MHS Board considered that this aim had been partly met.

Aim 4: Improve levels of customer satisfaction with MHS performance as a professional and fair organisation

The MHS met both targets set by the MHS Board in relation to the industry customer satisfaction survey – response rate, and overall satisfaction.

Unfortunately, the MHS did not achieve either of the targets on complaints. However, a significant number of complaints received (around a third) were about issues outside MHS control, such as a BBC television documentary broadcast in July 2005, and the industrial action. Five complaints were assessed by the MHS as being found in the complainant's favour. Although the target reduction in complaints

was not achieved, it is encouraging that the meat industry is aware of – and uses – the MHS procedure.

The MHS met all its targets in relation to Service First Standards.

As the vast majority of the indicators for this aim were met (five out of seven), and a significant number of complaints received were about issues outside MHS control, the MHS Board considered that Aim 4 had been met.

Aim 5: Improve efficiency

The cost per livestock unit indicator was affected in 2005/06 by significant start-up costs for BSE testing of OTM cattle, which were not known at the time of agreeing the 2005/06 budget, and slower than expected take-up by industry. As a result, it was 0.2 per cent above target. If start-up costs and OTM throughput are excluded from the cost per livestock unit calculation, a favourable position of 3.5 per cent is reported. All other efficiency indicators were met.

As all the indicators bar one for this aim were met (four out of five), and this indicator was affected by significant OTM start-up costs, the MHS Board considered that Aim 5 had been met.

Conclusion

The MHS achieved four out of the five aims, and one in part. Even where indicators were missed, the general direction of travel was positive. The MHS also overcame the following challenges:

- Implementing changes to the OTM rule from 7 November 2005;
- Carrying out, at short notice, 37 audits of cold stores in Northern Ireland on behalf of the FSA;
- Implementing the new EU Hygiene Regulations from 1 January 2006;
- Maintaining a very high level of service provision during the one-day strike called by UNISON in March 2006;
- Preparing for an outbreak of Avian Influenza;
- Implementing the Pay and Grading Review and a three-year pay deal.

Overall, 2005/06 proved to be a positive year for the MHS.

Appendix 2

Glossary

| | | | |
|--------------|---|---------------|--|
| AH | Animal Health (new title, from 1/4/07, of the State Veterinary Service) | GB | Great Britain |
| AI | Avian (bird) Influenza | H123 | The EU Food Hygiene Regulations, which came into force on 1 January 2006 |
| AM | Area Manager | HACCP | Hazard Analysis and Critical Control Point |
| AOV | Area Official Veterinarian | HR | Human Resources (a Department of the MHS) |
| ARC | Audit & Risk Committee (now the Audit Committee) | HRA | Human Resources Adviser |
| BSE | Bovine Spongiform Encephalopathy | HSA | Health & Safety Adviser |
| CCIR | Collection and Communication of Inspection Results | HSE | Health & Safety Executive |
| CETV | Cash Equivalent Transfer Value | IRG | Implementation Review Group (charged with overseeing implementation of the OTMHC scheme) |
| CPD | Continuing Professional Development | IT | Information Technology |
| CSCS | Civil Service Compensation Scheme | LACORS | Local Authorities' Co-ordinators of Regulatory Services |
| DARD | Department of Agriculture and Rural Development (Northern Ireland) | LGPS | Local Government Pension Scheme |
| Defra | Department for Environment, Food and Rural Affairs | LPFA | London Pension Fund Authority |
| EC | European Commission | MAFF | The former Ministry of Agriculture, Fisheries and Food |
| EOV | Employed Official Veterinarian | MHI | Meat Hygiene Inspector |
| EU | European Union | MHS | Meat Hygiene Service |
| FBO | Food Business Operator | MHSB | Meat Hygiene Service Board |
| FCI | Food Chain Information | MHSMB | Meat Hygiene Service Management Board (re-titled the Senior Management Team, from February 2007) |
| FOIA | Freedom of Information Act 2000 | MIG | Meat Industry Guide |
| FSA | Food Standards Agency | MOC | Manual for Official Controls |
| Ftes | Full-time equivalents | MT | Meat Technician |
| FVO | Food and Veterinary Office of the EC | NAO | National Audit Office |
| | | OCDS | Older Cattle Disposal Scheme |

