

PROPOSED CHANGES TO CHARGING ARRANGEMENTS AND CHARGING RATES FOR OFFICIAL MEAT CONTROLS

EXECUTIVE SUMMARY

1. The FSA Board agreed at its meeting on 17 July 2008 that, subject to Ministerial clearance, the Agency should consult on proposed changes to the charging system and charging rates for official meat controls for introduction in 2009/10. The details of the proposals were subsequently modified to take account of increases to certain minimum charge rates that were required under European law from the start of 2009, cleared for consultation with Ministers in all four countries of the UK, and issued for a 14 week period of public consultation that ended on 25 March 2009.

2. The Board is now asked to:
 - a) **agree** final proposals, as summarised at paragraph 9 of this paper and explained in detail at **Annex 1**, for submission to Ministers in the four countries of the UK to seek their agreement to the proposals being implemented via secondary legislation from 29 June 2009; and
 - b) **note and comment** on the approach set out in paper FSA 09/04/06 and referred to in paragraphs 15 and 16 of this paper for re-setting the timescale for reducing the level of support to industry from full cost charges to £10m so that it would be achieved over the next five years.

FOOD STANDARDS AGENCY AND MEAT HYGIENE SERVICE

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PROPOSED CHANGES TO CHARGING ARRANGEMENTS AND CHARGING RATES FOR OFFICIAL MEAT CONTROLS

Issue

1. To seek the Board's agreement to proposed recommendations to Ministers in all four countries of the UK for changes to the charging system and charging rates for official meat controls via new secondary legislation in each country from 29 June 2009.

Strategic Aims

2. Without adversely affecting the primary and overriding aims of ensuring businesses meet their responsibility of producing safe meat and of protecting animal health and welfare;
 - a) to provide incentives, through charging, for meat businesses to improve standards/compliance and make more efficient use of MHS/DARD resources;
 - b) through the dual approach of reducing overall costs of official meat controls and increasing charging levels, to reduce the cost to the Agency (and therefore taxpayers) of official meat controls;
 - c) to establish, to the extent possible in a single service provider environment, a more commercial relationship between the MHS/DARD and meat businesses; and
 - d) to enable, in future, the more effective targeting of any necessary continuing financial support to the meat industry.
3. In particular, the Board is asked to note that neither charging proposals, nor in the associated work to reduce the overall costs of official controls, would have implications for the Agency's primary and overriding aim of ensuring that businesses meet their responsibility of producing safe food. The proposed move to time-based charging is intended to provide incentives to businesses to raise standards and compliance by rewarding efficient and compliant businesses through reduced charges and penalising inefficient and non compliant businesses through higher charges. More generally, any policies that are agreed by the Agency to make official controls more risk-based and proportionate are subject to full scientific risk assessment and an implementation process that is monitored to check for any unintended consequences. In addition, the official control systems operated by the MHS and DARD (including presence during hours of slaughterhouse operation to carry out inspection and verification controls from ante-mortem through to post mortem, and risk-based audit of all approved meat businesses to assess businesses' food safety management systems) concentrate on ensuring businesses produce safe food. The new Business Agreement process is being used to ensure the appropriate level of official control resource is deployed in each business on an individual site level basis and a strategy is

being developed to resolve problems at businesses with poor records of compliance through a process of education and, as necessary, enforcement.

Background and Previous Board Discussion

4. At its July 2007 meeting, in addition to agreeing that official meat controls should be made more proportionate, risk based and cost efficient, the FSA Board decided that meat official control charges should be increased towards full cost recovery. The FSA Executive was tasked with developing proposals for a new meat controls charging system for introduction in 2009/10. These proposals were developed in liaison with stakeholders and, together with proposals for increased charge rates in 2009/10, were agreed by the FSA Board on 17 July 2008. The proposals were subsequently modified to take account of increases to certain minimum charge rates that were required under European law from the start of 2009. With the agreement of Ministers in all four countries of the UK, a public consultation document was issued for a 14 week period that ended on 25 March 2009.
5. Since July 2007, the MHS has delivered significant efficiencies and cost cutting measures, reducing its gross expenditure from £91.3m in 2006/07 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%). Further detail on MHS cost reductions to date is set out in paper FSA 09/04/05 that is being presented for the Board at today's meeting. Looking forward, the projection of future MHS cost reductions and the possible implications of this for future charging levels is set out in paper FSA 09/04/06 that is also being provided to the Board at today's meeting. DARD has also followed a programme of cost reductions and has reduced its costs by an estimated £264k (down by 4% on 2007/08 costs).
6. Meat Hygiene official control charges remained relatively static during the period from 2001, when the Maclean charging formula¹ was introduced in GB, to 25 May 2007 when charges were first increased following the coming into force of new charging provisions in EC legislation². Until this date charges were based on *standard* EC throughput rates that were reviewed once each year to reflect changes in the £/Euro exchange rate, but did not otherwise change. The new EC legislation set *minimum* charge rates that could be exceeded so long as charges were no higher than the full cost of official controls.

¹ The formula for calculating meat hygiene charges whereby businesses are charged either a time-costs charge or one based on the number of animals/tonnage of meat processed, whichever is less. This was introduced to support small and medium sized businesses for which full time cost charging was unaffordable.

² EC Regulation No 882/2004

Since 2007, charge rates in the UK have been increased as follows:

- 25/5/2007 to achieve a 3.5% increase in charges compared with those in 2006, to cover inflation;
- 31/12/2007 to implement the required EC minimum charge rates, having delayed doing so for as long as EC legislation allowed because some of the minima required increases to the then current rates of UK charge (i.e. the former EC standard rates of charge that were uplifted in March 2007);
- 31/3/2008 by 8%, other than:
- i) rates that had been increased by at least 8% on 31 December 2007 that were not increased again; and
 - ii) rates that had been increased on 31 December 2007 by less than 8% that were increased again to achieve a total increase of 8%; and
- 29/12/2008 to increase some UK charge rates so that they continued to comply with EC minimum rates. This was needed because of the reduction in the value of the pound against the Euro. Some of these increases were significant, for example 18% for adult bovines.

The proposal in the consultation to increase meat hygiene charges by 8.9% from 29 June 2009 would mean that UK industry would pay an estimated £30m, approximately half of the estimated total UK cost of meat hygiene controls. Prior to the introduction of the Maclean charging formula in 2001, Industry charges in GB alone amounted to £45m (at current prices).

Responses to the public consultation

7. There was a good response to the public consultation exercise including:
- a) 57 written responses, including responses from all of the main industry representative bodies;
 - b) views aired at stakeholder events in England, Scotland, Wales and Northern Ireland;
 - c) a discussion of the Advisory Body on Official Meat Controls (see summary of main views at **Annex 2**);
 - d) food business operator feedback from discussions with MHS Business Managers about plant level Business Agreements (BAs); and
 - e) consideration by the Food Advisory Committees (FACs) in Scotland, Wales and Northern Ireland (see **Annex 3**).

A summary of the main views from the consultation exercise on each of the main proposals is included in **Annexes 1A to 1G** of this paper. In addition, electronic

copies of all the written responses received have been made available to Board Members.

8. In general terms, there:
- a) was a mixed but generally supportive response to the main proposal of moving to a time-based system of charging; and
 - b) were strong concerns expressed about both the prospect of any increases to meat hygiene official control charges and the introduction of a charge for SRM/BSE controls given both the current economic downturn and the view that both MHS and DARD should remove all inefficiencies before charges are increased further or new charges are introduced.

Recommendations to the FSA Board

9. Set out below are the main proposals of the consultation and recommendations to the FSA Board on whether each proposal should be pursued, revised, deferred or dropped. In broad terms, the recommendations attempt to balance industry views on affordability and appropriateness of charges, the current economic climate, Government policies on limiting burdens to industry and on full cost recovery, and the financial requirements of the Agency. Summaries of the views expressed in the consultation responses and other factors that have been considered for each of the main proposals are set out in **Annex 1**.

Proposal 1: to introduce a new system of calculating charges for meat hygiene controls based on the time-costs of carrying out these controls.

Recommendation: to pursue this proposal (see **Annex 1A**) but to:

- a) revise some of the associated proposals relating to Business Agreements (see **Annex 1B**); and
- b) in respect of charges to poultry slaughterhouses, to drop the proposals to introduce a standard average rate of the hourly cost to businesses of employing Plant Inspection Assistants (PIAs) and to reduce from 100% to 95% the deduction made from charges in respect of these costs. It is also proposed to consider with stakeholders whether to provide incentives for businesses to employ PIAs in future, either through the charging mechanism or by other means, to the mutual benefit of businesses and the Agency. See **Annex 1C**.

Proposal 2: to increase charges for meat hygiene and animal welfare at slaughter official controls by: 4%, 6%, or an increase that would recover an additional £3 million over a full year, estimated in the consultation paper to be just under 9%. The last of these was the Board's preferred option.

Recommendation: to pursue an increase in UK meat hygiene charges of £0.84m.

This recommendation would be equivalent to a 4% increase in rates from 29 June 2009, other than to rates that were increased by at least this amount in January 2009 to comply with EU minimum rates, which would not be increased again. The increase from 29 June as a proportion of all charges would be 3%. After taking account of the increased charge rates that have applied since January 2009 to comply with EU minimum rates, the total increase in UK charges would equal £1.2m (4.4%). See **Annex 1D**.

Proposal 3: to introduce a charge to recover 5% of the cost of official controls on Specified Risk Material, including additional BSE controls that apply to cattle slaughtered for human consumption that are required to be tested for BSE.

Recommendation: to defer this proposal for consideration as part of the development of future charging proposals. See **Annex 1E**.

Proposal 4: to enable charges to be made for official controls carried out on-farm or place of origin.

Recommendation: to pursue the introduction of this new charge with the level of charge for each farm/place of origin set with reference to the charging discounts that apply to slaughterhouses with similar levels of throughput. See **Annex 1F**.

Proposal 5: to change the implementation date for future changes to UK charge rates that are required due to variations of the £/Euro exchange from the start of each calendar year to the start of each financial year.

Recommendation: to pursue this recommendation and, in addition, to change from applying an exchange rate pertaining to a single point in time to applying an average exchange rate based on the previous calendar year. See **Annex 1G**.

Impact

10. The proposed introduction of time-cost charging and an increase of £1.2m in UK meat hygiene charges for the year from 29 June 2009 (including the increase in charges from January to comply with the EC minima) would generate significantly less revenue than the £3m (GB) that was originally envisaged. To the extent that this shortfall is not met by a reduction in MHS costs, it would need to be found by reducing expenditure on other Agency work
11. The Executive does not consider that the charging proposals would impact on sustainability or on equality issues. Any effect on consumers is estimated to be minimal, at most a barely discernible increase in the price of home produced meat and products containing home produced meat. Similarly, the effect on approved meat businesses would be small relative to their total costs. The impact on livestock farmers would also be small relative to their total costs and would depend on the extent to which any increase to meat business charges were passed to them.

12. The direct effect on other Government Departments would be limited to Defra, as the planned reduction to their (GB) TSE official controls costs of £200,000 would not be delivered if SRM/BSE official control charges are not introduced, as is now proposed.
13. The proposals are fully compliant with EC law and would need to be implemented by replacement meat charges regulations in each UK country. Account has been taken in the proposals of impacts particular to the devolved administrations and of the deterioration of the economic climate since the proposals on which the Agency consulted were developed.
14. **The proposals would have no impact on public health or food safety**, and the risk of damage to stakeholder engagement and relations is likely to be minimal given that account has been taken of stakeholder views in reviewing the charging proposals.

Charging proposals beyond 2009/10

15. In addition to the proposals set out in paragraph 9 above there has been a strong and consistent call from industry representative bodies for clarity regarding charging proposals beyond 2009/10. The general industry view, and one that was expressed strongly at the Advisory Body meeting on 1 April, is that proposed charge rate increases across a run of years are needed to allow businesses to plan effectively. This view has been adopted by the Executive and we are committed to developing a longer term plan for charge increases. However, this is complex and needs to take account of a number of uncertainties, for example:
 - (a) further MHS/DARD cost reductions, including those arising from the introduction of more proportionate and risk-based official controls;
 - (b) future movements in minimum charge rates that are dependent on the £/Euro exchange rate;
 - (c) EC legal provisions on charging and the outcome of a current review of these provisions by the European Commission;
 - (d) the need to review the distribution of discounts (between businesses and sectors) from full cost charges in close liaison with Rural Affairs Departments and industry stakeholders; and
 - (e) the political appetite in all four countries of the UK for moving towards full cost recovery, particularly in the present economic climate.
16. The long term financial planning of the MHS and the possible consequences of this for charging levels has been presented at today's meeting, see paper FSA 09/04/06. **This paper indicates that charging levels would need to increase by 3% - 4% in 2009/10 and 2010/11 and by 7-8% in each year thereafter if the level of Agency/taxpayer support to industry from full cost charges for official meat hygiene controls is to be reduced to £10m by 2014/15.**

Board Action Required

17. The Board is asked to:

- **agree** the recommendations on each charging proposal (as set out in paragraph 9 above and discussed in **Annex 1**) for implementation, subject to Ministerial agreement, via new secondary legislation on 29 June 2009; and
- **note and comment** on the approach set out in paper FSA 09/04/06 and referred to in paragraphs 15 and 16 of this paper for re-setting the timescale for reducing the level of support to industry from full cost charges to £10m so that it would be achieved over the next five years.

