

MEAT HYGIENE SERVICE MODERNISATION UPDATE

EXECUTIVE SUMMARY

1. The aim of this paper is to provide an update on MHS modernisation to support the FSA Board discussion on industry charging options for 2009/10.
2. The MHS and MHS Board are entirely committed to ensuring that the key role of the MHS to protect public health and animal health and welfare has not been and will not be put at risk during the modernisation process. The MHS believes that official controls can be delivered more efficiently and effectively through its modernisation programme.
3. MHS has made significant progress in reducing gross costs funded through central and business driven transformation savings.
4. This paper highlights the progress made by the MHS in reducing costs and the need for a fairer balance of funding from industry and tax payer.
5. The Board is asked to:
 - **note** the progress the MHS has made to date.

MEAT HYGIENE SERVICE

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MEAT HYGIENE SERVICE MODERNISATION UPDATE

Background

1. In July 2007 the FSA Board discussed and largely accepted the Tierney Report which formed the basis for the modernisation programme of the MHS. The Tierney recommendations included:
 - to adopt a more risk and evidence-based approach to the regulation of meat hygiene, meat inspection activities and enforcement;
 - to allow the MHS to transform itself whilst the FSA continued work on the development of a control body option;
 - to consult on increased meat inspection charges whilst developing a new charging system for introduction in 2009/10;
 - to work with the poultry industry to remove barriers to the greater use of plant employed staff known as Plant Inspection Assistants (PIAs) for post mortem inspection; and
 - to set up an Advisory Body to advise the Board on the future delivery and cost recovery of official controls in meat plants.
2. At the May 2008 FSA Board meeting the MHS outlined progress made on transformation. The main achievements were:
 - the MHS had met all three financial targets set for it by the FSA;
 - the MHS had defined and initiated business improvements to reduce costs;
 - the new cluster structure and procurement process was being implemented; and
 - streamlining of the management structure and support functions had begun, including rationalisation of regional offices.

The FSA Board welcomed the significant progress which the MHS had made on transformation and agreed not to further pursue the control body option.
3. Throughout the transformation process the MHS has focused on maintaining its capability to modernise and deliver by:

- appointing a new operations management team which will revitalise our ability to deliver more and perform more effectively at lower cost;
 - re-setting our relationship with our suppliers and raising our expectations of their capability;
 - changing the way we do business – e-enabled, less bureaucracy, reduced overheads, no regional offices, better data and more information exchange;
 - open, honest and direct communications and engagement with stakeholders; and
 - strengthened veterinary management and accountability.
4. The MHS and MHS Board are entirely committed to ensuring that the key role of the MHS to protect public health and animal health and welfare has not been and will not be put at risk during the modernisation process. The MHS believes that official controls can be delivered more efficiently and effectively through its modernisation programme.

Discussion

5. A key element of the modernisation process is the reduction of the funding gap away from the tax payer to industry. This will only be delivered through a significant reduction in gross cost accompanied by a significant increase in income recovered from industry.
6. The MHS has made significant progress in reducing its gross cost through centrally funded and business driven modernisation since 2007/08.
7. MHS modernisation is rightly driven by the business needs. Much of the original funding for MHS Transformation was anticipated to be through access to the FSA's End Year Flexibility (EYF) reserve which is managed by the Treasury. However, due to the overall government financial constraints, the FSA/MHS was unable to access this EYF in 2008/09.
8. MHS modernisation is a medium term project, where ideally budgets should be agreed at the start of the project, for its complete duration. The inaccessibility of EYF has led to some uncertainty over budgets and this has meant that a shorter term focus has sometimes been necessary to ensure the MHS lives within its overall budget. However, this has ensured active prioritisation of the modernisation project thus transformation, once started in 2007/08, proceeded faster than originally anticipated in the first two years.

Operational Overview

9. The table below shows the number of animals for which MHS staff carried out ante and post mortem inspection and ensured the humane slaughter and hygienic production for human consumption during the past two financial years:

	Apr 07-Mar 08	Apr 08-Mar 09
Red Meat animals inc OTM Cattle	26,336,068	26,040,881
Birds	799,128,467	775,453,091
OCDS† (not for human consumption)	91,187	92,584
TOTALS	825,555,722	801,586,556*

10. Throughput against budget during these periods:

	Apr 07- Mar 08	Apr 08- Mar 09
Red Meat animals inc OTM Cattle	+3.6%	-0.7%
Birds	+0.7%	-2.5%
OCDS† (not for human consumption)	-44.9%	+5.3%
TOTALS	+0.8	-2.4%*

