

## PROGRESS ON MHS TRANSFORMATION

### Transformed MHS

1. The vision of the transformed MHS is to:
  - Protect the consumer through the application of proportionate risk-based official controls;
  - Move towards full cost recovery by reducing the costs of the official controls and increasing charges to industry;
  - Reduce the net cost of operations funded by the FSA;
  - Manage food safety risks through constructive working with industry, charging incentives and, where necessary, taking enforcement action against those food business operators who persistently fail to comply with official controls;
  - Work with the industry to progressively move regulatory delivery responsibility to food business operators where there is good evidence of compliance with official controls.
  
2. To deliver this vision, the MHS has changed its business model and focus to include a business approach and improved working with its clients and suppliers:
  - For the FSA this means a reduced net cost of operations;
  - For MHS staff this means being positive about the future and embracing new opportunities for further efficiency gains;
  - For FBOs this means accepting the progressive move of both financial and regulatory delivery responsibility, but with significantly lower MHS costs;
  - For the consumer this means that public health will continue to be protected through the production of safe meat.
  
3. The critical success factors for a transformed MHS to succeed are:
  - Meeting the three year financial targets:
    - reduce costs by efficient deployment of MHS operational resources;
    - increase income from industry through introduction of a new charging system;

- secure investment funding to continue to: develop IT systems to deliver more automated processes; develop the capacity and capability of responsive, locally-based operational teams; and release staff where posts are no longer required;
- Supporting the FSA in negotiating proportionate, risk-based official controls by taking part in trials of new approaches and providing scientific evidence of their effectiveness;
- Being regarded as a competent and credible organisation which delivers its core functions of protecting public health and animal health & welfare effectively, and commands the confidence of key stakeholders. We will build strong stakeholder relationships, work in partnership to improve standards and compliance, and take stakeholder views and concerns into account when developing policies and processes. ;
- Creating a culture that engages MHS staff and secures their ownership of efficiency, effectiveness and continuous improvement, including agreement with Unison on future terms and conditions;
- Developing a TMHS workforce which is motivated and has appropriate knowledge, skills and professional experience to deliver stakeholders' needs locally. We will encourage joined-up working between our teams, across clusters and with stakeholders in order to be responsive, effective, efficient, flexible, and provide value for money for tax payers;
- Implement a robust commercial contract for the supply of effective LVs, OV's and MHIs at an acceptable cost.

## **Financial performance**

4. The **key financial headlines** for the transformed MHS are:

- a) MHS has defined and initiated business improvements to reduce costs in real terms from £91m in 2006/7 to £74m by 2011/12, a reduction of £17m (19%); In monetary terms allowing for inflation at 3% the costs reduce to £83m by 2011/12
- b) MHS and FSA have costed further opportunities agreed by the Board to reduce or eliminate some MHS frontline tasks. These are supervision of certain Specified Risk Material (SRM)<sup>1</sup> tasks, and encouraging the adoption by FBOs of PIAs in poultry abattoirs, provided that we can secure

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<sup>1</sup> SRM comprises those parts of the animal most likely to contain BSE infectivity, including spinal cord, vertebral column and other body parts closely associated with the central nervous system.

the support of FBOs and other influential stakeholders and provide the right financial drivers. These two opportunities are estimated to reduce costs by a further £7m per annum, to £67m by 2011/12;

- c) MHS performance has met and exceeded the financial targets set for 2007/08:

**Full year provisional results for 2007/08** (excluding transformation costs)

	<b>Actual 2007/08</b>	<b>Budget 2007/08</b>	<b>Variance against budget</b>
Gross Expenditure	£86.9m	£88.8m	£-1.9m
Net Cost of Operations	£31.2m	£34.9m	£-3.7m
Cost per Livestock Unit	£13.21	£13.59	£-0.38

**Detail**

*Changes in operating environment*

5. The many changes in the MHS operating environment in delivering official controls since its establishment are illustrated graphically in **Annex 3A** in terms of costs, income and livestock units.

*Three year financial plan*

6. During the next 3 year period, the MHS will transform rapidly, decreasing costs by almost 16% in real terms since 2006/07. Table 1 below shows the financial forecast to 2010/11 in real terms (excluding the effect of inflation).

