



# Annual Report & Accounts 2007/08

Protecting Public Health and Animal Health and Welfare

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An Executive Agency of the Food Standards Agency

# Annual Report & Accounts 2007/08

## Protecting Public Health and Animal Health and Welfare

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# Chief Executive's Overview

It's been a very busy and challenging year for the Meat Hygiene Service. Protecting public health, and animal health and welfare at slaughter, have remained our key priorities during 2007/08. Our commitment to transform into a more efficient and effective organisation has also gathered pace and is already delivering positive results.

Statistics can never fully sum up the complexity of our work, but the numbers show that over the past 12 months we have inspected nearly 800 million chickens, 16 million sheep/lambs, 8.5 million pigs and more than 2 million cattle. In ensuring that food businesses fulfil their responsibilities and comply with legislation, we took 727 formal and 3,848 informal enforcement actions.

The bigger picture shows that we faced outbreaks of foot and mouth disease, avian influenza and bluetongue, and received thanks for our positive contribution to the disease control measures. Much of this success was down to positive partnership working with the meat industry.

We continue to strive to deliver official controls in approved fresh meat establishments more effectively and at a cost that is more acceptable to the industry and our parent body the Food Standards Agency (FSA). At the start of 2007 the FSA Board had narrowed down options for the future delivery of official controls to two – a transformed MHS or a third-party control body.

The MHS worked hard in putting forward its bid to continue to be the body delivering the official controls, and the bid was viewed favourably in July 2007 but with the proviso that work should continue on assessing the feasibility of a control-body option.

The transformation process gathered momentum throughout the remainder of 2007 and in November we announced the final outcome of a review conducted by our Staffing Verification Team. By ensuring effective redeployment, the MHS was able to reduce the total number of operational posts by 134, saving £4 million a year. In December, we announced plans for a restructured Operations Directorate and the closure of our five Regional Offices, and in January 2008 we launched a voluntary early retirement/voluntary severance scheme as a first step in achieving further, broader, staff reductions by April 2011.

I am pleased to report that we received the unequivocal support of the FSA Board at its meeting in May 2008, when it backed a transformed MHS and agreed that the pilot option should not be taken forward. The Board recognised that we had delivered significant efficiency improvements in a relatively short period of time.

During 2008/09, we will be introducing a new operational structure based on 37 geographical clusters of approved fresh-meat premises. This will provide more flexibility and efficiency, and facilitate local decision-making and accountability.

A key element in the review of the delivery of official controls has been the concept of the fresh meat industry paying a greater share of the costs. It is planned that at the FSA Board meeting in July 2008 approval will be sought on the charging proposals for the future. Following this, we will be formally consulting stakeholders on a revised charging system from 1 April 2009.

To offset the increased charges to industry, we will deliver further cost reductions of nearly £5m in real terms in 2008/09, on top of those already delivered in 2007/08. We are working with industry to ensure optimal use of MHS resources in order to keep costs to a minimum. Modernising our terms and conditions of service will also be vital to our continuing success and we are working with our staff and Unison to achieve this.

The delivery of further efficiencies for the benefit of the meat industry and the taxpayer will only be achieved if our stakeholders continue to work with us. As I said at the FSA Board meeting in May 2008, what we need now is all of our stakeholders supporting our direction of travel. In return I can assure everyone that public health, and animal health and welfare, will continue to be protected as our main priority.

I am confident that, through the hard work of our staff and partners, 2008/09 will be a particularly successful and memorable year for the MHS.



Steve McGrath  
Chief Executive  
11 June 2008

# Annual Report

## Background to the MHS

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 (now part of the Department for Environment, Food and Rural Affairs – Defra) to become part of the newly-created FSA.

The MHS is 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 Food Business Operators' (FBOs') arrangements will achieve this and are being properly applied.

The principal activities of the MHS include:

- Enforcing legislation on:
  - Hygiene;
  - Specified Risk Material (SRM) and other animal by-products;
  - Animal welfare at slaughter;
  - Emergency controls related to animal disease outbreaks;
  - 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).

## Delivering Services

The Operations Directorate is responsible for MHS service delivery in approved fresh meat premises in Great Britain. Under the Transformed MHS, two Business Directors will be supported by 12 Business Managers whose responsibilities include managing relationships with stakeholders, leadership and motivation of the workforce, performance and financial management, and contract management. Fresh meat premises throughout Britain have been geographically grouped together in 37 clusters and each cluster is led by a Lead Veterinarian, responsible for staff working in inspection teams in approved premises in their particular cluster. 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).

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.

Detailed lists of approved premises in the UK can be found on the FSA website at: [www.food.gov.uk/foodindustry/meat/meatplantsprems/meatpremlcence](http://www.food.gov.uk/foodindustry/meat/meatplantsprems/meatpremlcence).

If an FBO fails to produce safe meat, MHS staff take enforcement action in accordance with the relevant legislation. The MHS Enforcement Policy 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. This ranges from informal advice, through to the serving of formal notices and prosecution, and, ultimately, to a recommendation that the approval of an establishment to operate be suspended or revoked.

## Health & Safety

2007/08 was the first year of delivery against the three-year MHS Health & Safety Strategy. Key pieces of work included the development of an ergonomics risk assessment methodology, the roll-out of the escaped animal risk assessment process, and the establishment of a revised data management regime. The MHS is now better equipped than ever before to capture data relating to injury and occupational ill-health.

MHS Health & Safety Advisers continued to complete site specific work in many FBOs' premises. This year, the MHS took the chair of the HSE/Meat Trades Joint Working Party. The MHS remains committed to working with the industry to find solutions to challenges to Health & Safety.

### Reportable accidents, incidents, diseases and dangerous occurrences, 2007/08

Type of reportable incident	Number of incidents
Major injury	2
Injury resulting in more than three days off work	27
Disease	9
<b>Total Number of HSE Reportable Incidents</b>	<b>38</b>

In total there were 178 accidents involving injury (a 13 per cent decrease on 2006/07). Given the introduction of a new and more robust reporting regime, 115 near-miss incidents were recorded (a 100 per cent increase on 2006/07) and 42 cases of work-related ill-health were also recorded (compared to 14 the previous year).

The number of days lost due to injury and occupational ill-health accounted for 16 per cent of all lost time. Throughout 2007/08 there was a sustained reduction in this type of absence and we remain confident of meeting our strategic targets for 2010.

## Diversity and Equality Statement

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

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

## Employee Relations

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

# Management Commentary

## 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 health and welfare

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, were:

**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 continued to use the balanced scorecard approach to performance management which was first implemented in 2006/07.