ANALYSIS OF THE RESPONSES TO THE PUBLIC CONSULTATION

Proposal 1

1. To introduce a new system of calculating charges for meat hygiene controls based on the time-costs of carrying out these controls.

2. This proposal would mean that time-based charging would replace the current charging arrangements under which most slaughterhouse operators and approximately half of cutting plant operators pay a flat rate of charge based on throughput. The intention is that this change would provide an incentive to businesses to improve standards and compliance and make optimum use of MHS official control time, thereby helping to reduce the costs of delivering official controls whilst ensuring the continued effectiveness of the controls. Under a time-cost charging system, efficiency and compliance would be rewarded if official control time could be reduced, whilst, conversely, inefficiency and non compliance requiring additional official control time would be penalised through charges being made for the extra hours worked. Time-cost charges would also be more transparent in that the charge would in all cases relate to the actual time/cost of official controls carried out. It would also provide a flexible means of charging that could be adjusted in future to target the available support from the cost of charges more effectively to businesses that are most likely to be in need.

Summary of consultation comments

3. There has been a mixed but generally supportive response to this proposal. The majority of industry representative bodies (including the British Meat Processors Association, the British Poultry Council, the Scottish Association of Meat Wholesalers, the Scottish Beef Cattle Association, Quality Meat Scotland, the NFU, NFU Cymru, the Northern Ireland Meat Exporters Association, the Livestock and Meat Commission for Northern Ireland, and the Agriculture and Horticulture Development Board (includes the former Meat and Livestock Commission), supported the proposal. Most indicated that they agreed that time-cost charging would drive the right attitudes to help produce an efficient official controls service, reduce official controls to appropriate levels and therefore reduce the overall cost of controls. However, many of these organisations also raised some concerns about time-cost charging that would need to be managed. Many of these concerns were the main reasons why other trade representative bodies (including the Association of Independent Meat Suppliers, the Farmers' Union of Wales and NFU Scotland, the Country Land and Business Association, the Scottish Federation of Meat Traders' Association, the National Beef Association, and the National Beef Associations for Scotland and Northern Ireland indicated opposition to time-cost charges. The main reasons for opposition were that:

- a) time-cost charging might encourage the MHS/DARD and MHS contractors to increase official control time to generate extra revenue. In this respect, a

number of the responses stressed the importance that official control time must be monitored to ensure that the risk is not realised;

- b) some businesses might cut corners in striving to reduce official control time for which they would be charged and thereby take risks relating to public health and/or animal health and welfare; and
- c) no changes should be made to the charging system whilst it is possible for MHS/DARD to become more efficient and cost effective.

4. A number of concerns were also made by representative bodies in relation to issues that are associated with time-cost charging, including:

- a) that Business Agreements would need to be used more flexibly than proposed in relation to the hours within agreements that should be charged; and
- b) the lack of an incentive in the charging arrangements for poultry slaughterhouses to employ Plant Inspection Assistants (PIA) to carry out official controls.

5. Finally, whilst generally supportive of the proposal to transfer from the current charging system to the proposed time-cost system without creating winners, losers and market distortions, some of the industry representative bodies raised the point that the current charging discounts, and therefore the discounts that would apply on transferring to the new system, have an inverse relationship with the efficiency with which businesses use official control resources. That is, that businesses that now make efficient use of official controls, many of which will have invested and/or changed working practices to enable them to do so, are likely to have a smaller discount than businesses that are either unable to use MHS/DARD resources efficiently or have not taken steps to do so. Businesses with small discounts would also have less scope to make more efficient use of official control resources in future to further reduce charges. Some responses have also suggested that there are inequalities between industry sectors in the current distribution of the discounts.

6. The main concerns expressed by individual business operators were that:

- a) all businesses would be expected to pay the same rate of charge regardless of their size or ability to pay;
- b) they could not afford to pay the full time-cost of official controls; and
- c) there would no longer be significant levels of support provided to small geographically remote businesses.

Discussion

7. The industry's concern relating to the possibility of MHS, DARD and MHS contractors unnecessarily increasing official control time to increase charging revenue from industry, is as important to the Agency as it is to industry since the Agency would fund, on average at current charging levels, approximately half of any increase in official control time that is chargeable to industry. This risk will be monitored via the Business Agreement (BA) process, the associated appeals

processes, and through monitoring of MHS and DARD progress in reducing the overall costs of official controls and associated overheads without compromising public health, animal health and animal welfare. Subject to the results of this monitoring, more specific audits could be carried out if necessary to address any particular concerns that may arise. It should be noted that, as a result of voluntary severance schemes, the MHS now has significantly less staff. There was a reduction in the MHS headcount of 410 staff between 2006/07 and 2008/09 and 319 of these posts were frontline. In addition, the MHS has no plans to recruit additional meat inspectors in the immediate future. This would seem to mitigate concerns that the MHS would seek to increase official control time from employees because there is far less MHS resource available. In addition, monitoring contractor hours and ensuring that these are in line with the requirements for the efficient delivery of official controls would remain a key part of the management function of the new MHS operational management structure.

8. The concern relating to the possibility of businesses cutting corners and thereby generating risks to public health and/or animal health and welfare would be managed by MHS/DARD, in liaison with business operators, through the BA process and by MHS/DARD taking corrective action as necessary in plant. As explained in paragraph 3 of the main paper, the priority of the Agency is to ensure that food safety controls in meat businesses are and remain effective. Whilst it is important to take all opportunities to make official controls more proportionate, risk-based and cost effective, systems are in place within the Agency and at business level to ensure appropriate official controls are undertaken to help businesses produce safe food.

9. The Agency fully accepts that more can and must be done to maximise the efficiency and cost effectiveness of MHS/DARD. However, the introduction of time-cost charges is a key change that would help deliver these improvements and, as such, should not be deferred.

10. The concerns raised about (i) the Business Agreement process and how it relates to time-cost charging, and (ii) the incentive for poultry slaughterhouse to employ PIAs are dealt with in **Annexes 1B and 1C** respectively. In summary, however, it is proposed to provide some additional flexibility in deciding whether working hours set out in BAs should be charged, to drop two specific proposals relating to the treatment of PIA costs in the charging calculation, and to undertake further discussions with the poultry sector and other stakeholders on whether incentives should be provided, either through the charging mechanism or by other means, for poultry slaughterhouse to employ PIAs.

11. As regards the current distribution of discounts from full cost charges, this has arisen from the operation of the Maclean charging formula over the last eight years and it is accepted that there are likely to be some anomalies of the sort indicated in consultation responses. It is recommended that, whilst it is appropriate not to create winners, losers or market distortions on transferring to time-cost charging, it will be necessary to review the distribution of discounts, in liaison with Rural Affairs Departments and stakeholders, to determine whether any changes to the

distribution, within the legal framework set out in European legislation, should be made in future. In doing so, full account would continue to be taken of the continuing need of small rural meat businesses to be protected from the full cost of controls. This analysis would be required regardless of whether time-cost charging is introduced and would become increasingly important as the size of the support that is available to industry reduces in future years.

12. With regard to the concerns raised by individual food business operators, these are dealt with by the original proposal for transferring from the current charging system to time-cost charging which provides that:

- a) discounts from the full cost of time-cost charges would be based on the current charging mechanism. This means that, if everything else remains constant, the relativities between charges currently paid by different businesses would be retained on transferring to time-cost charges; and
- b) the transition to time-cost charges would not in itself increase the amount of charges payable if official control time after 29 June 2009 remains the same as it was in the 2008/09 financial year. Charges would be calculated on the basis of full time costs and these would then be discounted to the level of the charges which applied in 2008/09. Increases to charging levels on 29 June 2009 would be subject to a separate decision (see **Annex 1D**). Increases to charge rates beyond 29 June 2009 will either be required to comply with possible increases to EC minimum charge rates that are subject to the £/Euro exchange rate, or to implement future proposals for increases to charges to further increase the industry's share of the costs of official meat controls. These possible reasons to increase charge rates in future would apply regardless of the type of charging system that is in place.

Recommendation: to pursue the introduction of time-cost charging and, in response to stakeholder comments, to:

- a) continue to monitor the overall costs of official controls to ensure that the overall trend in costs is downwards;
- b) monitor the outcome of the Business Agreement and associated appeal processes in achieving agreement between businesses and the MHS/DARD on the level of official control time/resource that is required in each business;
- c) revise certain aspects of the proposals relating to the linkage of time-cost charges with the BA process (see **Annex 1B**);
- d) drop proposals relating to the treatment of PIA employment costs (see **Annex 1C**); and
- e) evaluate the impact of time-cost charges during the second half of the first year of operation (when a reasonable level of data from the new system will be available), including a review of the distribution of the charging discount to better understand the present distribution, identify anomalies, and if appropriate make proposals for change;

ANALYSIS OF THE RESPONSES TO THE PUBLIC CONSULTATION

The relevance of Business agreements to time-cost charging

1. The Business Agreements process is the mechanism used to set the official control resource/time that is needed in each business. It is therefore inextricably linked to the proposal to introduce time-cost charging. This Annex reports on the key proposals included in the consultation exercise that relate to the Business Agreement process:

- a) to charge meat hygiene control charges for all chargeable hours in Business Agreements (whether worked or not) and all additional hours required by businesses. The only exemption would be where a business was to give the MHS/DARD sufficient notice of downtime such that official control resources were able to be redeployed (see **Annex 1B(i)**);
- b) to require businesses to declare their working hours and working practices that are relevant to charging (see **Annex 1B(ii)**);
- c) to charge a £400 fee for businesses to initiate a semi-independent review of the MHS's/DARD's initial assessment of the staff resources needed to carry out chargeable official controls (see **Annex 1B(iii)**); and
- d) following a semi-independent review of the MHS/DARD staff allocation to enable businesses to appeal to an independent Appointed Person against the MHS's/DARD's final assessment of the staff needed to carry out chargeable official controls at the premises (see **Annex 1B(iv)**).

Proposal

1. To charge meat hygiene control charges for all chargeable hours in Business Agreements (whether worked or not) and all additional hours required by businesses: the only exemption being where a business was to give the MHS/DARD sufficient notice of downtime such that official control resources were able to be redeployed.

Note. Underpinning the proposal is the intention that BAs and the associated appeal provisions should ensure that planned hours are appropriate and the view of the Executive is that the costs of unused planned official control time is a business risk for which businesses should at least pay a contribution. The fact that all business would be charged at the discounted hourly rate appropriate to their business would mean that they would continue to be charged less than the full cost of the controls.

Summary of consultation responses

2. Many of the consultation responses from industry have called for greater flexibility, pointing out that downtime and additional time can be caused by factors outside of their control. For example, they may be caused by a power or other utility supply problem, or because of the nature of certain long held business practices where, for example, businesses are contracted to accept animals on demand or when a certain price has been achieved at market. Other comments from the consultation include that:

- a) businesses should have access to information, if requested, to demonstrate that the redeployment of official control staff was not practicable;
- b) guidance should be developed on reasonable notice periods for downtime which, if observed, should not attract a charge; and,
- c) at local level, businesses and MHS/DARD should work together to optimise the efficient use of official control time and thereby minimise charges where variations of the working time in the BA are unavoidable. For example, to 'bank' unused hours and deploy these at a later time.

Discussion

3. In considering these issues, the Executive has been mindful of:

- a) the fact that those businesses that are unable to make efficient use of MHS/DARD resources (e.g. because of their low throughput, variability in working hours, geographical remoteness etc.) currently receive significant levels of discount in their charges and that this would continue on transferring to the proposed time-cost charging system. To a large extent, therefore, the system of discounts proposed under the new system (that would be based on the discounts that currently apply) would direct extra support to those

businesses that are likely to have most difficulty in giving a reliably accurate picture of their working times as part of the BA process;

- b) the current system of additional charges would cease with effect from 29 June 2009 if the proposals contained in this paper were implemented. Under the Maclean charging mechanism, if a business unreasonably operates for a time below or above the hours specified in the operating hours template agreed with the MHS/DARD, and there is an associated cost to the MHS/DARD, the time-cost can be charged to the business. If the business is charged on the basis of throughput this represents an additional and non discounted time-based charge. Under the proposals for charging contained in this paper, all time-based charges would be discounted at the rate appropriate to each business;
- c) the importance of the BA process and the fact that time-cost charging would provide an incentive to businesses to ensure that BAs are as accurate as possible. Providing further flexibilities to the circumstances in which businesses would not be charged for BA time would run the risk of undermining the importance and effectiveness of BAs.