†OCDS – Older Cattle Disposal Scheme

*These figures will not include late throughput returns for March 09

11. The following number of audits were carried out during these periods:

	Apr 07-Mar 08	Apr 08-Mar 09
Slaughterhouse/game handling plants	416	408
Cutting plants	714	714
Audit follow up visits to Cutting Plants	149	81
VC Removal supervision in OTM cattle	67	72
TOTALS	1346	1275

12. Enforcement is being taken appropriately in line with current instructions. The table below shows total enforcement (excluding verbal advice) taken during the period April 08 to March 09 inclusive and the decrease compared to the previous 12 month period:

	No of actions taken	No of premises	% decrease (Notices per premises) compared to Apr 07 to Mar 08
Written Advice	1571	268	44.2
Hygiene Improvement Notices (HINS)	120	43	42.9
Remedial Action Notices (RAN)	32	18	38.4
Recommendations for Prosecution	90	43	24.3
TOTALS	1813	279*	47.5

*An establishment may have more than one type of enforcement action taken against it for the same offence.

13. Reasons for the decrease seen in the table above are numerous and include the following:

- the approvals process has led to an improvement in Food Business Operators' compliance, with investment in the structure and fabric of the building which has led to a reduction in the service of formal notices and referrals for investigation;
- certain persistently non-compliant businesses who accounted for a disproportionately large amount of referrals for investigation have had their approval refused and these businesses have ceased to operate; and
- rationalisation of the meat industry will see marginal FBOs going out of business as they cannot afford to make the necessary investment to comply with the legal requirements.

14. It is however, important to note that we may see increases in enforcement activity in the future due to:

- the MHS targeting resources to focus on less compliant FBOs and provide improved support to OV's in such plants;
- the Persistently Non-Compliant Business initiative and the introduction of unannounced visits started in February 2009;

- new systems for recording contamination at post mortem should provide better evidence to take effective enforcement action against non compliant FBOs with poor HACCP based food safety management systems.

Progress to Date

Cost Reductions

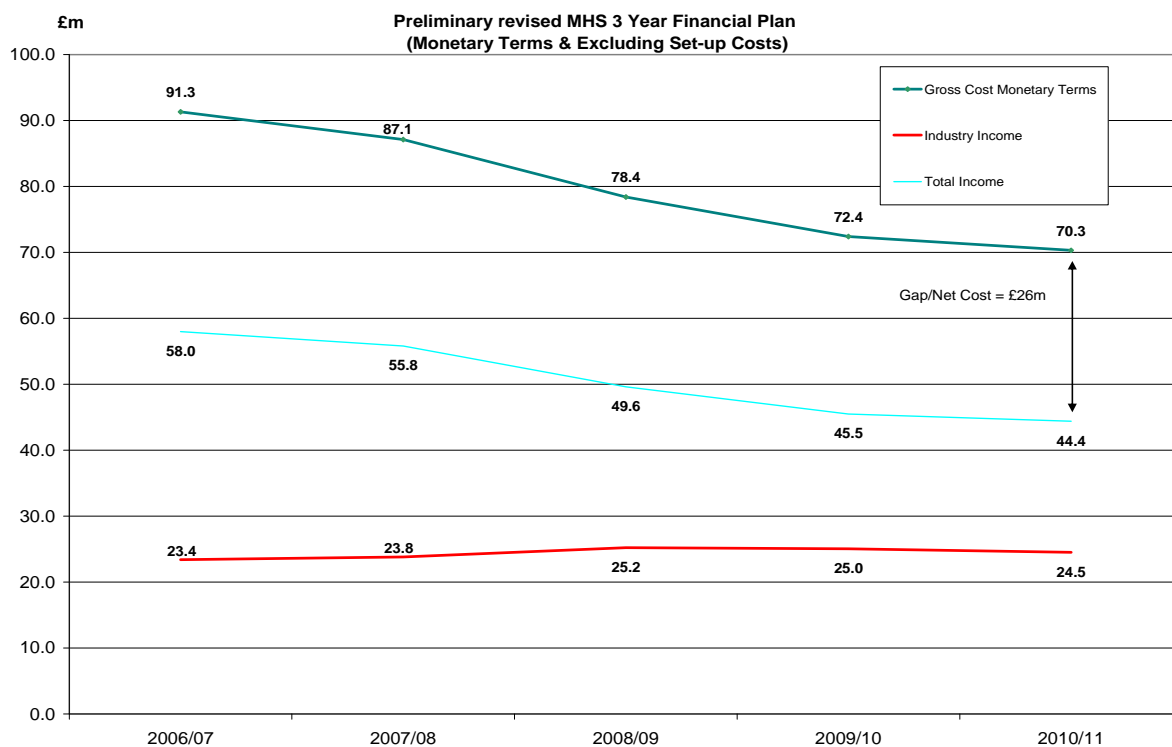
15.MHS has transformed its cost base well ahead of the original targets set by the FSA Board:

Table1: Progress in Gross Cost Reduction against Target

	Base		3 Year Plan Period					
	2006-07 Actual	2007-08 Actual	2008-09 Forecast	<i>Previous 2008-09 Target</i>	2009-10 Forecast	<i>Previous 2009-10 Target</i>	2010-11 Forecast	<i>Previous 2010-11 Target</i>
Annual Totals £m								
Resource Expenditure	91.3	87.1	78.4	85.0	72.4	82.1	70.3	84.0

- since 2006/07 MHS has already succeeded in reducing its gross expenditure from £91.3m to an expected £78.4m in 2008/09 (down 14%);
- allowing for the effects of inflation the real reduction is down £17.4m to £73.9m (19%);
- MHS is on track to reduce costs still further to £70.3m by 2010/11 (a real terms reduction of 32%);
- a new charging mechanism is being consulted on for 2009/10 to incentivise FBOs to work more closely with MHS to reduce costs;
- MHS is working with the FSA to reduce MHS frontline supervision of SRM controls and to encourage industry uptake of FBO-employed Plant Inspection Assistants in the Poultry sector; and
- further significant reductions in MHS costs will be delivered through negotiation of risk-based controls in Europe.

Figure 1: Reduction in Gross Costs

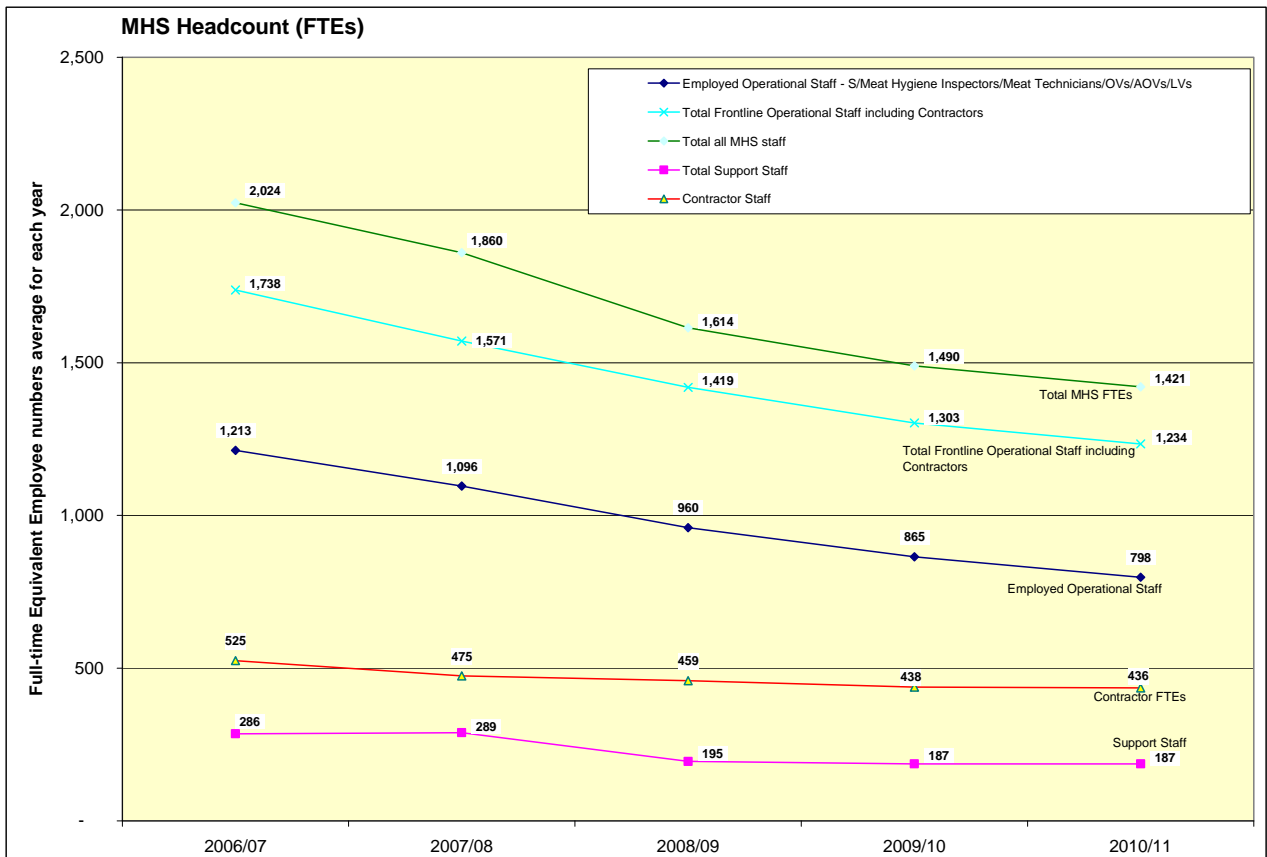


Headcount Reductions

16. MHS Staff Numbers have been reduced in both operational and administrative areas:

- the full-time equivalent headcount has been cut from 2,024 in 2006/07 to 1,614 in 2008/09. This represents a reduction of 410 staff (20%). This comprises 319 frontline and 91 administrative posts.
- a further reduction of 200 posts is planned by 2010/11;
- this will mean that the full-time equivalent headcount will reduce by 600 (30%) between the periods 2006/07 and 2010/11. This puts transformation well ahead of the Tierney Headcount reduction target of 15% by 2010/11;
- all five regional offices have been closed and the following positions have been removed:
 - Corporate Services Director
 - Operations Director
 - 5 Regional Directors
 - 29 Area Managers
 - 15 Regional Veterinary Advisers

Figure 2: Reduction in Staff Numbers



New Operational Structure

17. The new operational management structure is fully in place. This puts substantially more veterinary support closer to the frontline inspection teams. This will minimise the risk that the appropriate escalation of enforcement does not occur, for example, as happened with the E. coli outbreak in Wales.

18. The new operational management structure, and the new Approved Supplier Model, will ensure a consistent and robust approach to FBO compliance. Together, these will help the FBO achieve a high level of compliance and ensure a consistent and robust approach to enforcement action where necessary.