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

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

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

## Assessment of MHS performance against corporate objectives, 2007/08

In line with Cabinet Office requirements for Executive Agencies, the MHS Framework Document requires the setting of annual performance targets for the MHS. Such targets or objectives should cover quality and delivery of service, financial performance and efficiency. Responsibility for setting corporate objectives for the MHS rests with the MHS Board, on behalf of the FSA Board.

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

### **Objective 1** – To deliver customer requirements

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

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

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

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

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

Five out of the six indicators supporting this objective were met, including delivering the HR policy and training programmes. Implementation of two of the Health & Safety strategy components missed their target deadlines, but were implemented by the end of the financial year.

Although the Health & Safety indicator missed its deadline, the MHS Board considered that Objective 2 had been met.

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

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

The MHS Board considered that Objective 3 had been met.

**Objective 4** – To operate within delegated resource budget and delegated cash budget for 2007/08.

All indicators supporting this objective were achieved, including all financial targets set for 2007/08 – gross cost, net cost, cost per livestock unit and cash.

The MHS Board considered that Objective 4 had been met.

**Objective 5** – To improve efficiency

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

The MHS Board considered that Objective 5 had been met.

## Assessment of MHS performance against targets in earlier years

An assessment of MHS performance against targets in 2005/06 and 2006/07 appears as an appendix to this report. Similar assessments going back to 2000/01 are available in earlier MHS Annual Report & Accounts at: <http://www.food.gov.uk/foodindustry/meat/mhservice/businesspublications/mhsreportaccounts/>

## Transforming the MHS

2007/08 will be remembered as the year that the MHS transformed from being held in low esteem as an over-bureaucratic and costly organisation by some sections of the fresh meat industry, to setting off on the road to become one of the most effective and efficient public sector bodies in the country.

The impetus for change came not only from those parts of the industry that considered the MHS to be expensive and inefficient, but also from the FSA Board which, after six years of financially supporting the meat industry as a result of the imposition – in 2001 – of the Maclean charging regime, determined that taxpayers' money should no longer be used in this way.

By February 2007, the FSA Board had examined a number of options for the delivery of official controls and had arrived at only two possibilities – a transformed MHS, or the appointment of a private sector control body or bodies, as permitted under EC legislation. In July 2007, the FSA Board decided that a transformed MHS was its preferred option and that the MHS should be set some extremely rigorous financial objectives to be achieved in the 2007/08 financial year. Meanwhile, the FSA was to continue to examine the feasibility of the control body option.

From August to December 2007, the MHS devised a number of projects or work streams to reduce overall expenditure, maximise value for money spent, harness electronic technology to management systems, revise MHS charging policy, modernise stakeholder management, and reorganise tiers of management, some of which (notably the five Regional Offices and the Regional Director posts) had been in place since the MHS was established in 1995.

## The transformation work streams

Title	Purpose
Contract tendering	To tender a new series of contracts for the provision of veterinary and meat inspection services
Charging for services	To devise an MHS charging policy which will, from 2009, require industry to be charged an increasing proportion of the cost of official controls
Reviewing the MHS structure	To take forward the Clusters Project, which focuses on the best way to revise the operational structure of the MHS to reduce costs and improve performance
Internal Support Structure Project (ISSP)	To examine the operational activities currently undertaken, and develop options for how these should be carried out in the future
Corporate Services Directorate (CSD) Review	To examine the opportunities for increasing efficiency and effectiveness of corporate service functions within and between the FSA and the MHS, and assess future options
Veterinary Standards & Operational Policy	To introduce increased flexibility in the delivery of official controls, and implementation of improved veterinary management through the development of the Lead Veterinarian and Official Veterinarian roles
Electronically-enabled MHS (e-MHS)	To develop and deliver improvements in MHS electronic communications systems, and to make them more user-friendly, less labour-intensive, and ultimately focused on the needs of the MHS
Information Technology (IT)	To ensure that the hardware and software infrastructure gives the MHS the ability to deliver a modern joined-up 'e' enabled service
Human Resources (HR)	To review the current terms and conditions of employment, reward systems, and performance management and organisational behaviours and values
Stakeholder management and communication	To produce a new, monthly newsletter (entitled Link) for Food Business Operators; to achieve coordination in all communications with internal and external stakeholders, and provide advice on how messages can best be communicated while maximising opportunities for feedback

## Implementation timetable, December 2007 – April 2008

### **December 2007**

Announcement of programme of transformation work to staff and stakeholders.

Launch of Voluntary Early Retirement/Voluntary Severance Scheme in two waves, one for operational staff and a second for office-based staff, resulting by March 2008 in 53 accepted applications.

### **January 2008**

Timetable published for closure of the five MHS Regional Offices:

- 31 March 2008 – North (based in York)
- 31 March 2008 – Wales (based in Cardiff)
- 30 June 2008 – South & West (based in Taunton)
- 31 August 2008 – Central (based in Wolverhampton)
- 30 September (later amended to 31 May) 2008 – Scotland (based in Edinburgh)

### **March 2008**

Twelve Business Managers appointed.

Establishment of a temporary transition hub in headquarters (pending the creation of a new Delivery Planning Unit) to deal with all operational processes previously dealt with by the Regional Offices.

### **April 2008**

10 of the 37 Lead Veterinarians appointed as members of staff with a further four to eight to follow, and re-advertising of the remaining posts among veterinary contractors.

Operations Management Information System (OMIS) de-commissioned, and replaced with an 'Establishments and People' electronic management system.

A National Contract Manager is due for appointment in summer 2008, as are the two Business Directors, who are being selected through external open competition. One Business Director will be responsible for Scotland and North and East England (liaising in particular with the Scottish Government), and the other for Wales and South and West England (liaising in particular with the Welsh Assembly Government).

## MHS corporate objectives for 2008/09

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

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

The 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 2008/09, with no implied order of importance, are:

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

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

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

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

- Gross costs of operations
- Net costs of operations

**Objective 5:** To reduce the Cost Per Livestock Unit\* (CPLU) year on year.

## Management Commentary 2007/08

### Financial Performance

#### Financial results

Net operating cost increased overall by £8.6m, from £33.3m in 2006/07 to £41.9m in 2007/08. This included investment costs related to the MHS Transformation programme of £10.6m. Net operating cost for normal business activities reduced to £31.3m following the first phase of the transformation programme, due mainly to a significantly improved deployment of resources following a frontline staffing review and administrative savings, offset in part by inflationary pressures.