Recommendation

4. Whilst the discussion above suggests that no further flexibilities should be provided, we recommend the introduction some further limited flexibility in response to the industry comments in the consultation responses. The main reasons for doing so are to recognise the particular difficulties some businesses have in planning regular working hours and to smooth the introduction of both the BA process and time-cost charging.

5. Therefore, in addition to the original intention not to charge for downtime in circumstances where official control resources are redeployed to other work, it is also proposed not to charge for downtime that is due to:

- a) *force majeure*, for example, where a business is unable to operate due to a utility supply failure that the business could not have prevented: and
- b) any other reason, for up to two hours on any two occasions in any four/five week charging period where downtime was the result of contractual or customary practices or where the circumstances were outside of the businesses control, e.g. machinery failure where an acceptable programme of maintenance is in place. Where this flexibility is required on a regular basis, the BA would be reviewed to assess whether it could more accurately reflect the working times and practices of the business.

6. The Board should note that these additional flexibilities would come at a cost to the Agency, both in the charges for downtime that would not be made and the extra MHS staff time that would be needed to administer these flexibilities. The frequency with which these flexibilities may be needed and the associated cost to the Agency cannot, by definition, be accurately estimated. However, were the flexibility at (b) above to be fully needed by all businesses, the cost would be in the order of £1m

p.a. This cost is most unlikely to materialise since the majority of businesses operate regular working hours and, where there are difficulties in doing so, the BA process would be used on an on-going basis to reduce such problems.

7. Guidelines on these flexibilities would be developed and included in charging guidance for use by the MHS, DARD and businesses, and the use and appropriateness of the flexibilities would be reviewed as part of the evaluation of the introduction of time-cost charges.

8. In response to other comments on this issue:

- a) it is not proposed to stipulate a reasonable period of notice of downtime such that charges would not be incurred on those occasions where the notice period was observed. This is because the trigger for charging for downtime should be whether unnecessary costs have been incurred by the MHS/DARD. It would therefore be incumbent on businesses to provide as much notice of variations from the Business Agreement as they are able;
- b) it is accepted that businesses should have access to reasonable information, if requested, explaining why official control resources could not be redeployed.

9. It is not proposed to provide an extra flexibility for the 'banking' of unused hours. This is considered unnecessary in light of the additional flexibilities now proposed and the fact that planned downtime would not be subject to charging if sufficient notice is given to MHS/DARD such that official control staff resource can be redeployed.

Proposal

1. To require businesses to declare their working hours and working practices that are relevant to charging.

Summary of consultation responses

2. This proposal attracted little comment in consultation responses. A number who commented expressed support for the proposal whilst some concerns were raised by others. The main concern was that declarations and resultant BAs would be used by MHS/DARD against the interests of businesses unless BAs are used more flexibly than proposed as a basis for charging for MHS/DARD official control time. Other issues raised were:

- a) why the provision of this information had to be subject to a legal requirement; and
- b) concern that the BA process could lead to a risk of businesses under estimating their working hours and thereby generating food safety concerns.

Discussion

3. This requirement replaces the current arrangements whereby businesses must 'agree' their working times and working practices with the MHS/DARD. The proposed requirement better reflects that it is for businesses to decide their working times and working practices (in the knowledge of the charging implications) and should not need to seek MHS/DARD agreement to them.

4. In response to the comments raised in the consultation the Executive proposes to apply further flexibilities to the circumstances in which businesses would not be charged for official control time (see **Annex 1B(i)**).

5. The provision of this information from businesses is an essential step in the BA process if MHS/DARD are to be able to assess and plan the official control resources needed by each business. Whilst we would expect that the great majority of businesses would provide this information on a voluntary basis, a legal requirement is considered necessary to help ensure that all businesses comply. We have also proposed to make the provision of this information a pre-condition for an appeal to an Appointed Person.

6. The concern at 2(b) relates to time-cost charging generally and is dealt with in **Annex 1A**.

Recommendation

To pursue this proposal.

Proposal

1. **To charge a £400 fee for businesses to initiate a semi-independent review of the MHS's/DARD's initial assessment of the staff resources needed to carry out chargeable official controls.**
2. This fee would be repaid if the business challenge was to be upheld, either by the review or at the subsequent Appointed Person appeal stage (see **Annex 1B(iv)**).

Summary of consultation responses

3. The great majority of respondents were opposed to this proposal. Reasons for opposition included views that:
 - a) in principle, and possibly in law, it was said to be wrong that businesses should have to pay a fee to ensure that a fair and just outcome is achieved, particularly where disputes may relate to an incorrect judgement by MHS;
 - b) £400 would be a disproportionate amount for some small businesses that could act a barrier to such businesses from seeking a fair and just outcome;
 - c) an upfront fee suggests a presupposition that the request for review is unfounded and would fail;
 - d) the fee is unnecessary since the cost of reviews would be absorbed into MHS overheads and would be included in the general charge-out rate;
 - e) the case for the fee is unclear if the industry representative does not require payment;
 - f) if implemented, the use of the fee must be transparent and its need should be reviewed on a regular basis; and
 - g) an alternative approach could be to charge the fee after the review is held if the business challenge fails.

Discussion

4. The view of the Executive is that the proposed charge would be both lawful and reasonable.
5. The proposed fee is intended to recover some of the costs that would be incurred in providing for an industry representative to be part of the review team. It is also meant to dissuade businesses from initiating frivolous or vexatious reviews at a cost to the Agency/taxpayer and could provide a significant drain on MHS/DARD

resources. In view of this last point, it is important that the fee is charged in respect of all reviews, regardless of whether the industry representative requires payment.

6. It is accepted that the use of the fee must be transparent. It is also accepted that the need for the fee should be included in the monitoring and evaluation of the proposed system of time-cost charging.

7. The Executive does not consider that the alternative approach suggested at 3(g) above would provide a disincentive to frivolous and vexatious review requests. Moreover, we would be concerned that it would lead to the non payment of fees and consequent debt recovery action.

8. Finally, in light of the consultation responses, the Executive is concerned that a fee of £400 could be disproportionately high to some small businesses. Whilst it is noted that the view of the MHS Board is that a fee of less than £400 may not provide the desired disincentive to frivolous and vexatious reviews, the proposal of the Executive is to reduce the proposed fee to £250.

Recommendation

To pursue this recommendation but with a reduced level of fee of £250.

ANNEX 1B(iv)

Proposal

1. Following a semi-independent review of the MHS/DARD staff allocation, to enable businesses to appeal to an independent Appointed Person against the MHS's/DARD's final assessment of the staff needed to carry out chargeable official controls at the premises.

Summary of consultation responses

2. Most responses agreed with this proposal. However, concerns were raised that:
- a) the Appointed Person (AP) must be fully independent;
 - b) the process for the appointment of the AP (and the industry representative to sit on the first stage review panel) must be transparent, fair and just; and
 - c) costs should not be awarded against business where appeals are not upheld. If costs were to be awarded, there should be clarity as to: (i) the circumstances in which costs could be awarded; and (ii) the level of costs that could be awarded.

Discussion

3. It is agreed that there must be full liaison with industry representative bodies regarding the processes for the appointment of the Appointed Person(s) and the industry representative for the first stage review panel. There is a joint MHS and Industry working group reviewing the implementation of the BA process at which representatives of four major industry trade associations regularly attend. The development of proposals for the appointment process and role of the Appointed Person(s) are subject to ongoing discussions by this group.

4. The award of costs would be decided by the Appointed Person in the normal way. Costs awarded would be no higher than those incurred by the successful party and the Appointed Person would need to be satisfied that the costs incurred were reasonable.

5. Finally, decisions of review cases and those subsequently considered by Appointed Persons would be monitored to check for consistency and legislative compliance.

Recommendation

To pursue this proposal.

ANALYSIS OF THE RESPONSES TO THE PUBLIC CONSULTATION

Proposal

1. Reduce by 5% (from 100% to 95%) the deduction made from meat hygiene charges in respect of the costs borne by some poultry slaughterhouses in employing Plant Inspection Assistants (PIA) to undertake official controls and to base this deduction on a standard hourly rate of £11 for PIA employment costs.

Note. This figure represents a weighted average of the cost to industry of all PIA hours deployed on official controls and includes an uplift of 25% to take account of business overheads.

2. The first of these proposals was meant to ensure an increase in the business contribution to the cost of official controls consistent with the proposed increase in charges whilst maintaining an incentive for businesses to employ PIAs. The second measure was intended to ease administration for both businesses and the MHS.

Summary of consultation responses

3. Consultation responses and discussions with representatives of the poultry sector have highlighted that the current charging arrangements in fact provide little, if any, incentive for poultry slaughterhouses to switch to the employment of PIAs as an alternative to MHS inspection staff.

4. Some Industry responses also raised concerns that the introduction of an average rate of PIA costs would create a cross-subsidy between businesses that employ PIAs at a cost lower than £11 an hour and those that pay in excess of this amount.

Discussion

5. The lack of an incentive in the charging proposals for poultry slaughterhouses to switch to the employment of PIAs as an alternative to MHS/DARD inspection staff has been discussed with the British Poultry Council. We have confirmed that neither the current nor proposed charging systems provides/would provide a clear incentive for many businesses to switch to PIAs until there are significant increases to charging levels for MHS/DARD time. We have also confirmed that the two proposed measures explained in paragraph 1 above would make matters worse for some businesses in that they would be worse off financially if they were to switch to PIA staff as an alternative to MHS/DARD staff.

6. Whilst the use of average PIA employment costs in the charging calculation would be consistent with Treasury rules on fees and charges, it has been noted that the difference between businesses in their costs of employing PIAs can be significant, e.g. in the order of 300%.

Recommendation

7. Not to pursue these proposals at this time and to continue to take account of 100% of the actual PIA employment costs for each business (via the use of weighted averages for each business) in their calculation of charges.

6. It is proposed to work with the poultry industry and other interested parties to explore whether incentives for PIA employment should be provided, either as part of the charging system or by other means. Doing so would be consistent with Agency policy that businesses should be encouraged to employ PIAs in order to take greater responsibility for the safety of their product and to provide the opportunity to reduce the overall cost of official controls in businesses.

7. It should be noted that charges payable by poultry slaughterhouses would still increase by any general increase in charge rates that is agreed. See **Annex 1D**.

ANALYSIS OF THE RESPONSES TO THE PUBLIC CONSULTATION

Proposal

1. To increase hygiene charges for meat hygiene and animal welfare at slaughter official controls by: 4%, 6% or an increase that would recover an additional £3m (in GB) over a full year, estimated at the time the consultation was launched to be 8.9%. The last of those being the Agency's stated preferred option.

Note. An increase of 8.9% was to generate an estimated £1.8m additional revenue in GB (£1.9m UK). This would give a total increase of £3m in GB (£3.4m UK) when added to the then estimated additional revenue per annum from increased charges from January 2009 to comply with EC minimum charge rates).

Summary of consultation comments

2. The general view expressed in industry responses to the consultation was that there should be no further increases to hygiene charges until MHS/DARD reduce the cost of official controls and associated overheads to the lowest levels possible. In addition, consultation responses from Northern Ireland included recommendations for an independent review of DARD Veterinary Public Health Unit (VPHU) at premises.

3. Whilst there was a general level of acceptance that the MHS had so far made good progress in reducing costs, responses suggested that significant further reductions could be achieved by both MHS and DARD. Examples given included: further cost reductions that should stem from the Business Agreement process; making official control requirements and their application more proportionate and risk based; resolving what were seen to be restrictive practices in some of the terms and conditions of MHS/DARD official control staff; a better joint understanding of the interpretation and application of health and safety requirements in the workplace; and potential savings in costs that might stem from the current 'one Agency' work programme, including the possible merger of some FSA and MHS corporate services.

4. Industry responses also claimed that increases to charges of any amount could not be afforded in the current economic circumstances and would be a deviation from wider Government policy to support UK businesses through this difficult economic time. Responses pointed to a number of factors that were placing significant pressure on already thin margins, including: changing consumer behaviour (i.e. consumers choosing cheaper items); reducing levels of throughput; increasing levels of regulatory and other costs; and the cumulative impact of regulatory costs, for example, the recent transfer of the cost of BSE testing from Defra to slaughterhouses. A number of responses also pointed to the increases in

meat hygiene charges that have been implemented over last few years (see paragraph 6 of the main paper), the significant increases in meat hygiene charges that have had to be absorbed by some businesses from January this year due to the requirement to comply with EC minimum charge levels, and the concern that further weakening of the £ against the Euro would, if maintained, require further charge increases from January 2010. In this respect, whilst further movements in the exchange rate cannot be predicted, the pound is currently 10% weaker against the Euro compared to the rate of exchange currently used to calculate minimum UK meat hygiene charging levels.

5. Whilst, as stated above, the general view in responses was against any increase in meat hygiene charges, a number of responses suggested that, in the event that an increase is imposed, it should be held to current inflation levels and that these are significantly lower than the lowest level of charge increase of 4% that was included in the consultation.