**Table 1 – Financial forecast in real terms (in £million)**

	<b>2006/07</b>	<b>2007/08<sup>2</sup></b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
<b>Total Operating Costs</b>	<b>91,327</b>	<b>86,984</b>	<b>82,489</b>	<b>77,396</b>	<b>76,830</b>
Industry Regulated Income	(23,427)	(23,772)	(24,274)	(26,237)	(31,809)
Industry SRM Income	0	0	0	(395)	(701)
Government Income	(34,610)	(31,971)	(27,147)	(26,752)	(26,028)

<sup>2</sup> Provisional results to be audited in April/May

	2006/07	2007/08 <sup>2</sup>	2008/09	2009/10	2010/11
Revenue	(58,037)	(55,743)	(51,421)	(53,384)	(58,538)
Net Cost of Operations	33,290	31,241	31,068	24,013	18,293
Total Set up Costs	0	11,192	8,071	4,475	1,300
Operating Cost Per Livestock Unit	£14.11	£13.21	£12.52	£11.75	£11.66
Livestock Units	6,473	6,577	6,588	6,588	6,588

7. In real terms, the total cost of operations for 2008/09 has been forecast at £82m, a 5% saving on 2007/08. Income of £27m from Government and £24m from industry is forecast. This gives a net cost of operations of £31m. However, allowing for the impact of inflation, the MHS net cost target for 2008/09 has been set at £32m.
8. The primary drivers of **cost reduction** underpinning the three-year financial plan are:
- a) MHS staffing levels in all approved abattoirs have been reviewed, resulting in a reduction of 134 frontline posts, saving £4m per annum;
  - b) A new management structure is being implemented enabling a 75 post reduction by 2009/10, saving an estimated £4m per annum;
  - c) The current regional office structure is being decommissioned saving £1.7m;
  - d) Introduction of a new charging mechanism in 2009/10 to incentivise FBOs to work closely with the MHS to reduce input costs. The MHS has been working in close partnership with industry stakeholders, FSA, DEFRA, Scottish Government and Welsh Assembly Government in developing proposals. To date, four meetings have taken place. In addition, a joint FSA/MHS/Industry team has been formed to examine optimal use of MHS resources at individual premises and identify possible changes to MHS delivery, legislation and industry practices. A programme of abattoir visits

by the team has been agreed and is underway. A further project is progressing to help FBOs make more efficient use of the MHS by establishing service agreements between the MHS and FBOs covering issues including operational hours, stock delivery times, MHS staffing levels, overtime working, and problem resolution. Industry stakeholders are also involved in this project;

- e) A review of FSA/MHS corporate services has been completed resulting in a commitment to work closely together to reduce costs. MHS is continuing to reduce corporate services headcount, through both natural turnover and voluntary severance. During implementation of the new operational delivery structure, further changes will be made to corporate services;
- f) A Resourcing and Flexibility Group including representatives from across MHS is developing proposals on terms and conditions for negotiation with Unison. Meetings continue to be held regularly with Unison and positive moves forward are being made. We are optimistic that common ground will be found and a resolution reached to outstanding issues in April/May. The proposals for revised terms and conditions include:
- working time to be accounted for on a four-weekly basis;
  - a review of allowances;
  - a review of rest break provisions;
  - allocation of operational staff to work within cluster boundaries;
  - a review of the Managing Attendance Policy to facilitate more timely management of short term sickness absence;
  - revised mileage rates; and
  - issue of new contracts of employment to reflect these terms and conditions;
- g) MHS and FSA have costed further opportunities agreed by the Board to reduce or eliminate some MHS frontline tasks. These are supervision of certain SRM tasks, and encouraging the adoption by FBOs of PIAs in poultry abattoirs. Work on these opportunities is progressing, and if we can secure the support of FBOs and other influential stakeholders and provide the right financial drivers, it will be possible to reduce frontline resources by an estimated 200 FTE, saving the £7m per annum referred to in paragraph 12b above.

9. The cumulative effect of these cost reductions is shown graphically in **Annex 3B**.

#### *New management structure*

10. To meet the future challenges effective management is being put in place throughout the organisation, able to rapidly turn regulatory reform into action at the frontline and drive out the performance improvements necessary to reduce operational costs. Public health, and animal health and welfare continue to be the key priorities for the MHS.
11. The MHS Senior Management Team is being renewed and refreshed. This includes replacing the HR Director; removing the Corporate Services Director post; removing five Regional Director posts through the decommissioning of the regionally-based operational management structure; two new posts of Business Director have been created (and are being recruited) to lead the new operational management team; and recruiting a new National Contract Manager.
12. The Senior Management Team is fully accountable and totally focussed on delivering official controls as effectively and efficiently as possible and meeting all targets set by the FSA Board. The possibility of a control body pilot is not necessary to encourage the MHS to modernise.
13. The new operational structure shown in **Annex 3C** and management team, selected through rigorous externally facilitated assessment centres, will:
  - improve the efficiency and responsiveness of delivery;
  - maximise the use of veterinary expertise;
  - improve the focus on contract and performance management, team leadership and stakeholder relationship management;
  - allocate MHS resources to approved premises in 37 specific areas known as 'clusters' (see paragraph 8 below);
  - improve the operational IT infrastructure to support e-enablement of key processes from plant to MHS; and
  - improve partnership working with the private sector suppliers for OVs and MHIs and test the merits of future options to allow informed, evidenced based decision making.