Total operating costs increased by £6.3m from £91.3m to £97.6m, inclusive of Transformation investment costs of £10.6m predominantly to meet severance of £9.7m and additional IT infrastructure of £0.1m. Gross operating costs for normal business activities decreased by £4.2m. Direct costs decreased by £4.2m, resulting from significantly reduced operational staffing levels and lower overtime offset by pay inflation for 2007/08, and reduced contract inspection and veterinary activity £1.7m. Administrative costs were the same overall. Administration staff costs increased by £1.5m due mainly to higher Local Government Pension Scheme service costs, however, other administration costs decreased by £1.5m, including reductions in early retirement costs £0.3m, IT costs £0.6m, interest payable to the Local Government Pension Scheme £0.1m, and a cost of capital credit increase of £0.1m.

\* Note: A livestock unit is expressed in terms of animals or birds by weight. For example, one livestock unit currently comprises one bovine, or one horse, or two calves, or seven pigs, or 10 sheep/goats each weighing more than 18 kilos, or 20 sheep/goats each weighing 18 kilos or less, or 113 poultry each weighing more than five kilos, or 225 poultry each weighing more than two kilos, or 450 poultry each weighing two kilos or less.

Operating income reduced by £2.3m to £55.7m, due mainly to lower Defra income of £1.4m resulting from a reduction in activity related to the Over Thirty Month Scheme and sheep testing, offset by income generated from activities to control Foot and Mouth Disease. Lower FSA income of £1.2m resulted from a continued diminution in SRM activity. Industry income increased by £0.4m as a result of marginally higher throughput and increased headage and hourly rates, offset by the full year effect of the abolition of the minimum charge of 45 per cent of throughput charge rule implemented in January 2007. The application of additional charges from working outside of agreed plant operating hours continued at a similar level to the previous year.

As a result of the actuarial calculations relating to the Local Government Pension Scheme, a pension provision of £28.0m, decreased from £46.7m, and a net pension cost of £0.9m have been included.

The MHS was set financial performance targets for gross cost, net cost and cost per livestock unit, operating within the delegated resource budget, and to operate within the delegated cash budget for 2007/08. Performance against these targets was met in full and is shown at note 2 of the accounts.

### **Balance Sheet**

Total assets less total liabilities shows a net liability position of £32.8m compared to £43.4m in the previous year, a decrease in net liabilities of £10.6m. This resulted mainly from a decrease in the pension liability for the LGPS of £18.7m, calculated using the Financial Reporting Standard criteria. Net current assets decreased by £8.4m due to an increase in creditors £9.2m, primarily for severance and IT resulting from the Transformation programme, offset by an increase in debtors of £0.8m, with cash balances reduced by £0.1m. Fixed assets increased by £0.2m as a result of additional investment in IT capital expenditure for the Transformation programme.

### **Fixed assets**

As at 1 April 2007 assets with a value of £515,000 were held by the MHS. These assets comprised computer equipment, computer software (system specific), software licences, furniture, fittings and office machinery. During the year to 31 March 2008, £700,000 was spent on tangible and intangible IT assets, including £369,000 for additional IT investment arising from the Transformation programme. After depreciation and disposals, the net book value of fixed assets decreased to £697,000.

### **Budget 2008/09**

For 2008/09, the MHS has been delegated a net operating cost budget of £32m and a capital expenditure budget of £0.3m from the FSA. This delegation excludes £8m investment costs for the continued implementation of the Transformation programme, of which an initial £3m has been released.

## Pensions

The MHS contributes to two separate pension schemes. The majority of staff are members of the Local Government Pension Scheme (LGPS), a defined benefit scheme which is governed by the Local Government Pension Scheme Regulations 1995, and administered by the London Pensions Fund Authority (LPFA). Other employees are members of the Principal Civil Service Pension Scheme (PCSPS). Further details of the MHS pension schemes are shown at note 6 of the accounts.

## Supplier payment policy

It is Government policy that all departments and agencies should pay all invoices not in dispute within 30 days of receipt or the agreed contractual terms if otherwise specified. During 2007/08, 99% of all invoices were paid by their due date, maintaining a similar performance of 99% in 2006/07.

## Auditors

The accounts have been audited by the Comptroller and Auditor General, T J Burr.

The Audit Certificate is on page 32 and 33 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 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 in 2006/07.

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](http://www.climatecare.org)

## MHS policy on social and community issues

Achievement of MHS policy on social and community issues is driven through the MHS Sustainable Development Action Plan, which is available on the FSA website at <http://www.food.gov.uk/foodindustry/meat/mhservice/performance/mhssustainactionplan>.

In January 2008, the Charter Mark assessor awarded the MHS best practice accolade for:

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

# Corporate Governance

## The MHS Senior Management Team

Members of the MHS Senior Management Team (SMT) as at 31 March 2008 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 is a sub-committee of the FSA Board. It is responsible for ensuring good governance of the MHS, and that the MHS fulfils its purpose of protecting public health, and animal health and welfare. It is chaired by the FSA Deputy Chair and includes three other FSA Board members, two independent external members, the FSA Chief Executive, the MHS Chief Executive, and the UK Chief Veterinary Officer. The MHS Board is also responsible for supporting the MHS in achieving the transformation targets agreed by the FSA Board.

## Membership of the MHS Board during the year 2007/08

**Ian Reynolds** (Chair from 1 July 2007)  
FSA Deputy Chair

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

**Chrissie Dunn** (until February 2008, Chair until 30 June 2007)  
FSA Board Member

**Tim Bennett** (from June 2007)  
FSA Board Member

**John Harwood** (until March 2008)  
FSA Chief Executive

**Tim Smith** (from March 2008)  
FSA Chief Executive

**Alick Simmons** (until December 2007)  
FSA Veterinary Director

**Debby Reynolds** (until December 2007)  
UK Chief Veterinary Officer

**Fred Landeg** (from December 2007)  
Acting UK Chief Veterinary Officer

**Steve McGrath**  
MHS Chief Executive

**Celia Bennett OBE**  
Independent external member

**Deryk Mead CBE**  
Independent external member

Further information about the MHS Board, including its Terms of Reference, Register of Members' Interests, meeting papers, and minutes of meetings, are available on the FSA website at: <http://www.food.gov.uk/foodindustry/meat/mhservice/aboutmhs/mhsboard/mhsmeetingsbranch/>

## The Audit Committee

In 2006, the FSA commissioned a review of the remit of the FSA and MHS Audit Committees to ensure that both organisations followed 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. As a result, the MHS Audit Committee comprises:

**Deryk Mead** (Chair)  
MHS Board member

**Ian Reynolds** (until September 2007)  
Deputy Chair of FSA and MHS Boards

**Tim Bennett** (from September 2007)  
MHS Board member and FSA Board member

**Bill McLaughlin** (until June 2007)  
External independent member

**Stephen Orledge** (from October 2007)  
External independent member

The Audit Committee supports the MHS Board and the MHS Chief Executive, as Accounting Officer, by reviewing the comprehensiveness of assurances in meeting the Board and the Accounting Officer's assurance needs, and reviewing the reliability and integrity of these assurances.