Discussion

6. In considering the views expressed in the consultation, the Executive has been mindful of the following:

- a) Government policy to limit new burdens on industry, particularly given the current economic difficulties;
- b) cumulative burdens on industry including the recent transfer from Defra to industry of the costs of BSE testing and the disposal of fallen stock, and a current Defra consultation on proposals to establish (by April 2012 at the earliest) an Independent Body for Animal Health in England and to create a new funding structure for animal health activities that could include a livestock levy of some £44m a year.
- c) UK Government policy on full cost recovery combined with the fact that the proposed charge increase would represent only a small step towards full cost recovery. For example, the total impact of an 8.9% increase to meat hygiene charges in the UK, including the impact of the rate increases in January 2009 to comply with EC minimum rates, would be to transfer approximately £1.9m GB (£2.2m UK) from Government/taxpayer to industry and would mean that Government/taxpayer funding in 2009/10 would still represent about half of the estimated full time cost of meat hygiene controls. The estimated cost to GB industry of £27m would be significantly less than the GB meat hygiene charges of £45m (at current prices) that were paid by industry prior to the introduction of the Maclean charging formula in 2001.
- d) the total cost of meat hygiene controls in comparison to the value of the meat industry. For example, the annual total value of the UK meat market excluding game in 2007 was £5.5bn³. In comparison, estimated meat hygiene charges for 2009/10 in UK, allowing for an 8.9% increase, would be approximately £30m (about 0.5% of the value of the meat market). Another way of looking at this is to compare shares of retail price and the proportion of the producers'

³ Source: Mintel Market Intelligence Report (of pork, lamb beef and poultry) October 2008.

share that is attributable to the MHS charge. See the attached charts at **Annex 1D(i)** illustrating the share of price for beef and lamb.

- e) the fact that reductions in official control time and overheads is significantly reducing the overall costs of official controls and that, in comparison, the potential increases in charges represents a much smaller contribution to reducing the funding gap. For example, MHS gross costs have been reduced by some £13m since 2006/07 whereas the estimated increase in charges in GB from 2006/07 to 2009/10 (allowing for an 8.9% increase in charges from 29/6/09) would be approximately £3.1m (from £23.5m to £26.6m).
- f) as illustrated in the tables below there has been a significant reduction in the estimated cost of the proposed increase to meat hygiene charges (including the impact of the increases in January 2009 to comply with EC minimum charge rates). **Annex 1D(ii)** sets out how increases of 4%, 6% and 8.9% would affect the main industry sectors by country.

Estimated Revenue Increases from 4%, 6% & 9% increases (including the effect of the EC Minima and of reduced Official Control hours)

	4%			6%			8.9%		
	original estimate	revised estimate	excluding minima	original estimate	revised estimate	excluding minima	original estimate	revised estimate	excluding minima
UK	£2.3m	£1.2m	£0.8m	£2.8m	£1.7m	£1.3m	£3.4m	£2.2m	£1.8m
GB	£2.0m	£1.0m	£0.8m	£2.4m	£1.4m	£1.2m	£3m	£1.9m	£1.7m
England	£1.6m	£0.7m	£0.6m	£1.9m	£1.0m	£0.9m	£2.3m	£1.5m	£1.3m
Scotland	£0.34m	£0.17m	£0.11m	£0.39m	£0.23m	£0.16m	£0.45m	£0.29m	£0.22m
Wales	£0.12m	£0.07m	£0.07m	£0.16m	£0.11m	£0.12m	£0.22m	£0.16m	£0.17m
N.I.	£0.30m	£0.27m	£0.07m	£0.37m	£0.20m	£0.10m	£0.37m	£0.34m	£0.14m

These lower estimates are due to:

- a. reducing levels of throughput (down 2.1% in 2008/09 and an estimated 2.1% in 2009/10);
 - b. reducing levels of official control time (5.8% in 2008/09 and an estimated 3.5% in 2009/10)
 - c. the movement of a number of businesses from throughput charging to time-cost charging following the increases to certain throughput charge rates in January 2009 to comply with EC minimum rates.
- f) whilst increases of 4%, 6% or 9% seem to be significant when expressed in percentage terms, regard needs to be had to what these increases would mean in cash terms to businesses. Examples are set out in **Annex 1D(iii)** from which it can be seen that the increases would represent relatively small

increases for many businesses, particularly smaller businesses that benefit from large discounts to their charges. For example, a small red meat slaughterhouse currently paying charges of £1,200 p.a. would be required to pay charges of £1,296 as a result of both an increase in charge rates of 8.9% and the impact of the increased rates in January 2009 to comply with the EC minima.

- g) whilst the general economic climate is one of recession and industry confidence regarding the future is said to be low, there are some positive indicators relating to the livestock farming and meat industry sectors, suggesting that there is some capacity for absorbing increases in meat official control charges. For example, the March 2009 edition of the Defra UK 'Farming and Food Brief' shows that there has been a significant annual rise in livestock prices (e.g. up 21.5% for sheep and 14.5% for cattle) and in total farm income (up by 42%). **Annex 1D(iv)** provides a summary of the economic position of the UK industry taking account of the information provided by industry representative bodies.
- h) the impact on Agency finances of not generating extra revenue from increased charges and the consequent need to review Agency spend against priorities. Were charges not to increase in 2009/10, total revenue from charges would increase by approximately £0.2m GB (£0.4m UK) (due to the revenue generated from the increase to minimum charge rates and taking into account the declining trends in official control hours⁴), some £2.8m (GB) less than the FSA Board wished to generate;
- i) that, whilst the position relating to general indicators of inflation such as the RPI is acknowledged, the inflation factor that is relevant to MHS/DARD charges/cost recovery is MHS/DARD cost inflation. This is largely driven by MHS/DARD wage cost inflation which is estimated to be in the region of 3% between 2008/09 and 2009/10; and
- j) that consultation responses in Northern Ireland included recommendations for an independent review of DARD VPHU and the establishment of a control body to deliver official controls in approved meat premises.

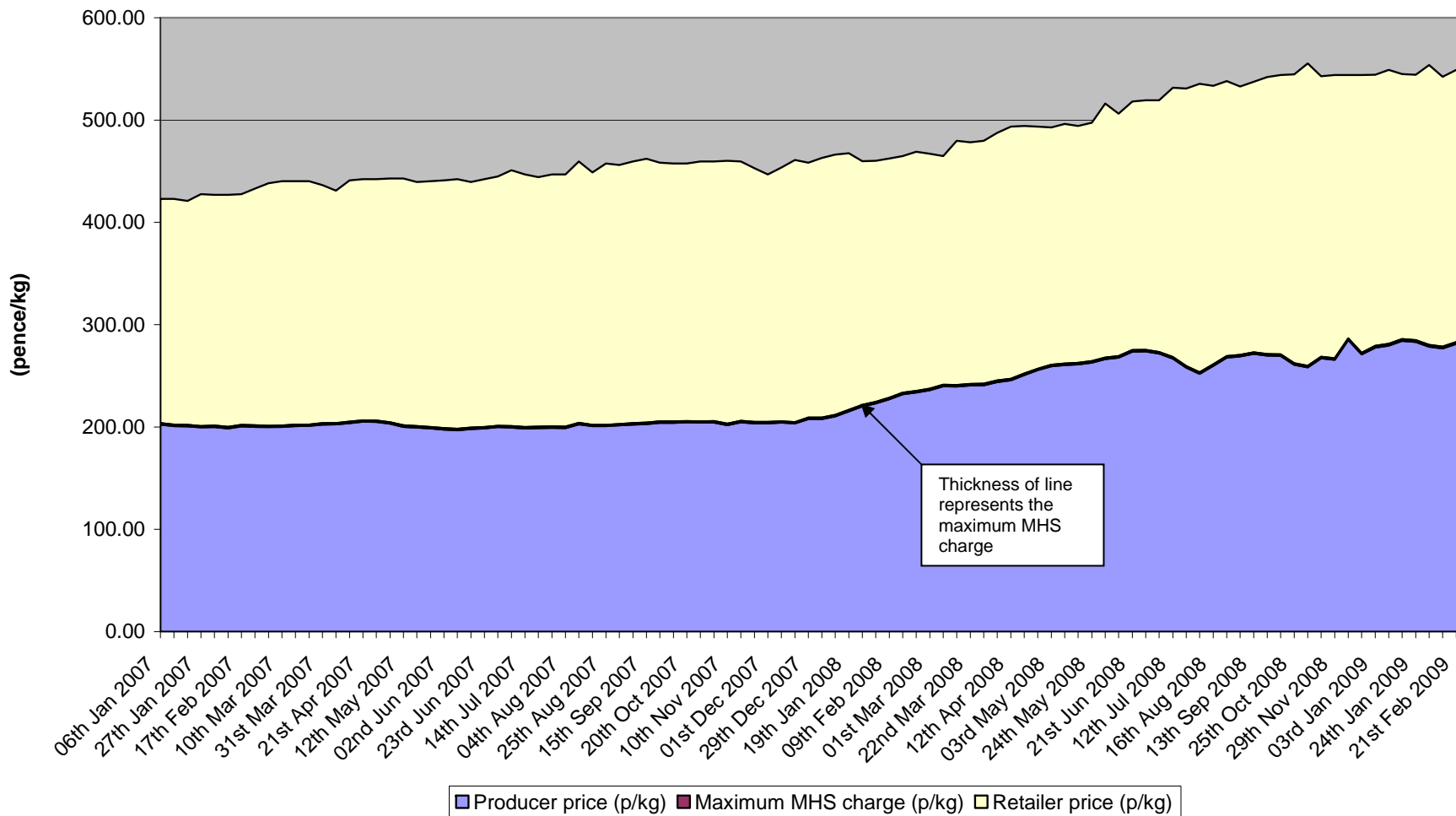
Recommendation

7. To pursue an increase in UK meat hygiene charges of £0.84m. This would be equivalent to a 4% increase in rates for the year from 29 June 2009, excluding those rates that were increased by at least this amount in January 2009 to comply with EC minimum rates that would not be increased again. The increase from 29 June as a proportion of all charges would be 3%.

8. The Executive considers that this takes a balanced view of reasons expressed in consultation responses for opposing this proposal and the additional factors explained in the 'discussion' above.

⁴ Trends in reduction of official control hours are lower in Northern Ireland

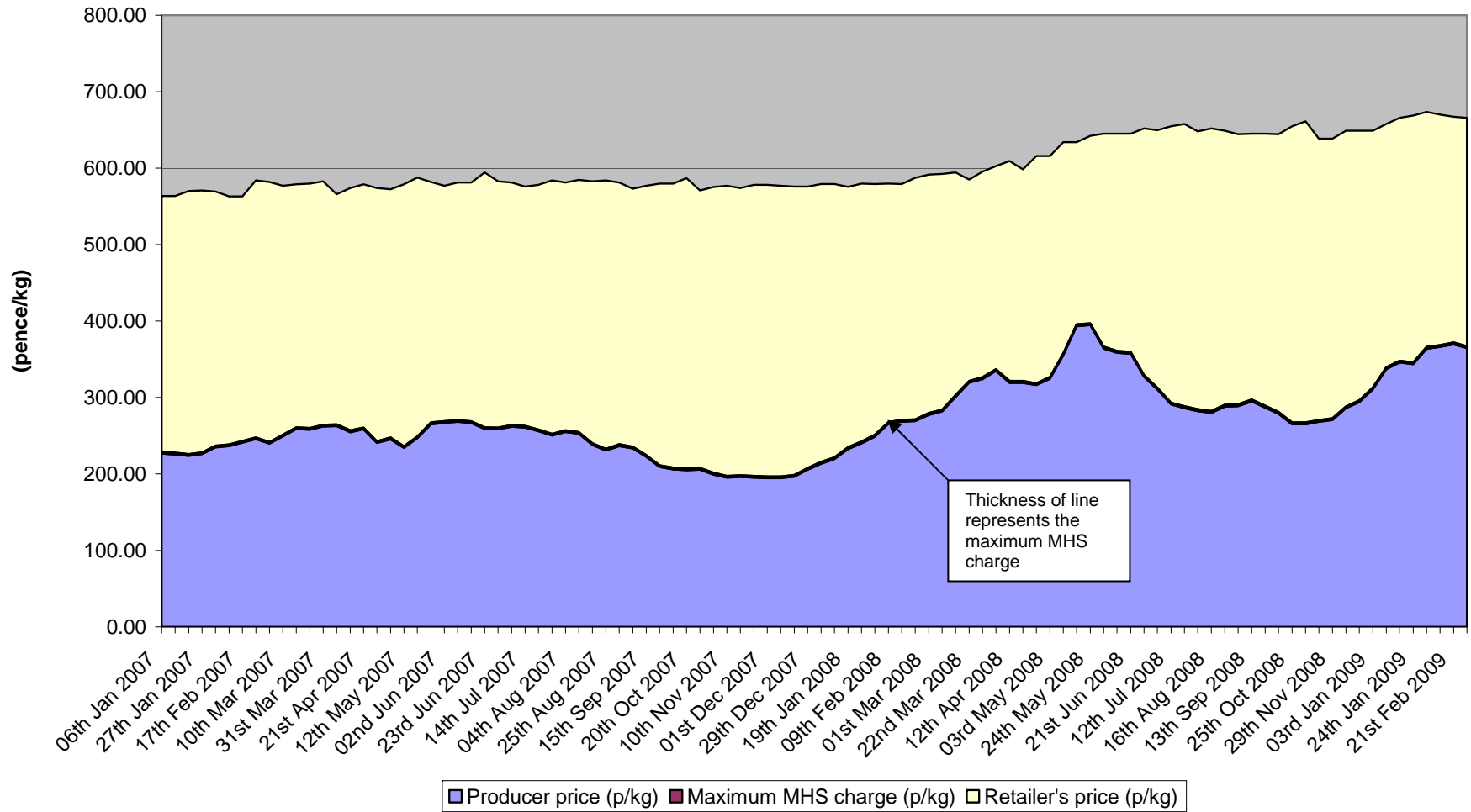
Shares of the Retail Price of Beef



Notes:

- 1) The graph shows the cumulative shares of the average retail price of beef. The purple area represents the producer's share (this includes both farmers *and* processors), the red area the proportion attributable to the maximum applicable MHS charge, and the yellow area represents the retailer's share.
- 2) Data sources: prices per kg and saleable yield data are from EBLEX (http://www.eblex.org.uk/MarketPrices/prices_old.php?rtype=10); average dressed carcass weight is from Defra (*Agriculture in the UK 2007*), MHS throughput rates are from the MHS.
- 3) Producer prices are based on weekly average deadweight prices from the centres in the MLC's deadweight sample; retail prices are based on the prices of cuts collected in the MLC's Retail Prices Survey for England and cover topside, rump, fillet, sirloin, braising and stewing steak, premium and standard minced beef.
- 4) MHS charge per kg is calculated by dividing the MHS adult cattle throughput headage rate by the average saleable meat yield from a cattle carcass. The AHDB (<http://www.eblex.org.uk/MarketPrices/pdfs/FarmToRetailTechnicalNote.pdf>) suggest that 70% of a cattle carcass is saleable meat. This percentage is applied to a weighted average dressed carcass weight listed in Defra's *Agriculture in the UK 2007* publication to obtain an average saleable meat yield.

Shares of the Retail Price of Lamb



Notes:

- 5) The graph shows the cumulative shares of the average retail price of lamb. The purple area represents the producer's share (this includes both farmers *and* processors), the red area the proportion attributable to the maximum applicable MHS charge, and the yellow area represents the retailer's share.
- 6) Data sources: prices per kg and saleable yield data are from EBLEX (http://www.eblex.org.uk/MarketPrices/prices_old.php?rtype=10); average dressed carcass weight is from Defra (*Agriculture in the UK 2007*), MHS throughput rates are from the MHS.
- 7) Producer prices are the average weekly deadweight market prices for clean sheep in the England and Wales SQQ (Standard Quality Quotation) from the MLC's prices survey; retail prices are based on the prices of cuts collected in the MLC's Retail Prices Survey for England and cover whole leg, loin and cutlet chops, shoulder, leg steaks and diced lamb.
- 8) MHS charge per kg is calculated by dividing the MHS throughput headage rate for sheep heavier than 18kg (the category for which the highest charge is levied) by the average saleable meat yield from a sheep carcass. The AHDB (<http://www.eblex.org.uk/MarketPrices/pdfs/FarmToRetailTechnicalNote.pdf>) suggest that 75.7% of a sheep carcass is saleable meat. This percentage is applied to a weighted average dressed carcass weight listed in Defra's *Agriculture in the UK 2007* publication to obtain an average saleable meat yield.

Estimated Revenue Increases from a 4% Increase

(includes impact of EC minima changes, no PIA standard rate, 100% PIA deduction)

	= contextual information
	= original estimates from consultation impact assessment
	= original estimates revised for recent overall trends

United Kingdom £m	Number of Firms	Original estimated 2009-10 charge	Original Estimated Revenue Increase	Proposed 2009-10 Charge	Estimated Revenue Increase	% Increase
Total impact	1126	31.10	2.31	29.15	1.24	4.4%
Red Meat Slaughter	295	24.35	2.05	22.85	1.21	5.6%
Poultry Slaughter	102	6.18	0.24	5.77	0.03	0.5%
Game Dressing	60	0.07	0.01	0.06	0.00	4.5%
Cutting Plants	669	0.50	0.02	0.47	0.00	0.6%

Great Britain £m	Number of Firms	Original estimated 2009-10 charge	Original Estimated Revenue Increase	Proposed 2009-10 Charge	Estimated Revenue Increase	% Increase
Total impact	1059	27.50	2.02	25.62	0.97	3.9%
Red Meat Slaughter	282	21.38	1.74	19.96	0.95	5.0%
Poultry Slaughter	96	5.65	0.25	5.23	0.01	0.3%
Game Dressing	60	0.07	0.01	0.06	0.00	4.5%
Cutting Plants	621	0.39	0.02	0.36	0.00	0.4%

England £m	Number of Firms	Original estimated 2009-10 charge	Original Estimated Revenue Increase	Proposed 2009-10 Charge	Estimated Revenue Increase	% Increase
Total impact	855	21.24	1.55	19.76	0.73	3.8%
Red Meat Slaughter	222	15.83	1.28	14.78	0.71	5.1%
Poultry Slaughter	86	5.04	0.26	4.63	0.01	0.3%
Game Dressing	41	0.05	0.00	0.05	0.00	3.8%
Cutting Plants	506	0.32	0.01	0.29	0.00	0.4%

Scotland £m	Number of Firms	Original estimated 2009-10 charge	Original Estimated Revenue Increase	Proposed 2009-10 Charge	Estimated Revenue Increase	% Increase
Total impact	131	3.86	0.34	3.57	0.17	5.1%
Red Meat Slaughter	35	3.44	0.32	3.18	0.17	5.7%

ANNEX 1D(ii)

Poultry Slaughter	4	0.34	0.01	0.32	0.00	0.3%
Game Dressing	19	0.02	0.00	0.02	0.00	6.2%
Cutting Plants	73	0.06	0.00	0.05	0.00	0.4%

	Number of Firms	Original estimated 2009-10 charge	Original Estimated Revenue Increase	Proposed 2009-10 Charge	Estimated Revenue Increase	% Increase
Wales £m						
Total impact	73	2.40	0.12	2.29	0.07	3.0%
Red Meat Slaughter	25	2.11	0.14	2.00	0.07	3.4%
Poultry Slaughter	6	0.27	-0.02	0.28	0.00	0.0%
Game Dressing	-	-	-	-	-	-
Cutting Plants	42	0.02	0.00	0.02	0.00	0.4%

	Number of Firms	Original estimated 2009-10 charge	Original Estimated Revenue Increase	Proposed 2009-10 Charge	Estimated Revenue Increase	% Increase
Northern Ireland £m						
Total impact	67	3.60	0.30	3.53	0.27	8.3%
Red Meat Slaughter	13	2.97	0.31	2.89	0.26	9.8%
Poultry Slaughter	6	0.53	-0.01	0.54	0.01	2.3%
Cutting Plants	48	0.11	0.00	0.11	0.00	1.2%

Note: Proposed 2009-10 charge estimates have been adjusted in line with overall trends in throughput and MHS/DARD hours. Whilst all charge rates are increased by 4%, businesses affected by changes in EC minimum charge rates from 1st January 2009 will see their charge increase by more than 4%, whilst those unaffected by the EC minima will see their charge increase by less than 4% due to declining trends in throughput and MHS/DARD hours.

Estimated Revenue Increases from a 6% Increase

(includes impact of EC minima changes, no PIA standard rate, 100% PIA deduction)

	= contextual information
	= original estimates from consultation impact assessment
	= original estimates revised for recent overall trends

United Kingdom £m	Number of Firms	Original estimated 2009-10 charge	Original Estimated Revenue Increase	Proposed 2009-10 Charge	Estimated Revenue Increase	% Increase
Total impact	1126	31.53	2.75	29.56	1.65	5.9%
Red Meat Slaughter	295	24.62	2.33	23.12	1.47	6.8%
Poultry Slaughter	102	6.33	0.39	5.91	0.17	2.9%
Game Dressing	60	0.07	0.01	0.06	0.00	5.4%
Cutting Plants	669	0.51	0.03	0.47	0.01	2.1%

Great Britain £m	Number of Firms	Original estimated 2009-10 charge	Original Estimated Revenue Increase	Proposed 2009-10 Charge	Estimated Revenue Increase	% Increase
Total impact	1059	27.90	2.42	26.00	1.35	5.5%
Red Meat Slaughter	282	21.64	2.00	20.21	1.20	6.3%
Poultry Slaughter	96	5.79	0.39	5.36	0.14	2.7%
Game Dressing	60	0.07	0.01	0.06	0.00	5.4%
Cutting Plants	621	0.40	0.02	0.37	0.01	2.3%

England £m	Number of Firms	Original estimated 2009-10 charge	Original Estimated Revenue Increase	Proposed 2009-10 Charge	Estimated Revenue Increase	% Increase
Total impact	855	21.55	1.87	20.05	1.02	5.4%
Red Meat Slaughter	222	16.02	1.47	14.96	0.89	6.3%
Poultry Slaughter	86	5.15	0.37	4.74	0.12	2.7%
Game Dressing	41	0.05	0.00	0.05	0.00	4.9%
Cutting Plants	506	0.33	0.02	0.30	0.01	2.3%

Scotland £m	Number of Firms	Original estimated 2009-10 charge	Original Estimated Revenue Increase	Proposed 2009-10 Charge	Estimated Revenue Increase	% Increase
Total impact	131	3.90	0.38	3.63	0.23	6.7%
Red Meat Slaughter	35	3.47	0.36	3.22	0.22	7.2%
Poultry Slaughter	4	0.35	0.02	0.33	0.01	2.5%

ANNEX 1D(ii)

Game Dressing	19	0.02	0.00	0.02	0.00	6.6%
Cutting Plants	73	0.06	0.00	0.05	0.00	2.3%

ANNEX 1D(ii)

Wales £m	Number of Firms	Original estimated 2009-10 charge	Original Estimated Revenue Increase	Proposed 2009-10 Charge	Estimated Revenue Increase	% Increase
Total impact	73	2.44	0.16	2.33	0.11	4.7%
Red Meat Slaughter	25	2.15	0.17	2.03	0.10	4.9%
Poultry Slaughter	6	0.28	-0.01	0.29	0.01	3.5%
Game Dressing	-	-	-	-	-	-
Cutting Plants	42	0.02	0.00	0.02	0.00	2.3%

Northern Ireland £m	Number of Firms	Original estimated 2009-10 charge	Original Estimated Revenue Increase	Proposed 2009-10 Charge	Estimated Revenue Increase	% Increase
Total impact	67	3.63	0.33	3.56	0.30	9.2%
Red Meat Slaughter	13	2.98	0.32	2.90	0.27	10.3%
Poultry Slaughter	6	0.54	0.00	0.55	0.03	5.1%
Cutting Plants	48	0.11	0.00	0.11	0.00	1.6%

Note: Proposed 2009-10 charge estimates have been adjusted in line with overall trends in throughput and MHS/DARD hours. Whilst all charge rates are increased by 6%, businesses affected by changes in EC minimum charge rates from 1st January 2009 will see their charge increase by more than 6%, whilst those unaffected by the EC minima will see their charge increase by less than 6% due to declining trends in throughput and MHS/DARD hours.