14. Implementation of the new operational structure and management team is progressing rapidly. Assessment centres were held during February and March to select the Business Managers (BMs) and employed Lead Veterinarians (LVs). Applications have now been received for the two Business Director positions and the National Contracts Manager post. The assessment centre for the Business Director positions will be held on 30 April and interviews for the National Contracts Manager will be held on 9 May.
15. Twelve Business Managers have now been appointed, and formally took up their new responsibilities on 1 April. A leaflet explaining their role has been circulated to key stakeholders. Ten employed Lead Veterinarians have also been appointed and took up their new roles on 7 April. As we have not appointed sufficient employed LVs for one to be allocated to each Business Manager, an external recruitment exercise is being run to achieve this goal.
16. The role of the Business Managers and Lead Veterinarians in working with FBOs to continuously review and challenge the hours required for delivering official controls is crucial. Business Managers have already been set the challenge of thinking about delivering MHS responsibilities differently from day one. To do this our Business Managers will work with all our employed and contracted staff to seek continuous improvement in the performance of our business. We accept that this will create challenges to our current systems and processes, however this is welcomed. Uniquely, our approach to partnership working with our suppliers will give them the opportunity through the contract Lead Veterinarian and contract Official Veterinarian roles to really add value to our business by directly influencing business performance through the management of resources – proposing and deploying new ideas. The key management roles of Business Manager and Lead Veterinarian will continue to be locally based in order to manage MHS resources on the ground and deal with issues locally with FBOs, industry representatives and the Scottish and Welsh Assembly Governments.
17. The cluster geography has been defined and refined in partnership with our suppliers, and has resulted in 37 clusters of approved premises. A map showing the distribution of clusters is at **Annex 3D**. The key principles underpinning improved business delivery in every cluster are:
  - Public health, and animal health and welfare continue to be the key priorities for the MHS;

- The contract will be tendered on a cluster basis, and contractors will be encouraged to work together with veterinary practitioners to meet local needs. Special consideration is being given to the Scottish Islands;
- Over the life of the contract, clusters will be managed by either:
  - Employed LV supported by official veterinarians (OV) supplied on a contract basis; or
  - A contractor managed service.
- In each managed service cluster the contractor will provide a named individual to perform the role equivalent to the LV;
- 1 Business Manager will manage 3-4 clusters and will have at least 1 employed LV in the local management team;
- Over the life of the contract, we will periodically review the resourcing approach and evaluate future options.

#### *Contracting for OV and MHI services*

18. Considerable work is required with our delivery partners to deliver our proposals and we are involving them directly in the development of our implementation plans. We believe the introduction of clusters represents a real opportunity to strengthen our relationship with our contractors and consequently improve the quality and effectiveness of business delivery in each plant.

A key component of the introduction of clusters is the completion of a tender exercise to secure the contract veterinarians and meat hygiene inspectors we require. An advertisement inviting expressions of interest in tendering was placed in early February. This was followed by road shows in Stirling and Birmingham in mid-February to enable potential contractors to hear about MHS plans. We hope that this encouraged smaller contractors who could not bid for a whole cluster to consider sub-contracting or banding together to deliver a whole cluster. The 58 contractors who responded have now been sent a pre-qualification questionnaire for completion by 25 April. This number includes 17 contractors who have expressed an interest but who have not worked for the MHS previously. The special requirements of the Scottish islands have been recognised and appropriate arrangements will be put in place for them. The pre-qualification exercise will lead to an approved bidders list for the formal tender round.

19. We are working with a range of professional and GB government contacts to ensure a robust selection process for suppliers. Representatives from all GB governments have been invited to be part of the tender evaluation panel, including Scottish Government and Welsh Assembly Government representatives nominated by the Chief Veterinary Officers for Scotland and Wales. We are also actively involving the British Veterinary Association and their Scottish and Welsh branches. We expect to allocate clusters and complete set-up between October and December 2008. Between January 2009 and March 2009 we will operate a live test of our new delivery arrangements, improving as necessary before the full go-live in financial year 2009-2010.

*Decommissioning the regionally-based operations structure*

20. The planned closure of the five regional offices and decommissioning of the regionally-based operations management structure is underway. The 12 Business Managers are now responsible for service delivery within their respective areas and are ensuring that a planned handover from the Area Managers occurs as they leave the business. The current timetable for the regional office closures and the number of staff affected by the decommissioning of the regional structure is:

31 March, Cardiff - 20 staff covering Wales and the English Marches

31 March, York - 18 staff covering the North of England

31 May, Edinburgh – 16 staff covering Scotland and parts of Cumbria

30 June, Taunton – 22 staff covering the South and West of England

31 August, Wolverhampton – 31 staff covering Central England (the Midlands and East Anglia)

21. FBOs will be informed of the changes as they occur. There will be no disruption to the day-to-day work at plant level. Many administrative functions are being transferred to the MHS headquarters in York. In order to ensure continuity of service a temporary “transition hub” has been created in York.
22. A Voluntary Severance scheme to reduce staff numbers in line with the transformation plan was launched on 12 January and by 31 March, 53 volunteers had committed to a leaving date no later than 30 June 2008. We

are supporting all our displaced staff in finding and securing new opportunities for work in the civil service.