## Internal and Audit

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

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 duplication of audit effort.

## EU Food and Veterinary Office (FVO) Missions

The FVO is part of the European Commission's Directorate-General for Health and Consumer Protection, known as 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 five missions to the UK in 2007/08, covering areas relevant to the work of the MHS, and visiting approved fresh meat premises during the course of their visits. The dates and subjects were as follows:

Dates of visits	Subject of inspection
29 Jan – 2 Feb 2007	To evaluate the implementation of official controls for gelatine
26 Feb – 2 Mar 2007	To evaluate the operation of the ovine (sheep) and caprine (goat) identification system
25 June – 3 July 2007	To evaluate animal welfare at slaughter
8–19 Oct 2007	To evaluate official controls related to the safety of food of animal origin
3–7 Mar 2008	To update the country profile for the UK

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

# Remuneration Report

This report, for the year ended 31 March 2008, deals with the remuneration of the MHS Senior Management Team.

## Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

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

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

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

Further information about the work of the Review Body can be found at [www.ome.uk.com](http://www.ome.uk.com).

Senior Civil Servants in the MHS are recruited by our parent organisation, the Food 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

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

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

Further information about the work of the Civil Service Commissioners can be found at [www.civilservicecommissioners.gov.uk](http://www.civilservicecommissioners.gov.uk).

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

<b>Position</b>	<b>Date of continuous service</b>	<b>Contract unexpired term</b>	<b>Notice period*</b>
<b>Steve McGrath</b> Chief Executive (SCS Payband 2)	1 July 2003	5 years, 11 months	6 weeks 6 months in certain circumstances
<b>Michael Greaves</b> Director of Operations (SCS Payband 1)	7 November 1994	6 years	13 weeks 6 months in certain circumstances
<b>Jane Downes</b> Veterinary and Technical Director (SCS Payband 1)	1 April 1995	7 years, 7 months	13 weeks 6 months in certain circumstances
<b>Kathryn Davies</b> Director of Corporate Services (SCS Payband 1)	7 June 1976	2 months	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 HM Revenue and Customs as a taxable emolument. Kathryn Davies has a beneficial loan relating to relocation costs.

### Non cash remuneration

No non-cash remuneration was paid to senior managers in 2007/08.

	2007/08 Salary £'000	2007/08 Benefit £	2007/08 Pension	2007/08 Total £'000	2006/07 Salary £'000
<b>Steve McGrath</b> Chief Executive	125-130	-	PCSPS Premium	125-30	115-120
<b>Jane Downes</b> Veterinary and Technical Director	75-80	-	PCSPS Premium	75-80	70-75
<b>Michael Greaves</b> Director of Operations	75-80	-	LGPS	75-80	70-75
<b>Kathryn Davies</b> Director of Corporate Services	75-80	600	PCSPS Premium	75-80	65-70

## Compensation paid, significant awards to former senior managers

None was paid to former senior managers in 2006/07 or 2007/08.

## 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 2007/08. Deryk Mead was paid a total of £5–10k in 2007/08.

### Pensions benefits of Chief Executive and senior managers

	<b>Total accrued pension at age 60 at 31/03/08 and related lump sum £'000</b>	<b>Real increase in pension &amp; related lump sum at age 60 £'000</b>	<b>CETV at 31/03/2008 to nearest £'000</b>	<b>CETV at 31/03/2007 to nearest £'000</b>	<b>Real increase in CETV funded by employer to nearest £'000</b>
<b>Steve McGrath</b> Chief Executive	5–10	0–5	163	100	45
<b>Jane Downes</b> Veterinary and Technical Director	25–30	0–5	224	179	29
<b>Michael Greaves</b> Director of Operations	110–115	0–5	476	449	23
<b>Kathryn Davies</b> Director of Corporate Services	35–40	0–5	606	461	70

Due to certain factors being incorrect in the 2006/07 CETV calculator there may be a slight difference between the 31/03/2007 CETV published in 2006/07 and the corrected 31/03/2007 CETV above.

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

## Principal Civil Service Pension Scheme (PCSPS)

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

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

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

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

Further details about the Civil Service pension arrangements can be found at the website: [www.civilservice-pensions.gov.uk](http://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](http://www.lgps.org.uk)

## Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

## Real increase in CETV

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

Signed:



S McGrath  
MHS Chief Executive and Accounting Officer  
11 June 2008

# Annual Accounts 2007/08

For the year ended 31 March 2008

## Statement of Accounting Officer's responsibilities

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

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; 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 2007/08

## 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.

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

The FSA Chief Executive is the Principal Accounting Officer for the FSA and has personal responsibility for the overall operation, organisation, management, staffing, and financing of the FSA including the MHS. The Principal Accounting Officer has designated me as Agency Accounting Officer by formal letter of

appointment. I report for line management purposes to the FSA Chief Executive, who is also a member of the MHS Board. I am a member of the FSA's Executive Management Board, which manages and regularly reviews the FSA's strategic risks.

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.

## 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 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

## Capacity to handle risk

A comprehensive risk management policy and procedure approved by the Senior Management Team has been embedded in the organisation. Training has been provided to those managers with authority to make decisions about risk treatment, recognising that some risks will need to be referred upwards to more senior management for treatment. All team leaders are encouraged to discuss risk management issues, including identification, evaluation and controls, with their staff at their regular team meetings, including at Senior Management Team meetings. 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 has been reviewed to ensure that it continues to be fit for purpose. The issue of the new policy and procedure has been delayed to coincide with the completion of the new management structure in the first half of 2008/09.

## 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; and
- 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 and Director of Finance attend all Committee meetings, thereby providing a direct link to the Senior Management Team. The Chair of the Audit Committee reports regularly to the MHS Board.

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

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

Since July 2007, the MHS has been implementing a major transformation programme. A formal programme and project management structure has been established to ensure the timely delivery of the programme elements and manage risks to the programme. Monthly reports to the Programme Board and the MHS Board include a risk register which follows the structure set out above.