New Approved Supplier Model

19. On 22 October 2008 contracts were awarded to approved suppliers for the future provision of Official Veterinarians and Meat Hygiene Inspectors in approved establishments. Transition to the new Approved Supplier Model took place on 2 February 2009.

New Terms & Conditions

20. The MHS is continuing to negotiate with UNISON to gain agreement to revised terms & conditions that deliver more cost effective solutions to resource

allocation. It is hoped that a negotiated settlement will be reached within a realistic timeframe.

New Business Agreements

21. The completion date for Business Agreements with all slaughterhouse operators has been put back from the 31 March to end of June 2009. Obtaining FBO signed agreements is proving challenging as many prefer to await the outcome of the charges consultation. To date 270 plants have been visited to discuss the agreements and 120 agreements have been signed, out of a total of 399 premises.

IT Investment

22. During 2007/08, £0.5m was spent on the replacement of IT equipment in meat plants. This was then followed up with a further £1.8m spend this financial year in order to upgrade speed and performance of the network and provide better access to applications and data for employed and contract staff. Having reviewed this year's forecast, approval has been given to the commissioning of a new IT system for recording ante and post mortem inspection results. This is an EU requirement, and will lead to more accurate throughput data for the organisation (and other interested parties such as Defra), and staff cost savings resulting from the elimination of data input duplication.

Integrated Corporate Services

23. The MHS is working collaboratively with FSA colleagues to fully integrate our Corporate Service functions in order to provide efficient and effective services that meet the needs of its internal customers and external stakeholders. The formal Business Case is currently being finalised. We will be aiming for significant efficiency savings through this exercise. However, other significant benefits for the MHS and FSA include:

- improved and integrated information systems with standardised e-enabled processes, delivering timely and accurate management information that enable better resource choices across the Agency;
- eliminating duplication and consolidating management structures;
- consistency of approach across the One Agency;
- improved transparency of financial reporting leading to better financial management and control; and
- improved sharing of in-house knowledge and expertise and more flexible team-working across all corporate functions.