| | | | |
|--------------|---|-------------|--|
| OFFC | Official Feed and Food Controls | SPMI | Senior Poultry Meat Hygiene Inspector |
| OTM | Over Thirty Months | SRM | Specified Risk Material |
| OTMHC | Over Thirty Months for Human Consumption | SVS | State Veterinary Service (re-titled Animal Health from 1/4/07) |
| OV | Official Veterinarian | TSE | Transmissible Spongiform Encephalopathy |
| PCSPS | Principal Civil Service Pension Scheme | TSO | Trading Standards Officer |
| PIA | Plant Inspection Assistant | TV | Technical Verifier |
| PMHI | Poultry Meat Hygiene Inspector | UK | United Kingdom |
| POAO | Products of Animal Origin | UTM | Under Thirty Months |
| PQ | Parliamentary Question | VAU | Verification & Audit Unit |
| QCA | Qualifications and Curriculum Authority | VLA | Veterinary Laboratories Agency |
| RAG | Red/Amber/Green method of performance reporting | VMHA | Veterinary Meat Hygiene Adviser |
| RBM | Regional Business Manager | VO | Veterinary Officer |
| RD | Regional Director | VTSU | Veterinary & Technical Support Unit (part of the MHS Veterinary & Technical Directorate) |
| RPA | Rural Payments Agency | VV | Veterinary Verifier |
| RVA | Regional Veterinary Adviser | WASK | Welfare of Animals (Slaughter or Killing) Regulations |
| SLA | Service Level Agreement | WATO | Welfare of Animals (Transport) Order |
| SMHI | Senior Meat Hygiene Inspector | | |
| SMT | Senior Management Team (the re-titled MHS Management Board) | | |

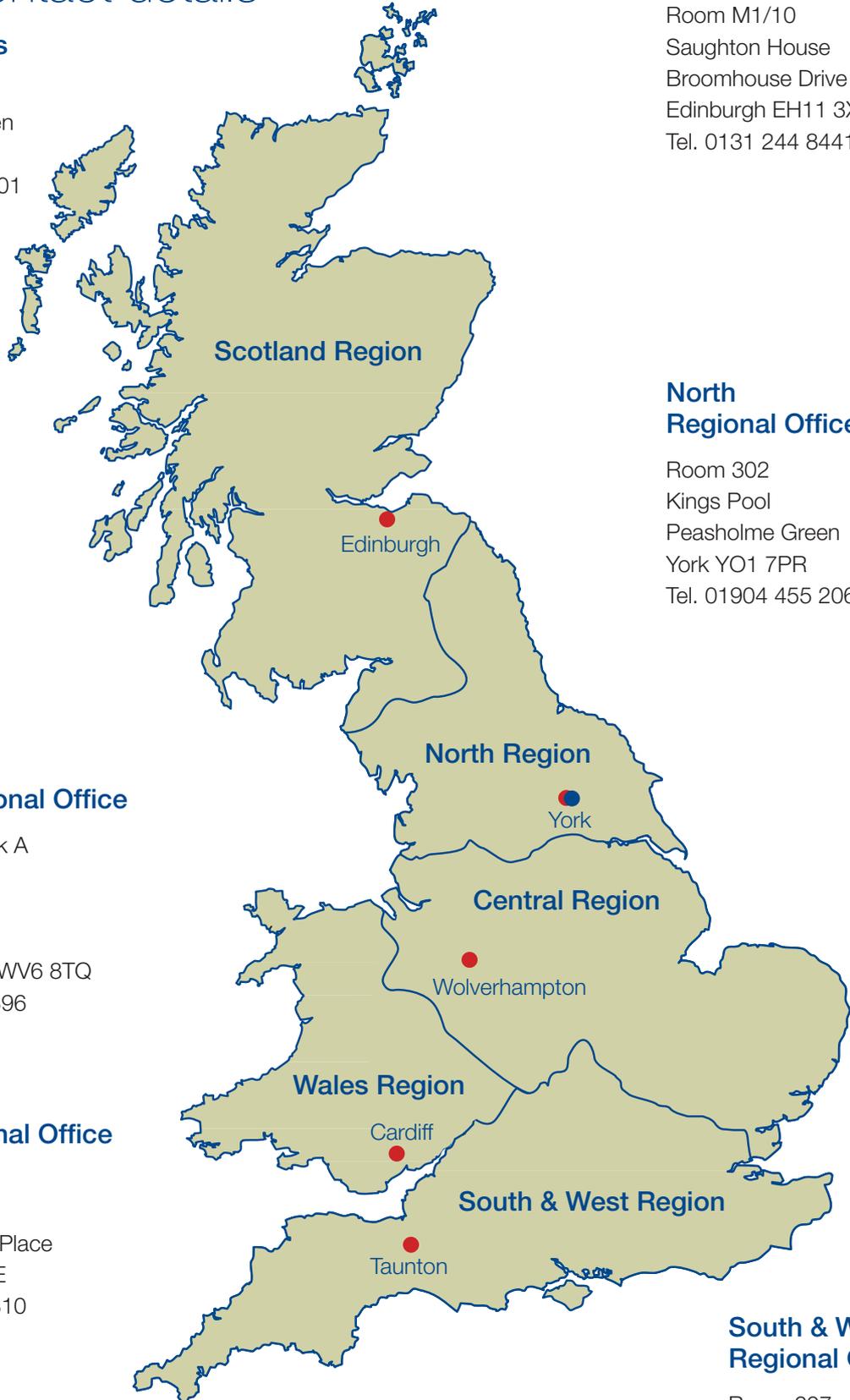
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