To ensure that the MHS manages risks related to information security effectively, Cabinet Office guidance and industry best practice is followed. In 2007/08, this work included migrating from BS7799 to the latest standard ISO27001. Full re-accreditation for ISO27001 for Headquarters was achieved in January 2008 for three years. The MHS ensures that legislation is fully complied with and all software used is legally licensed. A gap analysis against FAST (Fraud Against Software Theft) best practice guidance has been undertaken. The MHS was awarded Bronze level of certification with three recommendations. Silver level is targeted by end October 2008 and Gold level by end March 2009. Since January 2008, a full review and gap analysis has been undertaken and against Cabinet Office latest guidance. An action plan has been developed to ensure full compliance by March 2009.

## Review of effectiveness

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

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

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. However, an audit of overtime payments undertaken by MHS internal auditors during the year identified a potential for overpayments in overtime allowances. Management has accepted and implemented all the audit recommendations.

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 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 were seen by the relevant Regional Director, who ensured 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. In its role as Central Competent Authority, the FSA undertakes a number of audits in relation to the official controls delivered by the MHS. During the year this audit role was reviewed and as a result new arrangements have been agreed to address concerns over audit overlap and duplication.

### Significant internal control problems

None

Signed:



S McGrath  
MHS Chief Executive and Accounting Officer  
11 June 2008

# Audit Certificate

## Meat Hygiene Service

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

I certify that I have audited the financial statements of the Meat Hygiene Service for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Agency, the Chief Executive and auditor

The Agency and Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government 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, the information, which comprises the management commentary and the corporate governance sections included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

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

## Basis of audit opinions

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

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

## Opinions

### In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2008, and of the net operating cost, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information, which comprises the management commentary and the corporate governance sections included within the Annual Report, is consistent with the financial statements.

### Opinion on Regularity

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

## Report

I have no observations to make on these financial statements.

T J Burr  
Comptroller and Auditor General  
National Audit Office  
151 Buckingham Palace Road, Victoria,  
London SW1W 9SS  
18 June 2008

## Operating Cost Statement for the year ended 31 March 2008

	Note	2007/08 £'000	2006/07 £'000
Inspection and veterinary staff costs	5	<b>38,628</b>	41,233
Contract inspection and veterinary costs	5	<b>27,834</b>	29,460
Other operational costs	7	<b>1,237</b>	1,202
<b>Direct Costs</b>		<b>67,699</b>	71,895
Administrative staff costs	5	<b>11,707</b>	10,188
Other administration costs	7	<b>7,670</b>	9,244
<b>Administrative Costs</b>		<b>19,377</b>	19,432
<b>Gross Operating Costs</b>		<b>87,076</b>	91,327
Transformation investment costs	5 & 7	<b>10,557</b>	–
<b>Total Operating Costs</b>		<b>97,633</b>	91,327
<b>Operating Income</b>	4	<b>(55,743)</b>	(58,037)
<b>Net operating cost</b>		<b>41,890</b>	33,290

Net operating cost for normal business was **£31.3m** compared to £33.3m in 2006/07 (Note 2).

Transformation investment costs of £10.6m include severance costs of £9.7m, IT investment of £0.1m and other programme delivery costs of £0.8m.

Administrative staff costs include £1.5m pension service costs relating to all MHS staff in LGPS.

## Statement of Recognised Gains and Losses for the year ended 31 March 2008

	Note	2007/08 £'000	2006/07 £'000
Net deficit		41,890	33,290
Unrealised surplus on the revaluation of tangible fixed assets	9	–	(1)
Actuarial (gain) / loss	6 (iv)	(17,772)	19,744
<b>Recognised loss/(surplus) relating to the year</b>		<b>24,118</b>	<b>53,033</b>

*The notes on pages 38 to 55 form part of these accounts.*

## Balance sheet

as at 31 March 2008

	Note	31 March 2008 £'000	31 March 2007 £'000
<b>Fixed assets</b>			
Tangible assets	9	582	494
Intangible assets	10	115	21
		<u>697</u>	<u>515</u>
<b>Current assets</b>			
Debtors	12	8,237	7,355
Cash at bank and in hand	17	2,152	2,246
Total current assets		<u>10,389</u>	<u>9,601</u>
<b>Current Liabilities</b>			
Creditors: amounts falling due within one year	13	(15,609)	(6,411)
Total current liabilities		<u>(15,609)</u>	<u>(6,411)</u>
<b>Net current (liabilities)/assets</b>		<u>(5,220)</u>	<u>3,190</u>
<b>Total assets less current liabilities</b>		<u>(4,523)</u>	<u>3,705</u>
<b>Provisions for liabilities and charges</b>	15	(28,240)	(47,110)
<b>Total assets less total liabilities</b>		<u>(32,763)</u>	<u>(43,405)</u>
<b>Taxpayers Equity</b>			
<b>Reserves</b>			
General fund	16	(32,819)	(43,455)
Revaluation reserve	16	56	50
		<u>(32,763)</u>	<u>(43,405)</u>



S McGrath  
Chief Executive  
11 June 2008

The notes on pages 38 to 55 form part of these accounts.

## Cash flow statement

for the year ended 31 March 2008

	Note	31 March 2008 £'000	31 March 2007 £'000
<b>Reconciliation of operating cost to operating cash flows</b>			
Net deficit		<b>(41,890)</b>	(33,290)
Adjustment for non cash transactions	14	<b>(722)</b>	(645)
Adjustments for movement in working capital other than cash	12 & 13	<b>8,316</b>	629
Adjust for transfer (from)/to provisions	14	<b>(1,098)</b>	(245)
<b>Net cash (outflow) from operating activities</b>		<b><u>(35,394)</u></b>	<u>(33,551)</u>
<b>Analysis of capital expenditure and financial investment</b>			
Purchases of fixed assets	9 & 10	<b>(700)</b>	(298)
Proceeds of disposal of fixed assets	9 & 7	<b>-</b>	65
<b>Net cash (outflow) from investing activities</b>		<b><u>(700)</u></b>	<u>(233)</u>
<b>Analysis of financing</b>			
Resource funding from FSA	16	<b>36,000</b>	33,000
<b>Net cash inflow from financing</b>		<b><u>36,000</u></b>	<u>33,000</u>
<b>Net cash requirement</b>		<b><u>(94)</u></b>	<u>(784)</u>
<b>(Decrease) / Increase in cash</b>	17	<b><u>(94)</u></b>	<u>(784)</u>

The notes on pages 38 to 55 form part of these accounts.

# Notes to the accounts

for the year ended 31 March 2008

## 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 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.

The Operating Cost Statement format has been amended to aid clarity with HM Treasury approval. Costs have been reallocated accordingly.