### *IT strategy*

23. The transformed MHS is placing very heavy demands on the IT department as it strives to introduce efficient, e-enabled automated processes in support of reducing the support department overhead. Projects recently delivered and/or being piloted include:
- MHS Extranet – ability for any registered stakeholder give and/or receive MHS information securely across the Internet;
  - Establishments and People – a fully integrated system that will enable core business data to be created, updated or viewed across the MHS Intranet and Extranet providing secure access to shared information consistently to MHS staff and trusted stakeholders;
  - Employed staff and Contract staff timesheets are completed on line via the MHS Intranet or Extranet, enabling front to back office electronic data processing without any manual intervention. The Contractor Payments system is currently being developed to enable electronic generation of contractor invoices, linked to the financial systems for payment;
  - Food Chain Information/ Collection & Communication of Information & Results for pigs – Food Chain Information is received either electronically or on paper from the Food Business Operator and verified by the MHS. The Inspection Results are collected by MHS staff and keyed into the MHS system at plant on plant PCs and reported back to the producer either via the MHS Extranet or the British Pig Executive web portal;
  - Throughput for Charging – the ability to electronically enter and authorise throughput for charging information. This data is electronically interfaced into the finance charging system to complete the full end to end process. This system will also give cutting plants the ability to enter their own monthly throughput figures via the MHS Extranet.
  - Animal Welfare – will allow employed and contract OVs to electronically record animal welfare issues in plants on a daily basis.
24. End Year Flexibility funding of £900k in 2007/08 has enabled:

- A hardware refresh of 4-5 year old equipment which will enable the delivery of better speed and performance in plants and will also provide the platform for future increased e-enablement and decreased reliance on paper based systems in plant;
- Continued upgrade to the MPLS Network for IT in Meat Plants will enable broadband up to 8mb in plants capable of receiving it and will give an improved service for those plants in more rural locations not able to receive any form of broadband;
- Extension of Extranet project to allow the registration of more stakeholders groups including FBOs, producers, veterinary practices, government departments, and employed staff working from any location;
- Development of a Geographical Information System to support effective deployment of MHS operational resources;
- A greater degree of Business Continuity/Disaster Recovery capability to mitigate the risk associated with moving to a greater reliance on e-enabled processes in the future;
- Deployment of Microsoft Sharepoint Server 07 has enabled the MHS to run parallel systems for the transformed MHS business, including those associated with the decommissioning of Regional Offices and new management structure.

25. Investment funding and development resource is required to deliver e-enablement more quickly than can be achieved with current resource levels, which in turn will enable TMHS to realise savings/ benefits faster than planned. Future developments, depending on funding availability, will include:

- New charging system
- Ante and post mortem inspection results for all species
- End to end enforcement from approvals through to prosecutions
- Additional Establishments and People modules, such as Authorisations, Slaughter Licences and OV Approvals
- Self service information – including Sickness and Annual Leave notification, on line travel & subsistence claims and other HR e-enabled processes
- Electronic document and record management
- Health & Safety system
- Plant audit system
- Performance Management Monitoring and Reporting

26. The MHS is working closely with the FSA to ensure that there is collaborative working and no duplication of systems across the two organisations.

#### *Transformation investment*

27. In 2007-08, investment costs for transformation amounted to £11.2m, made up of £9.6m redundancy, £0.3m consultants, £0.9m IT, £0.1m recruitment and £0.3m accommodation. Transformation costs have been funded by an increased budget delegation for 2007/08 together with an improvement in Net Operating Cost against budget due to better than forecast cost reductions already achieved and additional revenue received from government customers. The latest MHS Transformation financial model indicates that the estimated pay-back period for this investment of £11.2m will be less than two years from the end of the 2007/08 financial year.
28. To meet further staffing reductions in 2008/09, significant additional investment for both severance and IT will be required. This is expected to be in the region of £8m producing a pay-back period of less than eighteen months from the end of the 2008/09 financial year. An initial delegation to the MHS of £3m has been provided.

