

**MHS FINANCIAL MANAGEMENT**

**February 2007**

**Introduction**

1. This paper provides a summary of the finance function of the Meat Hygiene Service (MHS) to allow MHS Board members the opportunity to consider MHS financial management.

**Finance Staff**

2. The MHS Finance department has 35 staff. Nine are qualified accountants with three part qualified. Other staff have recognised qualifications in payroll and management. The number of staff reflects the complexity of the charging process to industry customers. Through the simplification of processes a reduction in staff has been achieved from 38 in March 2006 to 35 in January 2007. Additional e-enablement and integration projects are planned to further improve efficiency.

**Finance Transactional Processing**

3. The MHS out-sources some transactional services to the Defra Shared Services Organisation. This is in line with the Gershon requirement for standardisation and sharing of back office systems to gain efficiency across Government departments. The services currently supplied to the MHS are listed below although further options are being reviewed to identify where further efficiencies can be achieved :
  - Set up of supplier records
  - Payment generation to suppliers and employees via BACS and cheque
  - Processing of travel and subsistence claims to staff (Approx 1000 per month)
  - Receipting of income
  - Banking services (statement reconciliation etc)

The following transactions are completed internally

- Calculation and generation of invoices to industry customers based on a cumulative calculation of the lower of throughput volumes and time costs. (Approx 850 per month)
- Calculation and generation of invoices to Government customers
- Payment of purchase invoices (Performance Indicator 99% paid by due date currently being achieved)
- Payment of Contract OV's and MHI's
- Government Procurement Card Transactions

### **Procurement**

4. The Procurement team work in collaboration with other government departments to set up approved suppliers and contracts to ensure best value is achieved. (Performance Indicator - Savings of £100,000 are expected for 2006-07)

### **Payroll**

5. The MHS has its own payroll team utilising Delphi Millennium, an integrated HR and payroll system. The weekly payroll pays casual staff (approx 50 per week) based on the number of hours worked. All other staff are paid monthly, based on an annual salary with overtime and allowances. (Performance Indicator – 99.97% accuracy achieved)

### **Debt Recovery**

6. The MHS has a small Debt Recovery team of three staff which works closely with external commercial solicitors, and staff in MHS Regional Offices, on the management of debt cases. The MHS produces its own reminder letters before referring cases to the solicitors. Cases are then managed through the civil debt collection process, initiating litigation and taking appropriate enforcement action as necessary. (Performance indicator – debtor days (average time taken for a debt to be collected after invoice issue date) 54 as at 31 January 2007 – broadly comparable to last year)

**Budgeting**

7. The MHS financial management reporting cycle starts with a budget bid submitted to the FSA in Quarter 4 of the previous financial year. A high-level budget is prepared based on likely business activity, changes to major programmes, expected wage and cost inflation, the inclusion of efficiency savings and priorities identified in the business plan for the coming year. This is then used as a basis for the calculation of proposed charge-out rates to industry and government customers. FBO's, FSA & Defra.
8. A top-down internal allocation of the budget subsequently allocated by the FSA (£35.0m for 2007/08) is then made to directorates, with their participation, and is agreed by the MHS Senior Management Team. A bottom-up comprehensive budget exercise, detailed by cost and income lines and calculated from the major cost drivers, is then undertaken from area level, consolidated at regional level and finally consolidated at operations directorate level. In addition, detailed HQ departmental budgets are prepared prior to consolidation at directorate level. At each review point, finance staff and budget holders challenge, discuss and agree the resulting numbers and assumptions. Where necessary business cases are prepared for MHS Senior Management Team consideration and resources are switched within overall allocations.
9. Detailed capital expenditure and cashflow budgets are also prepared for submission to the FSA. The assumptions in the submitted budget to the FSA are discussed with the FSA Finance Director and other relevant FSA directors before approval by the FSA Chief Executive. Any change from the submitted budget is then incorporated throughout the MHS budget holder hierarchy.
10. A delegation letter is then issued by the FSA Chief Executive to the MHS Chief Executive. MHS delegation letters giving financial management responsibilities to budget holders for the net cost of operations and staffing under their control start with the MHS Chief Executive to MHS Senior Management directors, and are then cascaded down the MHS to each budget holder.

**Budget holder management and monitoring**

11. The MHS finance department operates full accruals accounting to produce monthly management accounts at area, regional, and departmental levels within five working days of the month end. Regional and departmental monthly variance reports are provided to the MHS Senior Management Team and highlight major variances by cause and effect. This business performance monitoring generates challenge, discussion, corrective actions and decisions on redirecting resources.
12. The overall financial position for the MHS is monitored monthly and is recorded in the Balanced Scorecard for review at MHS Senior Management Team and MHS Board meetings. The MHS Audit and Risk Committee receive a half-year forecast and budget report for information.
13. Improvements being made to strengthen financial management include:
  - regular visits by management accounting staff to MHS regions to generate a better understanding of the financial impact of operational issues and to reinforce the requirements for accurate and timely primary input of data;
  - the transfer from finance to the operations support team of a management accountant to provide additional focus;
  - financial training by MHS finance staff of regional and HQ staff responsible for financial activities; and
  - regular meetings between MHS HQ finance staff with regional business managers and regional support managers.

**Forecasting**

14. Comprehensive quarterly forecasts are prepared bottom-up from areas, regions and departments to capture business activity trends. These forecasts are subject to detailed review at regional, directorate and MHS Senior Management

Team levels before an overall forecast is submitted to the FSA. The forecasts are challenged robustly by finance staff. Major issues are highlighted for resolution and corrective action proposed to rectify variances. Detailed capital expenditure and cashflow forecasts are also prepared and submitted to the FSA.

### Current financial position as at 31 December 2006

	Year to Date Actual	Year to Date Budget	Variance	2006-07 Full Year Budget	2006-07 Full Year Forecast
	£m	£m	£m	£m	£m
Staff costs (inc contractors)	62.3	60.2	(2.1)	78.9	81.3
Non-pay costs	8.1	8.9	0.8	11.7	11.2
Income	(45.1)	(43.3)	1.8	(56.4)	(58.4)
Net cost of operations	25.3	25.8	0.5	34.2	34.1
Capital	0.1	0.2	0.1	0.3	0.2
Cashflow (outflow)	(28.0)	(26.1)	(0.5)	(34.7)	(35.4)

### Major variances for 9 months to end of December 2006

15. Staff Costs are (£2.1m) adverse due to a difficulty in achieving cost reductions in OV hours in slaughterhouses that are co-located with cutting plants (£0.4m). Other contributing factors are additional contract OTM inspectors for human consumption work that were not part of the original budget allocation, although the cost has been offset by increased income. Non-pay costs are £0.8m favourable arising from savings on overhead costs, including travel and subsistence, consultancy, and bad debts. Income is £1.8m favourable primarily due to additional government income, particularly increased testing of sheep for TSE.

### Summary

16. After nine months, the net cost of operations indicates a £0.5m saving against budget. The projected forecast for the year predicts reducing this variance, to £0.1m as a result of not being able to achieve expected savings arising from OV flexibility during the last quarter. The removal of the 45% minimum charge from 1 January 2007 may also adversely affect income in the last quarter by

more than current forecast estimates. Capital expenditure is currently **£0.1m underspent**. Cashflow is currently **(£0.7m) adverse** due to working capital movements, but is forecast to be on budget at the year-end.

**Future Developments**

17. Finance is working with other areas of the business to develop further system integration with the aim being to provide a more efficient and effective service to the business.