### 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
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 four financial performance targets by the FSA: **Gross Operating Cost (a); Net Operating Cost (b); Cost per Livestock Unit (c) and Cash (d).**

### (i) Resource Target

		<b>Budget</b> £'000	<b>Actual</b> £'000	<b>Favourable/ (adverse) Variance</b> £'000	2006/07 Actual £'000
Gross Operating Costs	<b>(a)</b>	88,839	87,076	1,763	91,327
Operating Receipts		(53,904)	(55,743)	1,839	(58,037)
Net Operating Cost	<b>(b)</b>	<u>34,935</u>	<u>31,333</u>	<u>3,602</u>	<u>33,290</u>
Transformation Investment Costs		7,063	10,557	(3,494)	–
Total		<u>41,998</u>	<u>41,890</u>	<u>108</u>	<u>33,290</u>
Capital		300	297	3	298
Capital for Transformation Programme		437	403	34	–
Total		<u>737</u>	<u>700</u>	<u>37</u>	<u>298</u>

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

**(ii) Cost per livestock unit:**

	<b>Budget</b>	<b>Actual</b>	<b>Favourable/ (adverse) Variance</b>	<b>2006/07 Actual</b>
	£	£	£	£
Gross Operating Cost per Livestock Unit (excluding Transformation Costs)	<b>(c)</b> 13.59	13.21	0.38	14.11

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

**(iii) Cash Target:**

	<b>Budget</b>	<b>Actual</b>	<b>Favourable/ (adverse) Variance</b>
	£'000	£'000	£'000
Net Operating cost	(41,998)	(41,890)	108
Capital	(737)	(700)	37
Fixed Asset Disposals	–	–	–
Non cash transactions	(1,000)	(722)	278
Movement in Working Capital	–	8,316	8,316
Transfer to Provisions	(600)	(1,098)	(498)
<b>Net</b>	<b>(d)</b> <u>(44,335)</u>	<u>(36,094)</u>	<u>8,241</u>

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

### 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:

	2007/08	2006/07
	£'000	£'000
<b>Industry Income</b>	<b>23,772</b>	23,428
<b>Government Income</b>		
FSA Income	12,157	13,357
Defra Income	15,534	16,870
RPA Income	<u>3,801</u>	<u>4,061</u>
<b>Other Income</b>	<b>479</b>	<u>321</u>
<b>Total Income</b>	<b><u>55,743</u></b>	<u>58,037</u>
Segmental Analysis:		
England	42,914	44,990
Scotland	7,871	8,153
Wales	<u>4,958</u>	<u>4,894</u>
	<b><u>55,743</u></b>	<u>58,037</u>

## 5 Staff costs

(i) Staff costs for the year comprised:

	2007/08 Total £'000	2007/08 Permanently employed staff £'000	2007/08 Others £'000	2006/07 Total £'000
Wages and salaries	40,998	40,745	253	41,204
Social security costs	3,150	3,113	37	3,363
Other pension costs (note 6i)	5,947	5,910	37	6,087
FRS17 LGPS Pension scheme service costs (Note 6ii)	1,491	1,491	-	415
Agency temporary staff	325	-	325	352
Contract inspection and veterinary costs	27,834	-	27,834	29,460
<b>Total staff costs</b>	<b>79,745</b>	<b>51,259</b>	<b>28,486</b>	<b>80,881</b>
Less recoveries in respect of outward secondments	(174)	(174)	-	(172)
	<b>79,571</b>	<b>51,085</b>	<b>28,486</b>	<b>80,709</b>

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

	as at 31 March 2008	Average 2007/08	as at 31 March 2007	Average 2006/07
Meat Hygiene Inspectors and Meat Technicians	998	1,074	1,135	1,184
Contracted Meat Hygiene Inspectors	164	175	182	213
Official Veterinarians	36	37	39	42
Contracted Official Veterinarians	289	300	299	312
Managerial and administrative staff	243	257	265	252
Agency temporary staff	23	17	23	20
	<b>1,753</b>	<b>1,860</b>	<b>1,943</b>	<b>2,023</b>

(iii) Staff costs analysed by function comprise:

		<b>2007/08</b>	<b>2007/08</b>	<b>2007/08</b>	<b>2006/07</b>
		<b>Total</b>	<b>Normal</b>	<b>Transformation</b>	
		<b>£'000</b>	<b>business</b>	<b>investment</b>	<b>£'000</b>
			<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Inspection and veterinary staff costs:	Employed	<b>38,994</b>	<b>38,628</b>	<b>366</b>	41,233
	Contract	<b>27,834</b>	<b>27,834</b>	<b>-</b>	29,460
Administrative staff costs		<b>11,426</b>	<b>10,216</b>	<b>1,210</b>	9,773
Pension scheme service costs (Note 6ii)		<b>1,491</b>	<b>1,491</b>	<b>-</b>	415
		<b><u>79,745</u></b>	<b><u>78,169</u></b>	<b><u>1,576</u></b>	<b><u>80,881</u></b>

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

## 6 Pension Arrangements

(i) For 2007/08 pension costs were a total of £5,900,000 (£2,600,000 and £3,300,000 below).

In addition £3,218,000 was paid to reduce the pension deficit.

In 2006/07, pension costs were £6,100,000 (£2,700,000 and £3,400,000).

### 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 therefore accounts on a defined contribution basis.

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](http://www.civilservice-pensions.gov.uk)

For the year ended 31 March 2008, contributions of £2.6m 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 2008, 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 2008 although the salary bands have been revised.

### LGPS

The majority, around 60%, of employees of the MHS are members of the LGPS, a defined benefit scheme which is governed by the Local Government Pension Scheme Regulations 1995, and administered by London Pensions Fund Authority.

For the year ended 31 March 2008, contributions of £3.3m were paid to the fund at the rate determined by the Actuary appointed to the fund. For the year ended 31 March 2008, this rate was 15.6% of pensionable remuneration.

For the year commencing 1 April 2008 the rate will be 17.9%.

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

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

- improving life expectancy, both for current and prospective pensioners.
- early retirements due to redundancy, ill health etc offset due to improvements in:
- investment performance.

On the basis of the full actuarial valuation the MHS Fund deficit was £27.6m. The agency agreed to increase the funding to the scheme, payable for 20 years. For 2008/09 £1.6m will be paid.