#### **Stakeholders**

29. Both FSA and MHS are aware of the importance of ensuring that the elected administrations are engaged in the issues raised by the review of official controls. Appropriate ministers across all four UK countries have all received an information update on the review. FSA and MHS have had a number of meetings with key officials and ministers across UK from the England, Scotland and Welsh administrations, and are planning more. A briefing note is also being prepared for all elected members to all UK Parliaments/Assembly. The Food Advisory Committees in Scotland and Wales have received updates on the work that is underway to transform the Meat Hygiene Service.
30. Frequent informal meetings are held with key industry stakeholders on MHS transformation. Through collaborative working with stakeholders both collectively and individually, for example the working group on charging, increasing confidence in the MHS's ability to transform is being expressed.

31. The MHS issues a monthly newssheet called “LINK” to FBOs, industry and government stakeholders and the specialist press to update readers with information about the work of MHS as well as the transformation programme.

### Issues/ Risks

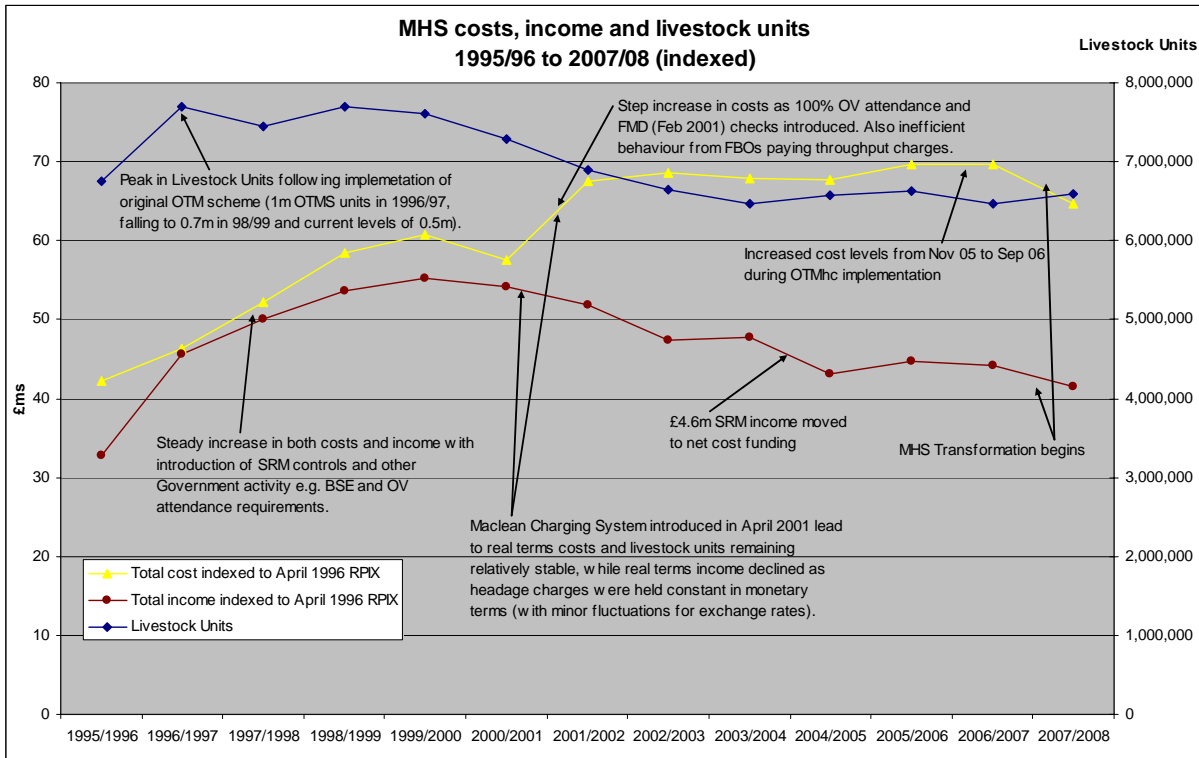
32. Issues/ risks affecting the delivery of a transformed MHS include:

- Speed of transformation – Maintaining the right balance to effectively and progressively reducing costs whilst maintaining effective public health controls and satisfying stakeholders that meaningful change is taking place.
- Charging – Providing an acceptable balance between reducing overall costs and increasing industry charges to reduce the net cost of operations funded by the FSA.
- Devolved administrations – ensuring that a Transformed MHS meets the (potentially conflicting) policies of the three GB administrations.
- Staff issues
  - i. Taking account of the impact on MHS staff in managing the transformation process;
  - ii. Capacity of OV and how this is being managed;
  - iii. Future of inspection staff - SMHIs, career development issues and managing expectations;
  - iv. Staff will not leave unless incentivised to do so.
  - v. Cabinet Office – Impact on timing of releasing resources
- Legislative changes to drive efficiency
  - i. SRM changes
  - ii. Increasing use of PIAs
  - iii. Optimisation of MHS resources