Estimated Revenue Increases from a 8.9% Increase

(includes impact of EC minima changes, no PIA standard rate, 100% PIA deduction)

	= contextual information
	= original estimates from consultation impact assessment
	= original estimates revised for recent overall trends

United Kingdom £m	Number of Firms	Original estimated 2009-10 charge	Original Estimated Revenue Increase	Proposed 2009-10 Charge	Estimated Revenue Increase	% Increase
Total impact	1126	32.15	3.37	30.15	2.24	8.0%
Red Meat Slaughter	295	25.01	2.71	23.48	1.84	8.5%
Poultry Slaughter	102	6.55	0.61	6.12	0.38	6.5%
Game Dressing	60	0.07	0.01	0.06	0.00	7.5%
Cutting Plants	669	0.52	0.04	0.48	0.02	4.4%

Great Britain £m	Number of Firms	Original estimated 2009-10 charge	Original Estimated Revenue Increase	Proposed 2009-10 Charge	Estimated Revenue Increase	% Increase
Total impact	1059	28.48	3.00	26.55	1.90	7.7%
Red Meat Slaughter	282	22.02	2.38	20.57	1.55	8.2%
Poultry Slaughter	96	5.98	0.58	5.55	0.33	6.3%
Game Dressing	60	0.07	0.01	0.06	0.00	7.5%
Cutting Plants	621	0.41	0.03	0.38	0.02	5.1%

England £m	Number of Firms	Original estimated 2009-10 charge	Original Estimated Revenue Increase	Proposed 2009-10 Charge	Estimated Revenue Increase	% Increase
Total impact	855	22.01	2.33	20.48	1.45	7.6%
Red Meat Slaughter	222	16.30	1.75	15.22	1.15	8.2%
Poultry Slaughter	86	5.32	0.54	4.91	0.29	6.2%
Game Dressing	41	0.05	0.00	0.05	0.00	7.2%
Cutting Plants	506	0.33	0.03	0.31	0.01	5.1%

Scotland £m	Number of Firms	Original estimated 2009-10 charge	Original Estimated Revenue Increase	Proposed 2009-10 Charge	Estimated Revenue Increase	% Increase
Total impact	131	3.97	0.45	3.69	0.29	8.6%
Red Meat Slaughter	35	3.52	0.41	3.28	0.27	8.9%
Poultry Slaughter	4	0.36	0.03	0.34	0.02	5.8%

ANNEX 1D(ii)

Game Dressing	19	0.02	0.00	0.02	0.00	8.4%
Cutting Plants	73	0.06	0.00	0.05	0.00	5.1%

ANNEX 1D(ii)

Wales £m	Number of Firms	Original estimated 2009-10 charge	Original Estimated Revenue Increase	Proposed 2009-10 Charge	Estimated Revenue Increase	% Increase
Total impact	73	2.50	0.22	2.38	0.16	7.3%
Red Meat Slaughter	25	2.19	0.22	2.07	0.14	7.1%
Poultry Slaughter	6	0.30	0.01	0.30	0.02	8.5%
Game Dressing	-	-	-	-	-	-
Cutting Plants	42	0.02	0.00	0.02	0.00	5.1%

Northern Ireland £m	Number of Firms	Original estimated 2009-10 charge	Original Estimated Revenue Increase	Proposed 2009-10 Charge	Estimated Revenue Increase	% Increase
Total impact	67	3.67	0.37	3.60	0.34	10.3%
Red Meat Slaughter	13	3.00	0.34	2.92	0.29	10.9%
Poultry Slaughter	6	0.56	0.02	0.57	0.05	9.2%
Cutting Plants	48	0.11	0.00	0.11	0.00	2.0%

Note: Proposed 2009-10 charge estimates have been adjusted in line with overall trends in throughput and MHS/DARD hours. Whilst all charge rates are increased by 8.9%, businesses affected by changes in EC minimum charge rates from 1st January 2009 will see their charge increase by more than 8.9%, whilst those unaffected by the EC minima will see their charge increase by less than 8.9% due to declining trends in throughput and MHS/DARD hours.

**Impact on Plants of a 4% general increase
(including EC minima increases)**

Red Meat Slaughter	2008/09	2009/10	Increase in Charge	
Business Size	Estimated Charge (£)	Estimated Charge (£)	Revenue (£)	Percentage
Large	370,000	418,145	48,145	13.0%
Medium	24,000	25,205	1,205	5.0%
Small	1,200	1,257	57	4.8%

Poultry Slaughter	2008/09	2009/10	Increase in Charge	
Business Size	Estimated Charge (£)	Estimated Charge (£)	Revenue (£)	Percentage
Large	272,000	273,005	1,005	0.4%
Medium	91,000	91,336	336	0.4%
Small	2,600	2,610	10	0.4%

Cutting Plants	2008/09	2009/10	Increase in Charge	
Business Size	Estimated Charge (£)	Estimated Charge (£)	Revenue (£)	Percentage
Large	1,000	1,004	4	0.4%
Medium	500	502	2	0.4%
Small	100	100	0	0.4%

Note: Proposed 2009-10 charge estimates have been adjusted in line with overall trends in throughput and MHS/DARD hours. Whilst all charge rates are increased by 4%, businesses affected by changes in EC minimum charge rates from 1st January 2009 will see their charge increase by more than 4%, whilst those unaffected by the EC minima will see their charge increase by less than 4% due to declining trends in throughput and MHS/DARD hours.

**Impact on Plants of a 6% general increase
(including EC minima increases)**

Red Meat Slaughter	2008/09	2009/10	Increase in Charge	
Business Size	Estimated Charge (£)	Estimated Charge (£)	Revenue (£)	Percentage
Large	370,000	418,673	48,673	13.2%
Medium	24,000	25,508	1,508	6.3%
Small	1,200	1,273	73	6.1%

Poultry Slaughter	2008/09	2009/10	Increase in Charge	
Business Size	Estimated Charge (£)	Estimated Charge (£)	Revenue (£)	Percentage
Large	272,000	278,255	6,255	2.3%
Medium	91,000	93,093	2,093	2.3%
Small	2,600	2,660	60	2.3%

Cutting Plants	2008/09	2009/10	Increase in Charge	
Business Size	Estimated Charge (£)	Estimated Charge (£)	Revenue (£)	Percentage
Large	1,000	1,023	23	2.3%
Medium	500	511	11	2.3%
Small	100	102	2	2.3%

Note: Proposed 2009-10 charge estimates have been adjusted in line with overall trends in throughput and MHS/DARD hours. Whilst all charge rates are increased by 6%, businesses affected by changes in EC minimum charge rates from 1st January 2009 will see their charge increase by more than 6%, whilst those unaffected by the EC minima will see their charge increase by less than 6% due to declining trends in throughput and MHS/DARD hours.

**Impact on Plants of a 8.9% general increase
(including EC minima increases)**

Red Meat Slaughter	2008/09	2009/10	Increase in Charge	
Business Size	Estimated Charge (£)	Estimated Charge (£)	Revenue (£)	Percentage
Large	370,000	419,441	49,441	13.4%
Medium	24,000	25,953	1,953	8.1%
Small	1,200	1,296	96	8.0%

Poultry Slaughter	2008/09	2009/10	Increase in Charge	
Business Size	Estimated Charge (£)	Estimated Charge (£)	Revenue (£)	Percentage
Large	272,000	285,892	13,892	5.1%
Medium	91,000	95,648	4,648	5.1%
Small	2,600	2,733	133	5.1%

Cutting Plants	2008/09	2009/10	Increase in Charge	
Business Size	Estimated Charge (£)	Estimated Charge (£)	Revenue (£)	Percentage
Large	1,000	1,051	51	5.1%
Medium	500	526	26	5.1%
Small	100	105	5	5.1%

Note: Proposed 2009-10 charge estimates have been adjusted in line with overall trends in throughput and MHS/DARD hours. Whilst all charge rates are increased by 8.9%, businesses affected by changes in EC minimum charge rates from 1st January 2009 will see their charge increase by more than 8.9%, whilst those unaffected by the EC minima will see their charge increase by less than 8.9% due to declining trends in throughput and MHS/DARD hours.

Economic Summary

1. The UK Economy

The UK economy has recorded negative growth for the last two quarters. The most recent data show that Gross Domestic Product (GDP) contracted by 1.6% in the fourth quarter of 2008. Over the whole of 2008, GDP grew by 0.7%, compared to growth of 3.0% in the previous year.

Inflation as measured by the Consumer Price Index (CPI, the Government's target measure) was 3.2% for the year to February 2009, up from 3.0% in January 2009. Inflation as measured by the Retail Price Index (RPI) was 0.0%, down from 0.1% in the previous month. RPIX inflation, the RPI excluding mortgage interest payments, was 2.5%, up from 2.4% in January 2009.⁵ The CPI rate for food was 12.5% for the year to February 2009 (up from 11.1% in January 2009). The annual RPI rate for food (including non-alcoholic drinks) was 11.3% in February 2009 (up from 9.9% in January).

The employment rate for people of working age was 74.1% in the three months to January 2009, down 0.1 percentage point from the three months to October 2008 and down 0.7 percentage points from a year earlier. The unemployment rate was 6.5% in the three months to January 2009, up 0.5 percentage points from the three months to October 2008 and up 1.3 percentage points from a year earlier. Growth in average earnings excluding bonuses ('regular pay') was 3.5% for the year to January 2009, down from 3.6% in December 2008. Growth in average earnings including bonuses was much lower, at 1.8%, down from 3.1% in the previous month.

2. The meat industry

2.1 Stock of animals over time

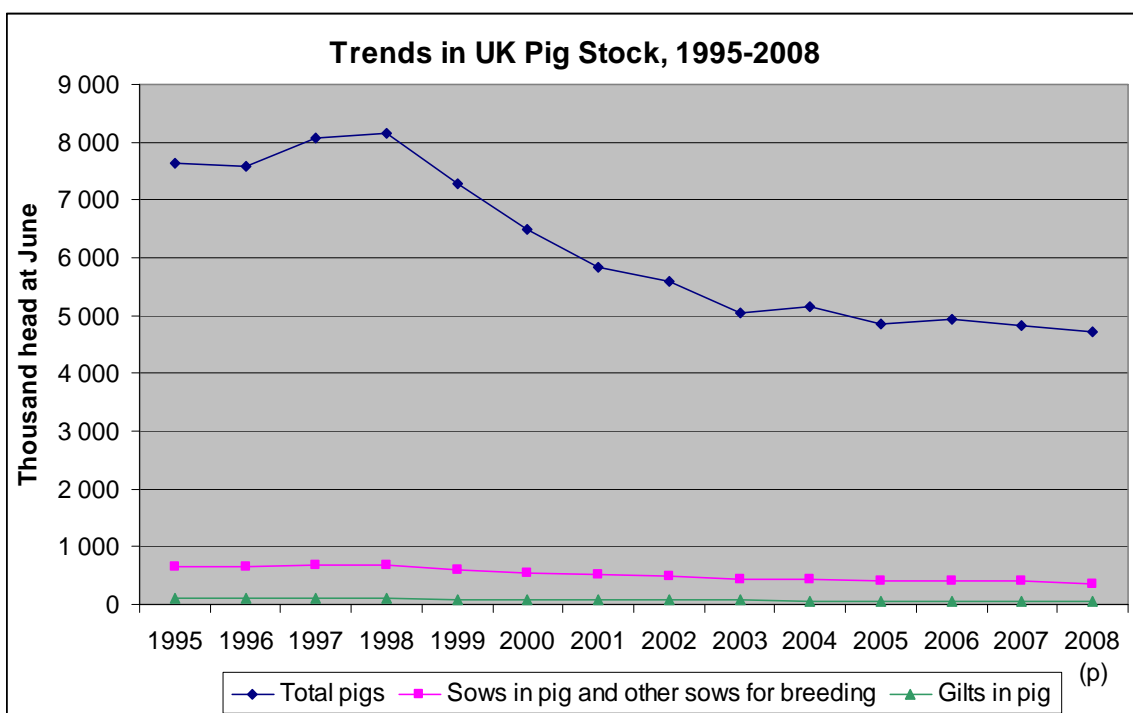
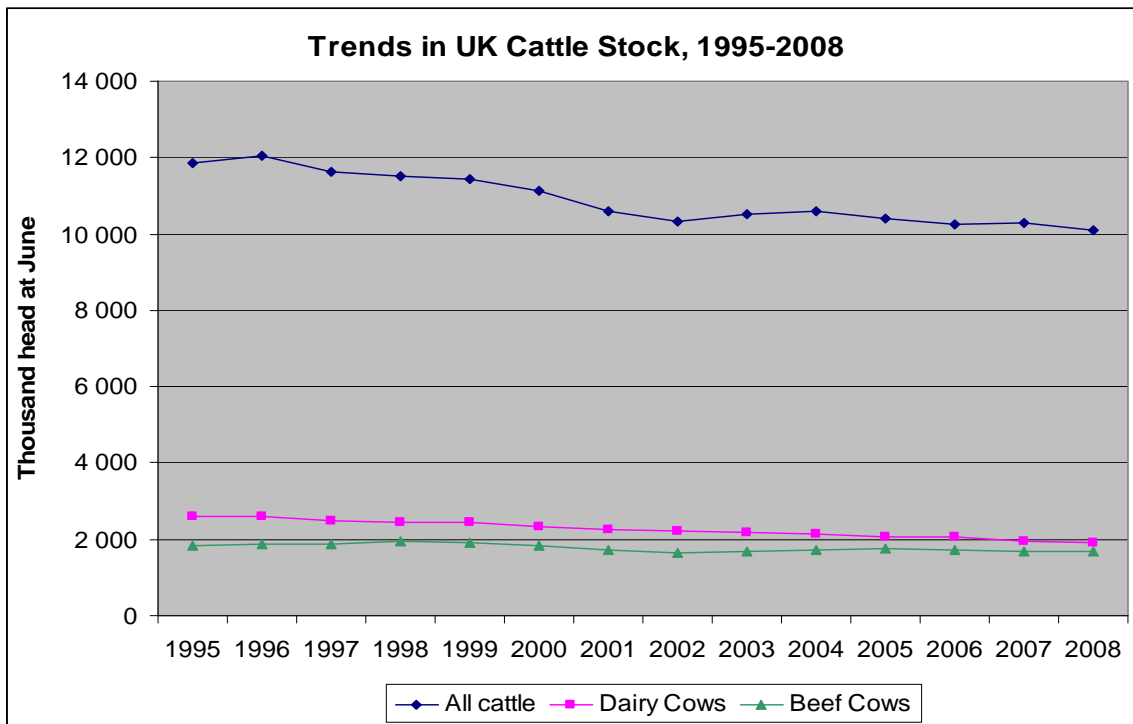
The charts below show trends in the UK stock⁶ of cattle, pigs, poultry and sheep and lambs since 1995, and in the slaughter⁷ of cattle, sheep and pigs for the UK, GB, and by country. For all species, both stock and slaughter in recent years has been more stable than the earlier years. The charts of stock suggest a slow decline in numbers over the recent past, which is contributing to the low confidence in the future of the farming and meat sectors, while abattoir throughputs seem to have