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

An updated valuation, under FRS17 criteria, resulted in a calculated deficit of £28.0m as at 31 March 2008 compared to a calculated deficit of £46.7m as at 31 March 2007. The major assumptions used were:

	31/3/08	31/3/07
Price Increases	3.6%	3.2%
Salary Increases	5.1%	4.7%
Pension Increases	3.6%	3.2%
Discount Rate	6.9%	5.4%

The assets in the scheme and expected return were:

	Long term rate of return expected at 31 March 2008	Value at 31 March 2008 £'000	Long term rate of return expected at 31 March 2007	Value at 31 March 2007 £'000
Equities	7.5%	59,598	7.7%	58,801
Target return funds	6.3%	19,256	6.4%	21,112
Alternative assets	6.7%	17,931	6.8%	11,972
Cash	4.8%	<u>2,992</u>	4.9%	<u>2,534</u>
Total Market Value of Assets		99,777		94,419
Present Value of scheme liabilities		<u>(127,767)</u>		<u>(141,154)</u>
Net Pension Deficit		<u>(27,990)</u>		<u>(46,735)</u>

(ii) Analysis of amount charged to operating deficit

	2007/08 £'000	2006/07 £'000
Current Service Cost	4,809	3,687
Past Service Cost	–	–
Curtailments & Settlements	<u>336</u>	<u>271</u>
	5,145	3,958
Employer contributions to be set off	<u>(3,654)</u>	<u>(3,543)</u>
Amount charged to operating cost (Note 5)	<u>1,491</u>	<u>415</u>

## (iii) Analysis of net amount charged to operating cost

	2007/08 £'000	2006/07 £'000
Expected Return on Pension Scheme Assets	(6,928)	(5,811)
Interest on Pension Scheme Liabilities	<u>7,682</u>	<u>6,752</u>
Amount charged to operating cost (Note 7)	<u>754</u>	<u>941</u>

## (iv) Analysis of amount recognised in the Statement of Recognised Gains &amp; Losses

	2007/08 £'000	2006/07 £'000
Actual return less expected on scheme assets	(8,949)	823
Experience gains and losses arising on scheme liabilities	6,177	(92)
Changes in assumptions underlying the present value of scheme liabilities	20,544	(20,475)
Actuarial gain/(loss) recognised in the Statement of Recognised Gains & Losses	<u>17,772</u>	<u>(19,744)</u>

## Movement in deficit during the year

	2007/08 £'000	2006/07 £'000
Opening deficit	(46,735)	(27,260)
Movement in year:		
Current Service cost	(4,809)	(3,687)
Contributions – employer	3,654	3,543
Payment of deficit	3,218	1,625
Settlement/Curtailments	(336)	(271)
Past service cost	–	–
Other finance net interest charged	(754)	(941)
Actuarial gain/(loss)	<u>17,772</u>	<u>(19,744)</u>
Closing deficit – LGPS Pension Provision (Note 15)	<u>(27,990)</u>	<u>(46,735)</u>

## History of Experience Gains &amp; Losses

	2007/08	2006/07	2005/06	2004/05	2003/04
	£'000	£'000	£'000	£'000	£'000
Difference between experience and actual return on scheme assets					
Amount (£'000)	(8,949)	823	10,688	1,774	7,706
Value of assets (£'000)	99,777	94,419	84,007	64,672	59,644
Percentage of scheme assets	(9.0%)	0.9%	12.7%	2.7%	12.9%
Experience gains/(losses) on scheme liabilities					
Amount (£'000)	6,177	(92)	(477)	(221)	299
Total present value of liabilities (£'000)	127,767	141,154	111,267	109,808	101,629
Percentage of scheme liabilities	4.8%	(0.1%)	(0.4%)	(0.2%)	0.3%
Total amount recognised in the Statement of Total Recognised Gains & Losses					
Actuarial gain/(loss) (£'000)	17,772	(19,744)	19,643	(653)	1,418
Total present value of liabilities (£'000)	127,767	141,154	111,267	109,808	101,629
Percentage of scheme liabilities	13.9%	(14.0%)	17.7%	(0.6%)	1.4%

## 7 Other costs

	2007/08	2006/07
	£'000	£'000
Rentals under operating leases:		
Other operating leases	152	122
Non-cash items:		
Depreciation	524	523
Loss/(Profit) on disposal of fixed assets	-	(16)
Cost of capital charge	(1,279)	(1,185)
Auditors remuneration and expenses	33	33
Provision for early retirement costs	<u>(7)</u>	<u>345</u>
Accommodation costs	1,996	1,972
Staff overheads	3,116	3,436
Administration costs	1,387	1,505
I/T costs	884	1,489
Provision for bad debts	164	37
Bad debts (recovered)/written off	(50)	46
Interest payable to pension scheme (Note 6iii)	754	941
Interest received	<u>(4)</u>	<u>(4)</u>
<b>(i) Total Other Administration Costs</b>	<u><b>7,670</b></u>	<u><b>9,244</b></u>
<b>(ii) Other Operational Costs</b>	<u><b>1,237</b></u>	<u><b>1,202</b></u>
<b>(iii) Transformation Investment Costs</b>	<u><b>8,981</b></u>	<u><b>-</b></u>

Auditors remuneration and expenses do 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:

	2007/08	2006/07
	£'000	£'000
External audit fee	33	33
Cost of capital charge	<u>(1,279)</u>	<u>(1,185)</u>
	<u>(1,246)</u>	<u>(1,152)</u>

For 2007/08 a credit of £1,308k is applicable to the average LGPS pension provision held during the year. This is offset by the cost of capital charge, £29k, 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	Total £'000
<b>Cost or valuation</b>				
At 1 April 2007	1,557	103	145	1,805
Additions in Year	577	–	–	577
Surplus (deficit) on revaluation	(66)	9	–	(57)
Disposals in the year	–	(4)	–	(4)
At 31 March 2008	<u>2,068</u>	<u>108</u>	<u>145</u>	<u>2,321</u>
<b>Accumulated depreciation</b>				
At 1 April 2007	1,083	88	140	1,311
Charge for the year	479	4	5	488
Adjustment on revaluation	(65)	9	–	(56)
Disposals in the year	–	(4)	–	(4)
At 31 March 2008	<u>1,497</u>	<u>97</u>	<u>145</u>	<u>1,739</u>
<b>Net book value</b>				
At 1 April 2007	<u>474</u>	<u>15</u>	<u>5</u>	<u>494</u>
At 31 March 2008	<u>571</u>	<u>11</u>	<u>–</u>	<u>582</u>

