

Finance Report

Issue

- The MHS Board is invited to note the MHS Financial Position as at 31 August 2008.

Year to Date Position

As at 31 August 2008.

Table 1: Year to date actuals against budget

	Year-to-date Actual	Year-to-date Budget	Variance against Budget
Gross Expenditure (a)	£32.9m	£34.9m	£2.0m
Income	£20.7m	£21.4m	(£0.7m)
Net Cost of Operations (b)	£12.2m	£13.5m	£1.3m
Transformation	£1.4m	£0.7m	(£0.7m)
Cost per Livestock Unit (c)	£12.57	£13.20	£0.63

- Savings on Total Resource Expenditure of £2.0m are partially offset by reduced Income (£0.7m) below budget.
- Expenditure - £32.9m, **£2.0m**, 6% below the year-to-date budget of £34.9m. This is due to savings on Staff Costs of £1.5m following staff reductions and more efficient deployment of contractors. Total Other Costs also show a saving of £0.5m due to reduced HQ Accommodation costs. Income - £20.7m, **(£0.7m)**, (3%) below the year-to-date budget of £21.4m following a (2%) reduction in throughput and streamlining of government programmes.
- Net Operating Cost – £12.2m, **£1.3m**, 10% below the year-to-date budget of £13.5m.
- Cost per Livestock Unit - £12.57 year-to-date as at 31 July 2008 against a budget of £13.20 (excluding Transformation costs).

2008-09 Full-Year Forecast

2. The MHS forecasts that it will meet all three financial targets set for it by the FSA – Gross Cost (a), Net Cost (b) and Cost per Livestock Unit (c).

Table 2: MHS Gross Expenditure, Income, Net Cost of Operations, and Cost per Livestock Unit against budget excluding exceptional items.

	Forecast 2008-09 (as at Aug 08)	Budget 2008-09	Variance against Budget	Actual 2007-08
Gross Expenditure (a)	£78.0m	£84.6m	£6.6m	£86.0m
Income	£48.6m	£52.6m	(£4.0m)	£54.7m
Net Cost of Operations (b)	£29.4m	£32.0m	£2.6m	£31.3m
Transformation	£5.6m	£3.0m	(£2.6m)	£10.6m
Cost per Livestock Unit (c)	£12.11	£12.84	£0.73	£13.21

3. The monthly rolling forecast as at August 08 has been completed. It indicates that after removing the costs of Transformation, the forecast 'business as usual' Gross Cost of Operations will be £78.0m. This is **£6.6m**, 8% below the budget of £84.6m.
4. The Net Cost of Operations is forecast to be £29.4m for 2008-09, which is **£2.6m**, 8% below the budget of £32.0m.
5. Gross Expenditure is reduced due to savings on Staff Costs (including contractors) of £5.3m and Total Other Costs (non-pay) of £1.3m. Savings on Staff Costs are mainly due to reductions in SMHI and MT numbers, and better resource deployment of MHIs and Contractors. Savings on Total Other Costs include lower accommodation charges from Defra for Foss House and reduced depreciation on IT equipment.
6. Income is below budget due to reduced Industry Income (£0.6m) as a result of lower throughput, and less Government Income (£3.4m) due to a general reduction in government programmes. Defra Income is below budget as a result of providing for a reduced charge because of better than expected savings on manpower. Also, TSE income has decreased due to Defra requiring testing of fewer animals than budgeted for. OTMhc activity has been streamlined and income from the Older Cattle Disposal Scheme (OCDS) will cease alongside a scaling down of Sheep Dentition work.
7. The Cost per Livestock Unit (excluding Transformation costs) is forecast to be **£12.11** against a budget of £12.84. This is also a reduction on the 2007-08 full-year figure of **£13.21**.

8. Total Transformation costs this year are forecast at £5.6m. The initial budget of £3.0m was allocated to severance £1.9m, IT costs £0.8m and programme office £0.3m. This is now supplemented by £2.6m funding from savings on normal operations. These savings have been allocated to cover the IT investment expenditure deferred from 2007-08 of £0.4m, further planned severance payments of £0.4m, and £1.8m to support the implementation of revised terms and conditions for operational staff. £1.6m of EYF funding has also been requested to support additional severance schemes for Meat Technicians being planned and implemented. As yet, there is no provision for costs relating to outcomes of the Optimisation programme, closure of the OCDS scheme, displacement of staff through Business Service Agreements or plants switching to PIA schemes.
9. The MHS combined Net Cost of Operations is forecast to be **on budget**, inclusive of exceptional items as at 31 March 2009.

Trend Data

10. The 12 month trend for resource expenditure shows that the MHS has been successful in reducing costs (excluding Transformation costs) by 7.4%.
11. During the equivalent period, the Cost per Livestock Unit (excluding Transformation) has also reduced from £13.88 to £12.87.

Recommendations

The MHS Board is asked to note:

- (i) The MHS financial position as at 31 August 2008 - £1.3m better than budget excluding exceptional items; and £0.6m favourable including Transformation expenditure.
- (ii) The MHS is forecast to be on budget inclusive of exceptional items as at 31 March 2009. 'Business as usual' will be £2.6m below budget. Transformation costs will be (£2.6m) above budget.
- (iii) The cash target is **on budget** as at 31 August 2008.

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