33. Further detail on mitigating these risks is shown at **Annex 3E**.

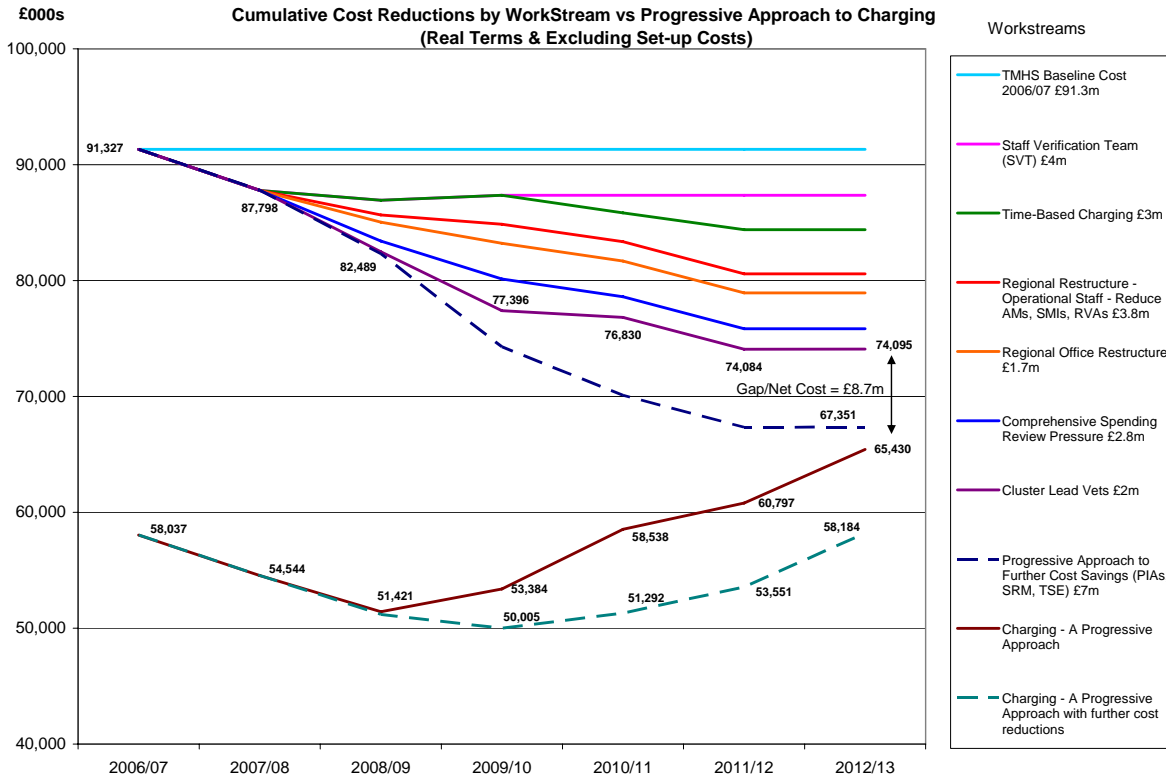
## Annex 3A Where have we come from?

The following graph illustrates the many changes in the MHS operating environment in delivering official controls in terms of costs, income and livestock units, and identifies the impacts of policy changes and environmental factors.