Transformation Funding

24. The Transformation programme has been funded through a central budget delegation from the FSA and business driven savings from normal operations. Progress to date is explained below:

Table 2: Comparison of actual Transformation Funding with Planned

Year	Original Proposal Investment Costs	Delegated Investment Budget	Funded from Business Savings	Actual/Forecast Investment Costs
2007/08	7.2	7.5	3.5	11.0
2008/09	8.3	4.7	3.1	7.8
Total to 31/03/2009	15.5	12.2	6.6	18.8

25. Around £6.6m investment costs have been funded from business savings, which have been invested as and when identified.

Income from Industry

26. MHS transformation has focussed on becoming a more efficient and effective organisation, as well as cost reduction. To reduce the net cost of operations further, charges to industry at plant level are being reviewed.

Figure 3: Reduction in Industry Charges

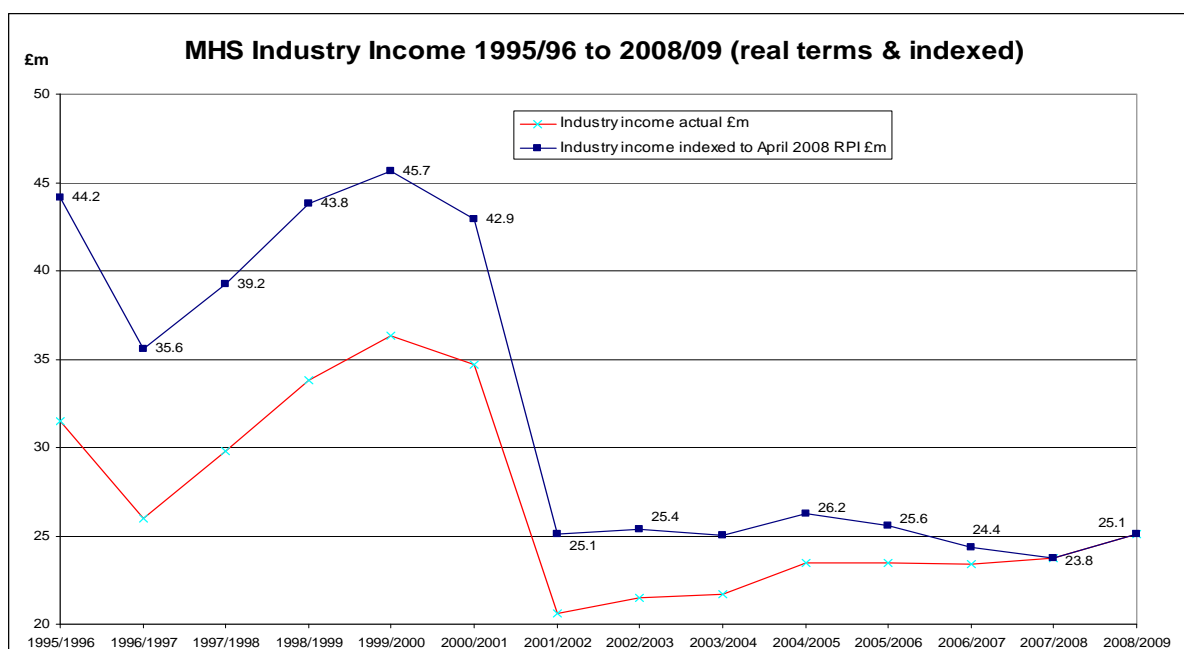
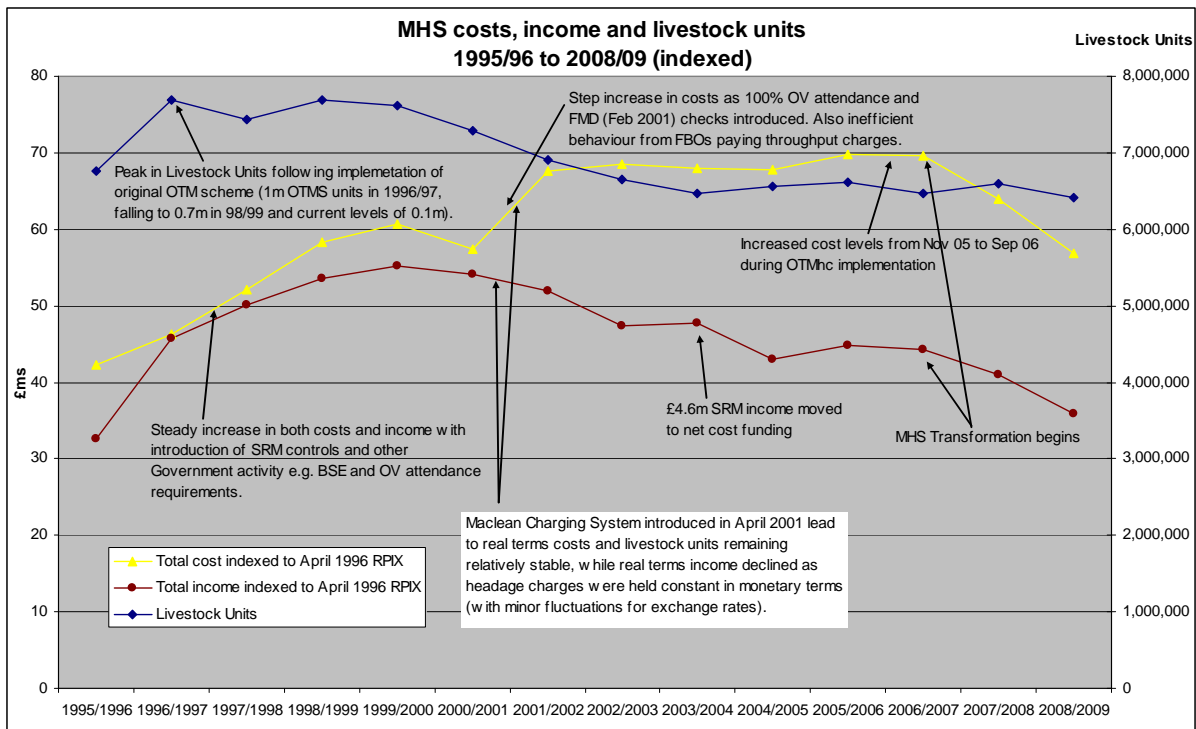