## 10 Intangible fixed assets

	Software Licences £'000
<b>Cost or valuation</b>	
At 1 April 2007	465
Additions in the year	123
Deficit on revaluation	(20)
At 31 March 2008	<u>568</u>
<b>Accumulated amortisation</b>	
At 1 April 2007	444
Charge for the year	29
Adjustment on revaluation	(20)
At 31 March 2008	<u>453</u>
<b>Net book value</b>	
At 1 April 2007	<u>21</u>
At 31 March 2008	<u>115</u>

## 11 Depreciation

	2007/08 £'000	2006/07 £'000
Depreciation charge for the year based on historical cost	<b>517</b>	503
Permanent diminution in value on computer equipment and software licences	<b>83</b>	125
Revaluation adjustment	<b>(76)</b>	(105)
	<u><b>524</b></u>	<u>523</u>

## 12 Debtors

	31 March 2008 £'000	31 March 2007 £'000
<b>Amounts falling due within one year:</b>		
Trade debtors net of provision for bad and doubtful debts	<b>4,536</b>	3,862
Owed by Government	<b>2,130</b>	1,556
VAT recoverable (net)	<b>1,177</b>	1,288
Other debtors	<b>69</b>	69
Prepayments	<b>264</b>	552
	<u><b>8,176</b></u>	<u>7,327</u>
<b>Amounts falling due beyond one year:</b>		
Other debtors	<b>1</b>	11
Trade debtors	<b>59</b>	8
Prepayments	<b>1</b>	9
	<u><b>61</b></u>	<u>28</u>
	<u><b>8,237</b></u>	<u>7,355</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 subscriptions and car leases. Trade debtors have made arrangements to pay in full.

## 13 Creditors

Amounts falling due within one year

	<b>31 March 2008 £'000</b>	31 March 2007 £'000
Amounts owed to contractors providing veterinary and inspection services	<b>2,434</b>	2,159
Overtime payments to staff	<b>405</b>	371
Trade creditors	<b>36</b>	36
Accruals and payments on account	<b>11,132</b>	1,515
National Insurance	<b>442</b>	509
Income tax	<b>506</b>	577
Other creditors	<b>654</b>	1,244
	<b><u>15,609</u></b>	<u>6,411</u>

Accruals include Transformation costs of £8.4m and pay award to be paid in 2008/09.

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

	<b>31 March 2008 £'000</b>	31 March 2007 £'000
Net surplus/(deficit)	<b>(41,890)</b>	(33,290)
Depreciation charge for the year (note 11)	<b>524</b>	523
Loss/(Profit) on disposal of fixed assets	-	(16)
Notional charges (note 8)	<b>(1,246)</b>	(1,152)
Increase in provisions (Note 15)	<b>(1,098)</b>	(245)
(Increase)/decrease in debtors	<b>(882)</b>	763
Increase/(decrease) in creditors	<b>9,198</b>	(134)
Net cash inflow/ (outflow) from operating activities	<b><u>(35,394)</u></b>	<u>(33,551)</u>

## 15 Reconciliation of the movement in provisions

	Early Retirement Provision £'000	LGPS Pension Provision £'000	Total £'000
As at 1 April 2007	375	46,735	47,110
Arising/(released) during year	(7)	5,899	5,892
Utilised during year	(118)	(3,654)	(3,772)
Payment to reduce deficit	–	(3,218)	(3,218)
Actuarial (gain) arising	–	(17,772)	(17,772)
As at 31 March 2008	<u>250</u>	<u>27,990</u>	<u>28,240</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 2007	(43,455)	50	(43,405)
Funding movement in the year	(1,246)	–	(1,246)
Net surplus/(deficit)	(41,890)	–	(41,890)
Resource funding from FSA	36,000	–	36,000
Surplus on revaluation (Note 9)	–	6	6
Actuarial gain (Note 6d)	17,772	–	17,772
As at 31 March 2008	<u>(32,819)</u>	<u>56</u>	<u>(32,763)</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 & cash equivalents during the year

	31 March 2007 £'000	Cashflow £'000	31 March 2008 £'000
Balances held with OPG	1,980	(109)	<b>1,871</b>
Balances with other financial institutions and in hand	<u>266</u>	<u>15</u>	<u><b>281</b></u>
	<u><b>2,246</b></u>	<u><b>(94)</b></u>	<u><b>2,152</b></u>

## 18 Capital commitments

At the end of the year there were commitments of £34,000 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.

	2007/08 £'000	2006/07 £'000
Expiry within one year	<b>79</b>	–
Expiry within two to five years	<b>106</b>	253
Expiry thereafter	<u>–</u>	<u>–</u>
	<u><b>185</b></u>	<u>253</u>

## 20 Contingent liabilities

There are a number of small claims being made by MHS employees and others for injuries sustained in the workplace, unfair dismissal or other issues. These cases will be defended and as yet the outcome is not known but could cost approximately £597,000.

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 Costs (Note 7), administration costs, are Losses and Special Payments which amounted to £142,000 relating to 35 cases (£125,000 relating to 51 cases in 2006/07). The majority of the cases refer to compensation and personal injury claims. One payment of £30,000 was made relating to a personal injury case.

## 22 Post balance sheet events

There were no post balance sheet events. This Annual Report & Accounts has been authorised for issue on 18 June 2008 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

## Assessment of performance targets in 2005/06 and 2006/07

### 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 & 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.

### 2006/07

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

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

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

In relation to BSE controls, there were four cases where spinal cord in a bovine carcass was identified at cutting premises (the carcasses did not enter the human food chain), one case where an OTM bovine (aged 10 days over 30 months) was processed in a UTM plant, and one case where an OTM bovine was processed at an OTM plant but was released into the human food chain without being tested for BSE. In all six cases, both FBO and MHS staff failed to identify that there was non-compliance. The risk to public health from these six breaches was miniscule. During 2006/07, 2,234,702 UTM and OTM bovines were processed for human consumption, which equates to a bovine BSE controls compliance rate of 99.9997 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 substantially met.

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

While the MHS only fully met one of its three indicators for this objective, the other two indicators – relating to proposing changes to industry and government charge-out rates – were ‘near misses’. These two indicators were impacted by FSA decisions on other changes to charges, necessitating detailed discussion with the FSA, which resulted in delays.

All veterinary and technical legislative changes were implemented within the timescale agreed with government customers.

Although the indicators on proposing changes to hourly charges by the end of December were missed, because the consultation documents were shared and agreed with the MHS Board and issued before the end of 2006/07, the MHS Board considered that Objective 3 had been met.

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

The MHS achieved the targets set for important indicators on leadership development, health and safety management, staff survey, and long-term sickness. While the short-term sickness target was narrowly missed by 1.3 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.



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