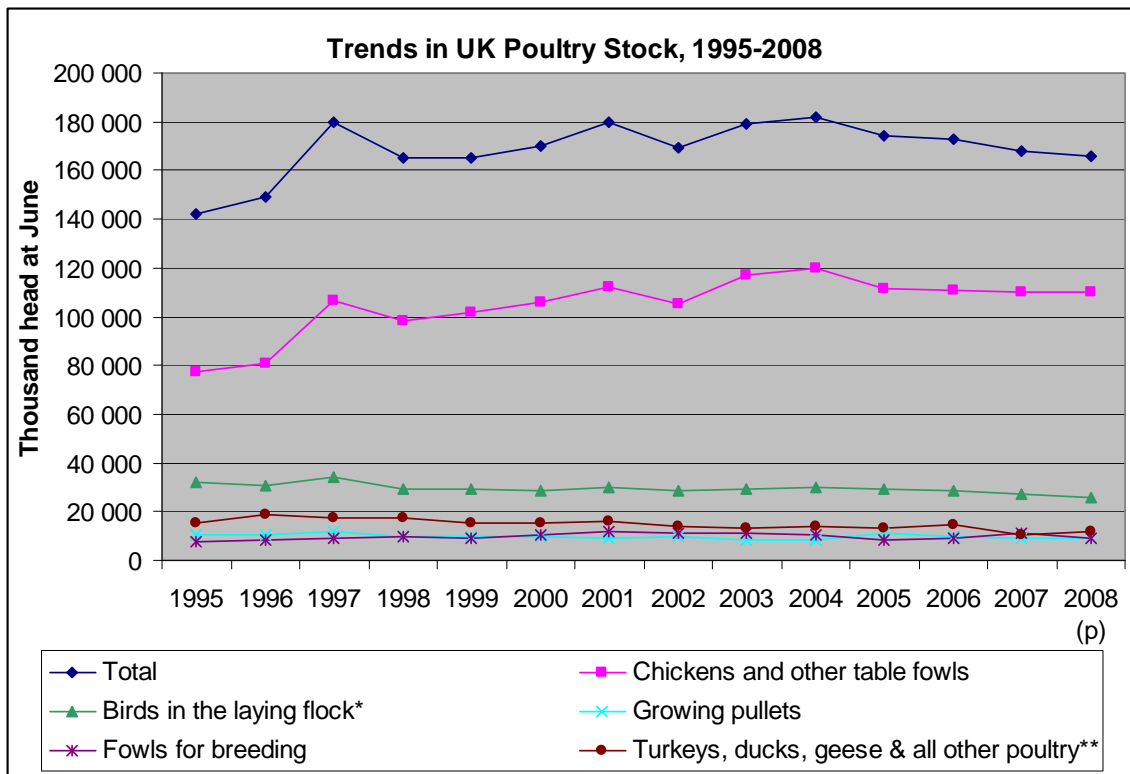
⁵ The CPI and RPI use essentially the same basic price data, but differ in some of the goods and services covered, the population covered, the formulae used and the classification of goods and services.

⁶ Defra, Agriculture in the UK 2008: <https://statistics.defra.gov.uk/esg/publications/auk/2008/>

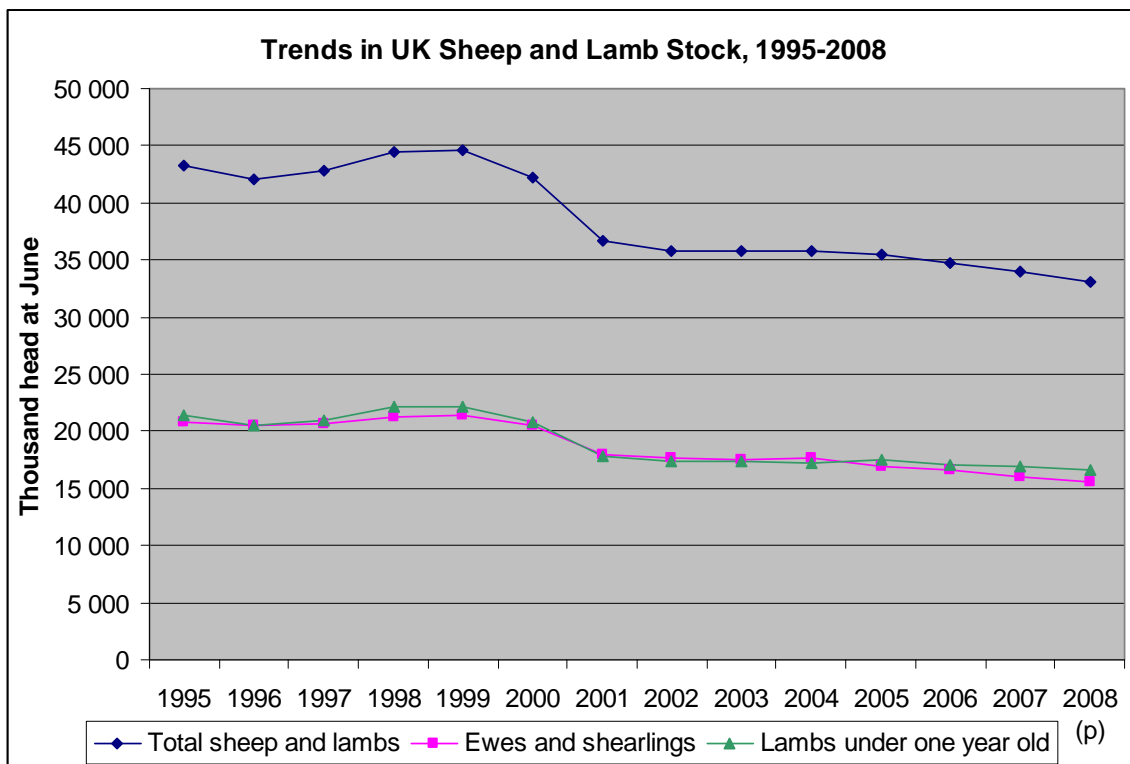
⁷ Defra, Slaughter Statistics, March 2009.

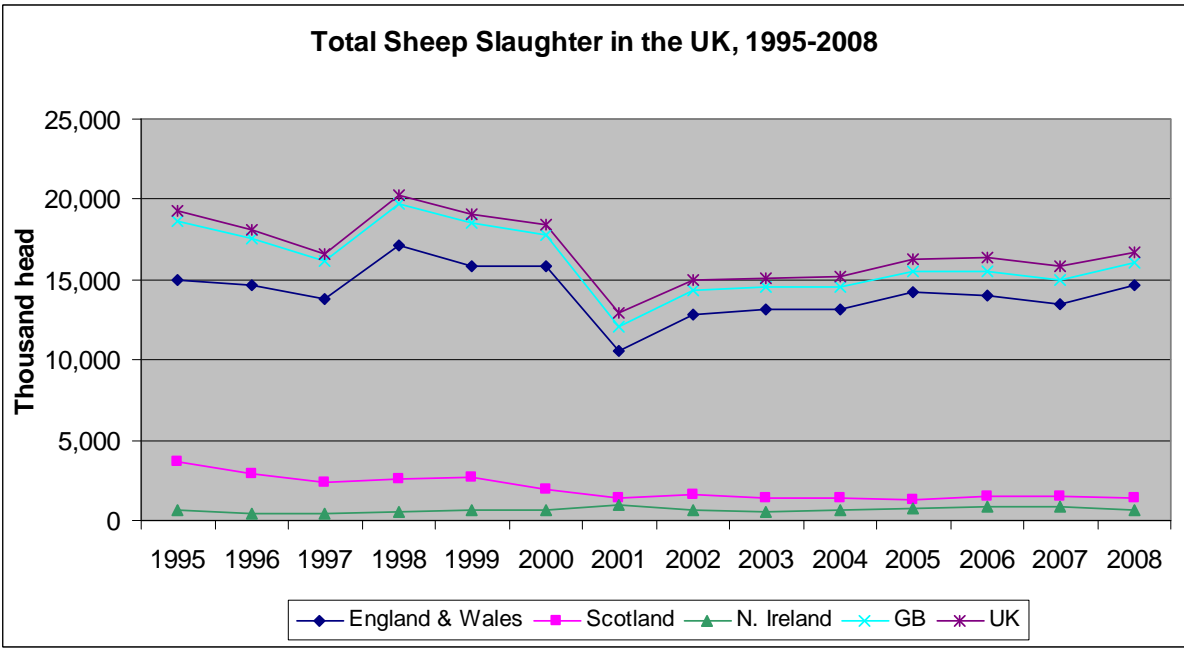
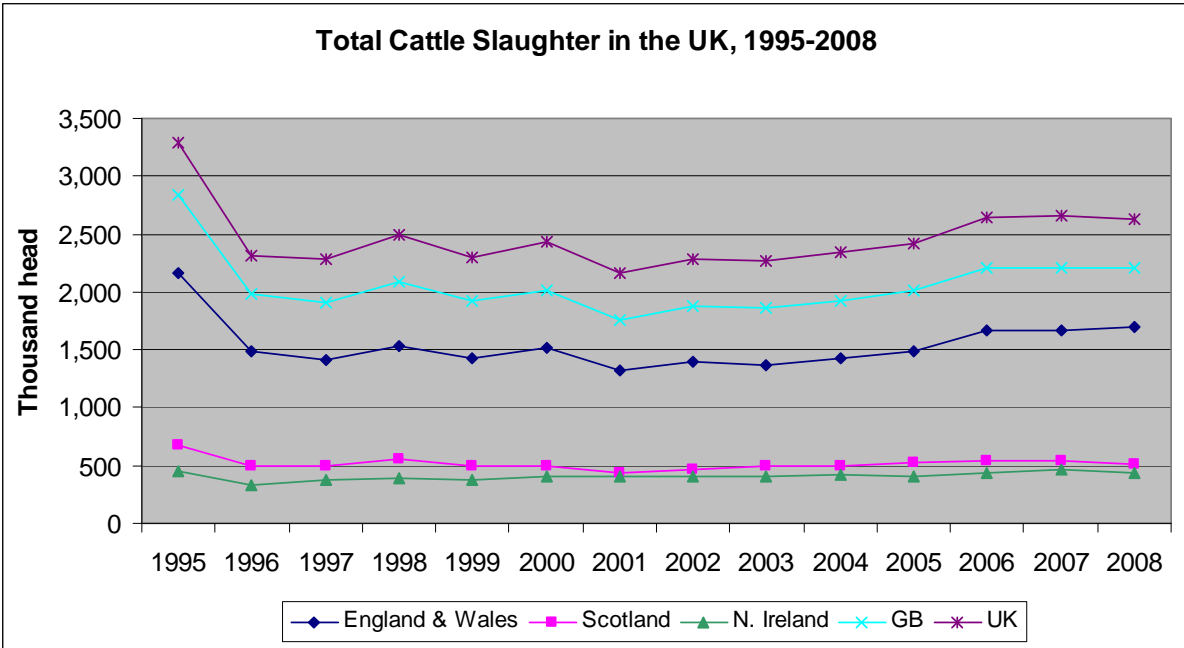
been maintained in general. Cattle throughputs in 2006 were increased by the return to the food chain of older cattle, and have declined slightly since then.