Figure 4: MHS Costs, Income & Livestock Units



27. Figures 3 and 4 above show how industry income has changed since the MHS was formed in 1996. Highlights are:

- industry income is currently only a fraction of what it was prior to the Maclean initiative;
- proposals for implementation of time-based charging are due to come into effect on 29 June 2009;
- the proposed move to time based charging will provide an incentive for co-operative working between the MHS and FBOs with a view to identifying efficiencies, but will not in itself generate additional income;
- the level of increase in the hourly rate will have a direct impact on the future demand for MHS resources in plants;
- offsetting this increase will be reduced hours charged to industry. Implementation of the Optimisation Project Board's recommendations and Business Agreements with FBOs will further improve the MHS's resource deployment; and

- industry throughput levels are independently forecast to fall by 2% year on year in 2009/10 and 2010/11 further reducing MHS capacity to generate income.

28. It should however be noted that as MHS moves to time-based charging, further efficiency in Official Controls work will not only reduce cost but will also reduce income. The net result of this will be only a small narrowing of the gap.

Industry

29. Throughout the modernisation process, MHS has worked collaboratively with Industry and we have seen some positive investment in some premises which will assist with ensuring the inspection processes are as efficient as possible. Industry's involvement in the Optimisation Project Board will ensure continued co-operation through the change process.

Conclusion

30. Key achievements of the MHS modernisation programme are:

- gross costs have been reduced by 19% in real terms between 2006/07 and 2008/09;
- full-time equivalent headcount has been cut from 2,024 in 2006/07 to 1,614 in 2008/09. This represents a reduction of 410 staff (20%). This comprises 319 frontline and 91 administrative posts;
- transformation to date has been funded directly with £12.2m and accelerated through the use of £6.6m savings against budget from normal operations;
- a new operations management team has been appointed;
- we have re-set our relationship with our suppliers and raised our expectations of their capability;
- 114 Business Agreements with FBOs have been agreed in principle;
- the MHS is increasing its e-enablement, has less bureaucracy, reduced overheads, no regional offices, better data and more information exchange;
- we are open, honest and direct in communicating and engaging with stakeholders; and
- we have strengthened our veterinary management and accountability.

31. Key future elements of the MHS modernisation programme are:

- gross Costs will reduce by 32% in real terms between 2006/07 and 2010/11;
- staff Numbers (full-time equivalents) will reduce by 600 (30%) over the same period; and
- in order to close the net cost deficit gap, expected to be £25.9m in 2010/11, charges to Industry need to rise.

Previous Board consideration

32. In July 2007 initial challenging targets were set by the FSA Board. In May 2008 progress was reviewed and revised targets agreed. In July 2008 “The Future of Charging for Official Meat Controls” was discussed.

Board Action Required

33. The Board is asked to:

- **note** the progress the MHS has made to date.