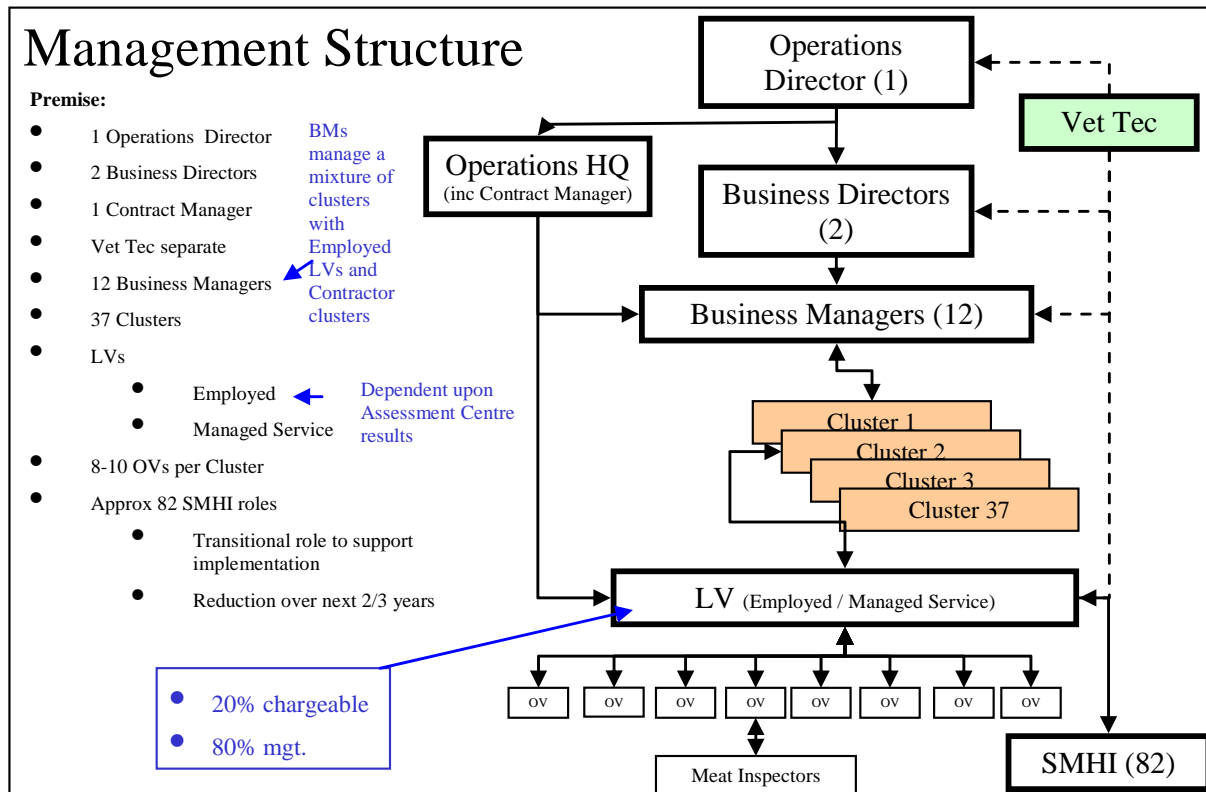


MHS transformation cost drivers

The cumulative effect of the MHS cost drivers and the progressive approach to charging increases is illustrated in the graph below.



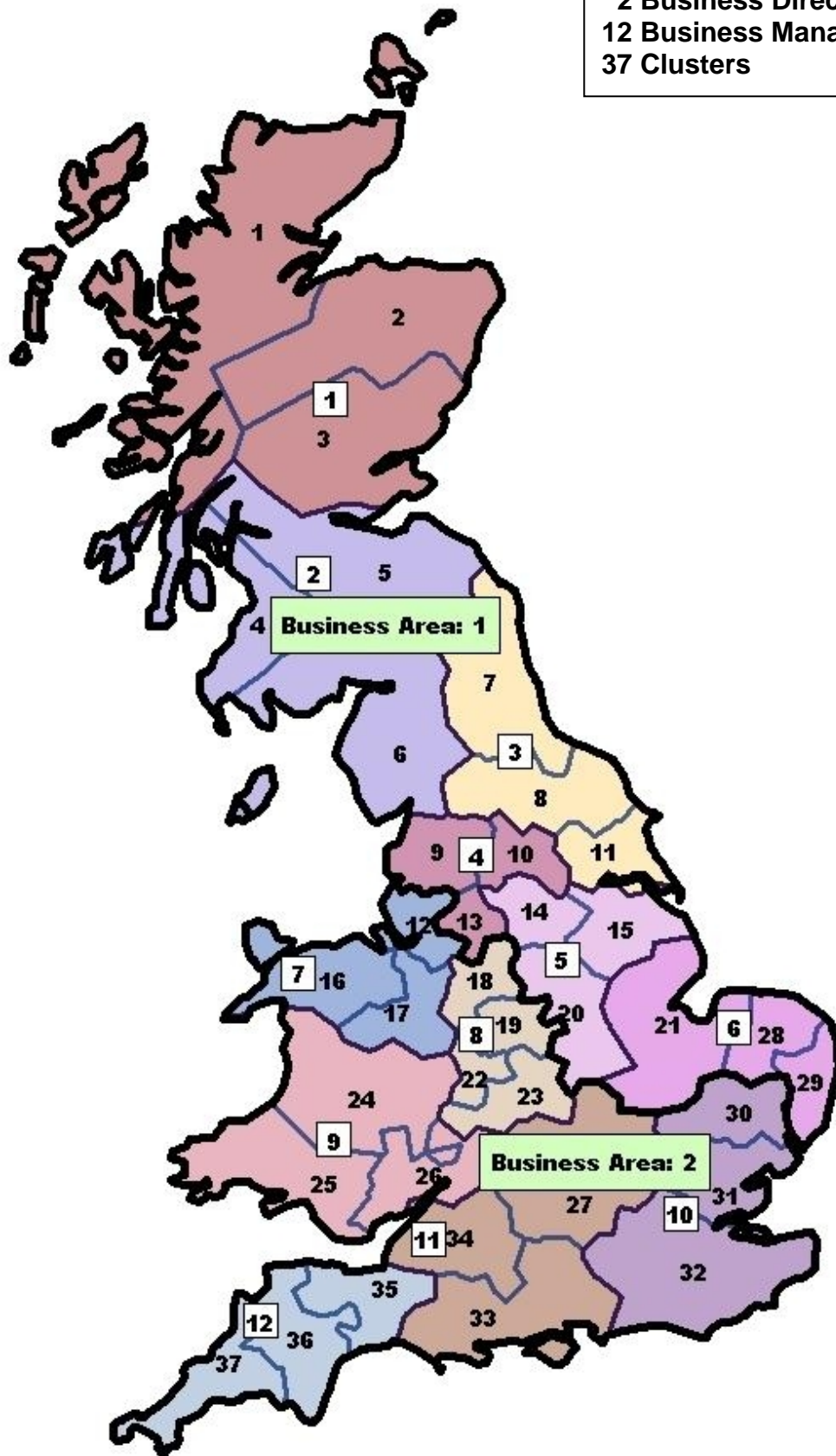
## Transformed MHS operational delivery structure



- Business Managers appointed March 2008
- Lead Veterinarians (LV) appointed April 2008
- Additional employed LVs – external open competition – being appointed to achieve goal of one employed LV for each Business Manager
- National Contract Manager – external open competition – to be appointed June 2008
- Business Directors – external open competition – to be appointed July 2008
- Work underway to define the future SMHI role 2009-2010

Clusters Map

2 Business Directors  
12 Business Managers  
37 Clusters



## Issues/ Risks – mitigation

- Speed of transformation – Maintaining the right balance to effectively and progressively reducing costs whilst maintaining effective public health controls and satisfying stakeholders that meaningful change is taking place.

*Mitigation: Director of Operations is focussing on maintaining business as usual continuity. Implementation plan phases introduction of new structure and removal of the old. Business Managers are ‘walking the patch’ before the Area Managers leave the MHS.*

- Charging – Providing an acceptable balance between reducing overall costs and increasing industry charges to reduce the net cost of operations funded by the FSA.

*Mitigation: Proposals for new charging system being developed with stakeholders. Four stakeholder meetings held in March/April. The devolved administrations in Scotland and Wales have participated. Alternative proposals have been received from some industry organisations for consideration. Proposals to be discussed by MHS Board, and the Food Advisory Committees in Scotland, Wales and Northern Ireland before coming to FSA Board in July.*

Devolved administrations – ensuring that TMHS meets the (potentially conflicting) policies of the three GB administrations

*Mitigation: MHS will work closely with all the Health and Rural Affairs Departments.*

- Staff issues
  - i. Taking account of the impact on MHS staff in managing the transformation process.  
*Mitigation: plans for reviewing and renewing culture, value and behaviours will be developed as part of the induction and development of the new transformation posts. Programme Office Manager and Benefits Manager temporary roles have been made available to “at risk” staff. No response and the opportunities have been made available to all staff.*
  - ii. Capacity of OV to be team leader.  
*Mitigation: Project team and operational managers developing practical phased approach to the transfer of responsibility to OVs in true partnership with contractors to establish significant areas of concern and adopt a process that will drive through this change to ensure that OVs have the necessary skills.*
  - iii. Future of inspection staff - SMHIs, career development issues and managing expectations.  
*Mitigation: Future MHI resourcing strategy being developed by HR Director. SMHI role being reviewed – workshop held on 8/9 April workshop with SMHIs. BMs and LVs will assess their areas/clusters and determine optimal SMHI deployment.*

- iv. Staff will not leave unless incentivised to do so.  
*Mitigation: The initial VS scheme is now complete. Offers have been accepted by 53 applicants (including some "at risk" staff who did not secure a new position). All these staff will leave the MHS by end June.*
- v. Cabinet Office – Handling of any compulsory redundancies is a key area of concern for the Cabinet Office and may Impact on timing of releasing resources.  
*Mitigation: Meetings being held with Cabinet Office. Briefing note prepared to update FSA on Cabinet Office discussions. HR Advisers working positively across all regional offices to support staff in finding alternative roles. Regular meetings being held with Unison. The link to pay has enabled meaningful discussions to take place on revised terms and conditions. Expect significant progress to be made before May 2008 FSA Board meeting.*
- Legislative changes to drive efficiency  
*Mitigation: Challenge has been put to FSA to deliver / influence reform in EU. Further savings that can be delivered without major legislative change include:*
  - i. SRM changes: Step 1 implemented (removal of personal stamps and implementation of spot checks of imported carcass meat). Step 2 changes due to be implemented by April 2008 but there have been delays in agreeing practical instructions for moving to audit-based approach for official controls of SRM, removing need for full-time OV presence to verify removal of UTM SRM at micro businesses with high levels of compliance. Approval for step 3 to be sought from FSA so that MHS can proceed with advising affected at risk staff
  - ii. Increasing use of PIAs – MHS working with FSA and British Poultry Council.
  - iii. Optimisation of MHS resources – MHS/FSA/Industry team visiting abattoirs to assess methods of operation and impact on MHS staffing levels.