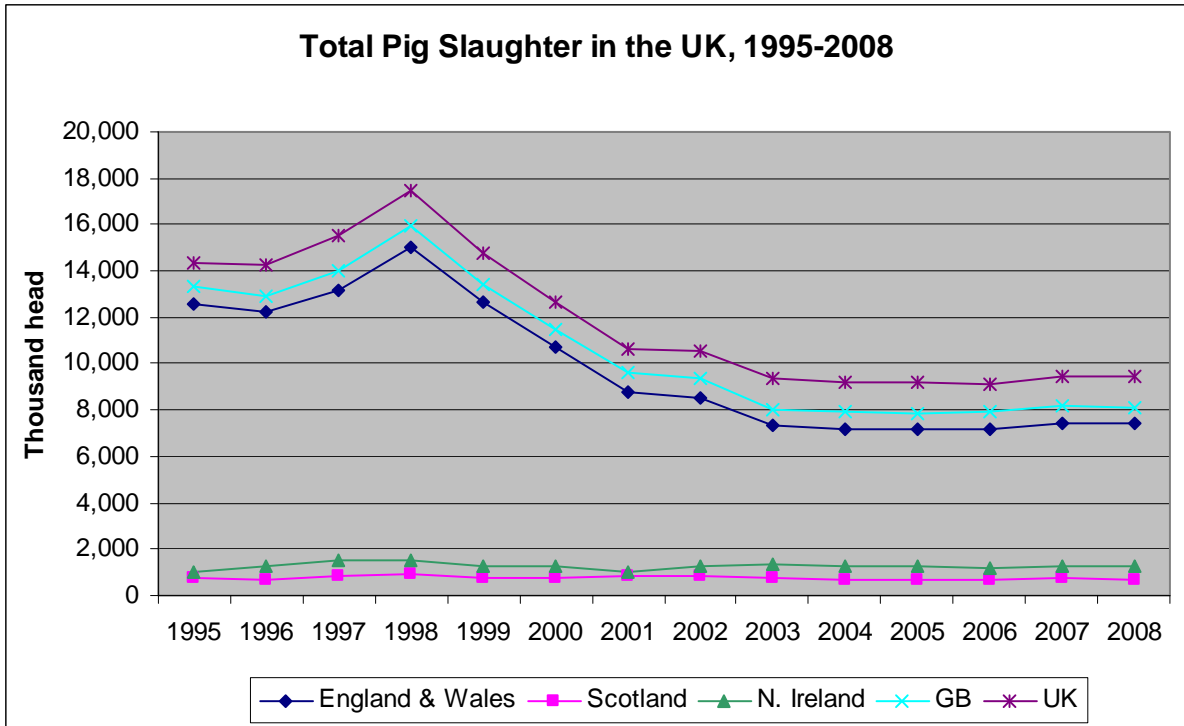




*Hens and pullets kept mainly for producing eggs for eating. **1995 data do not include figures for turkeys.



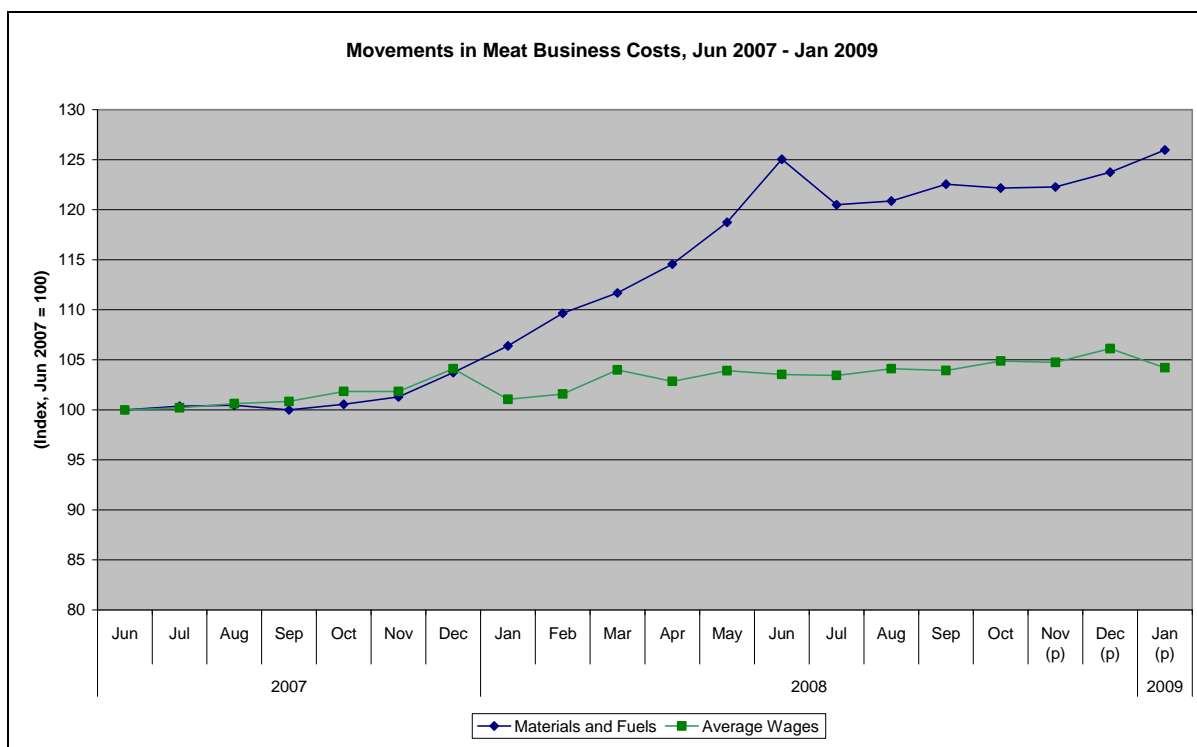




2.2 Input Prices

The chart overleaf shows the index of business costs for the meat industry from June 2007 to January 2009 for the UK. This illustrates the large increase in the prices of materials and fuels up to June 2008, followed by relatively stable prices at this higher level, with a less steep upward trend between November 2008 and January 2009. Average wages in the sector have shown relatively steady and moderate growth over the period.

More recent information on the producer price index is not available. Some indicative figures on individual inputs are available, which suggest a possible easing of input prices. Agriculture and Horticulture Development Board data show that feed wheat and feed barley prices were substantially lower in the week ending 14th March 2009 compared to the equivalent month the previous year, with reductions of 46% and 43% respectively. The Farm Brief shows a reduction in prices of NPK fertilisers between February and March 2009 of 2.6%, although prices are still 17.2% higher than March 2008.



Source: ONS Materials and Fuels for 'Production, processing & preserving of meat & meat products' (http://www.statistics.gov.uk/downloads/theme_economy/MM22February2009.pdf) and Average Earnings Index - Industry, excluding bonuses for 'Food Products, Beverages and Tobacco', (http://www.statistics.gov.uk/downloads/theme_labour/AEISup200901.xls)

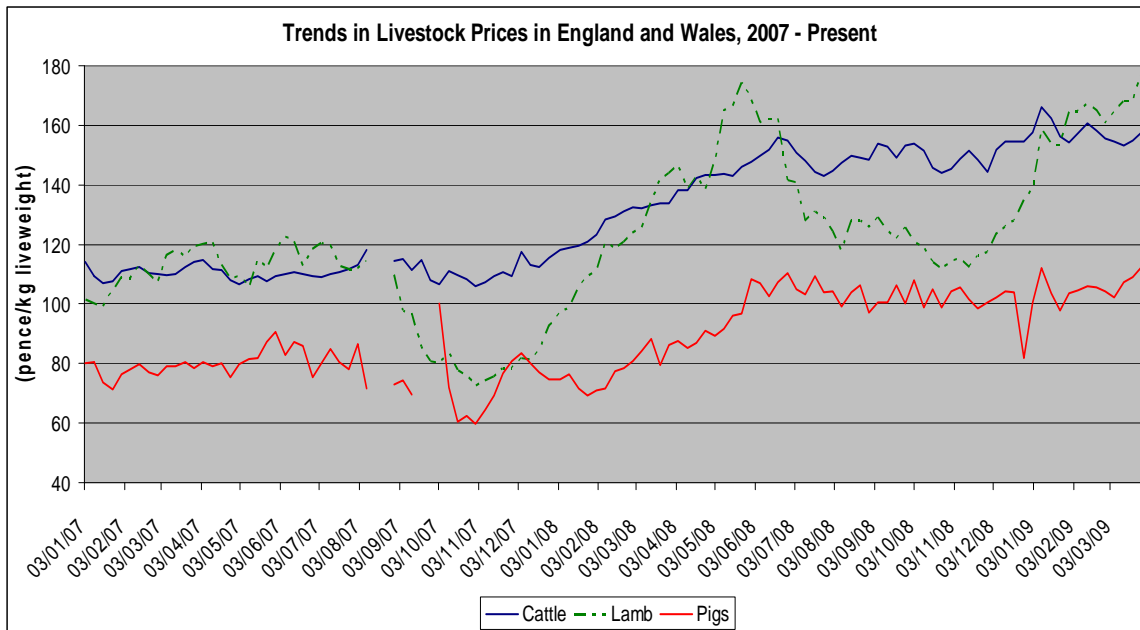
2.3 Livestock and Meat Prices

Livestock prices⁸ have been rising:

- Cattle prices were 153.77 pence per kilogram liveweight for the week ending 14 March, down from 160.94p/kg in the equivalent week in February 2009 and 14.5% higher than the equivalent week in 2008.
- Sheep prices were 357.11 pence per kilogram deadweight for the week ending 14 March, 21.5% higher than the equivalent week in 2008. Prices have remained relatively stable but are now showing the expected seasonal increase.
- Pig prices were 141.60 pence per kilogram deadweight for the week ending 14 February, around 25% higher than the equivalent week in 2008. The gap between UK and EC pig prices that emerged at the end of January has continued to widen, tight supplies are supporting the higher prices.

The following chart shows trends in livestock prices for cattle, lamb and pigs in England and Wales since 2007. The series have shown an upward trend over the period, especially since the start of 2008.

⁸ Source: Agriculture and Horticulture Development Board



Source: Defra, *Agricultural Market Reports*,
https://statistics.defra.gov.uk/esg/publications/amr/Finished_stock.xls

The charts below illustrate the trends in livestock, producer and retail prices⁹, together with the specific ONS Retail Price Index, for beef, lamb and pork. These show that for beef and lamb, producer prices over the period have tended to move with livestock prices, suggesting margins have been maintained. For pork, growth in livestock prices has outstripped growth in the other price indices.

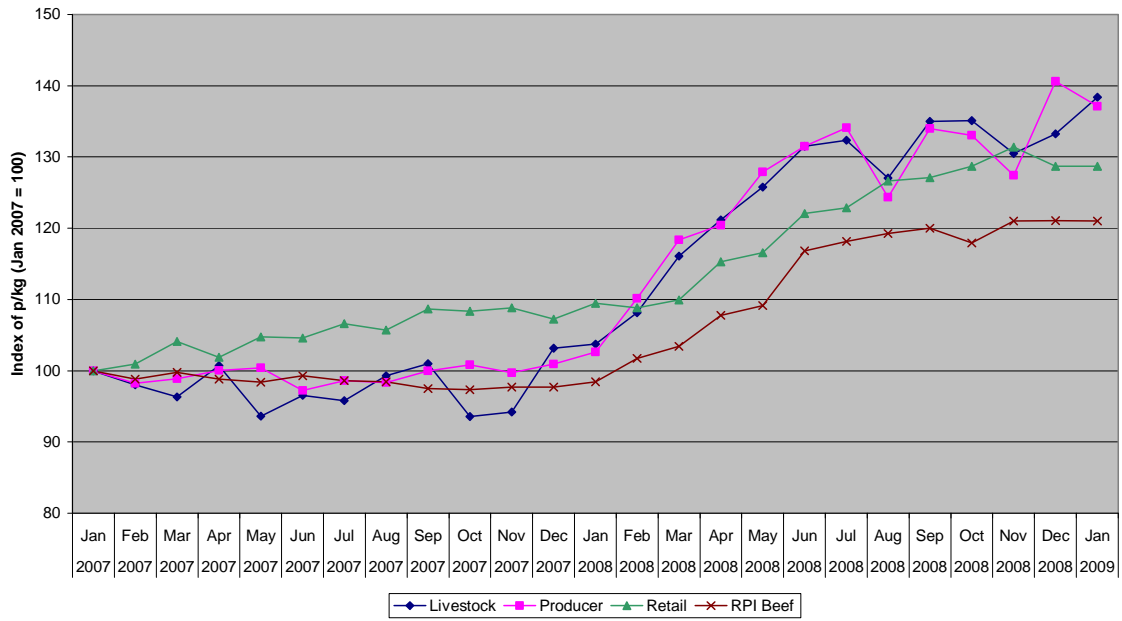
⁹ Livestock prices from are weighted averages for England and Wales from Defra, *Agricultural Market Reports* (https://statistics.defra.gov.uk/esg/publications/amr/Finished_stock.xls).

Producer prices for beef and lamb from EBLEX (http://www.eblex.org.uk/MarketPrices/prices_old.php?rtype=10), and are the average weekly deadweight market prices for clean sheep in the England and Wales SQQ (Standard Quality Quotation) from the MLC's prices survey. Producer prices for pork are from BPEX (<http://www.bpex.org.uk/MarketIntelligence/data/DappEuroSpec.aspx>) and are based on the Deadweight Average Pig Price as reported in a voluntary kill survey, which accounts for 45% of the weekly kill in Great Britain.

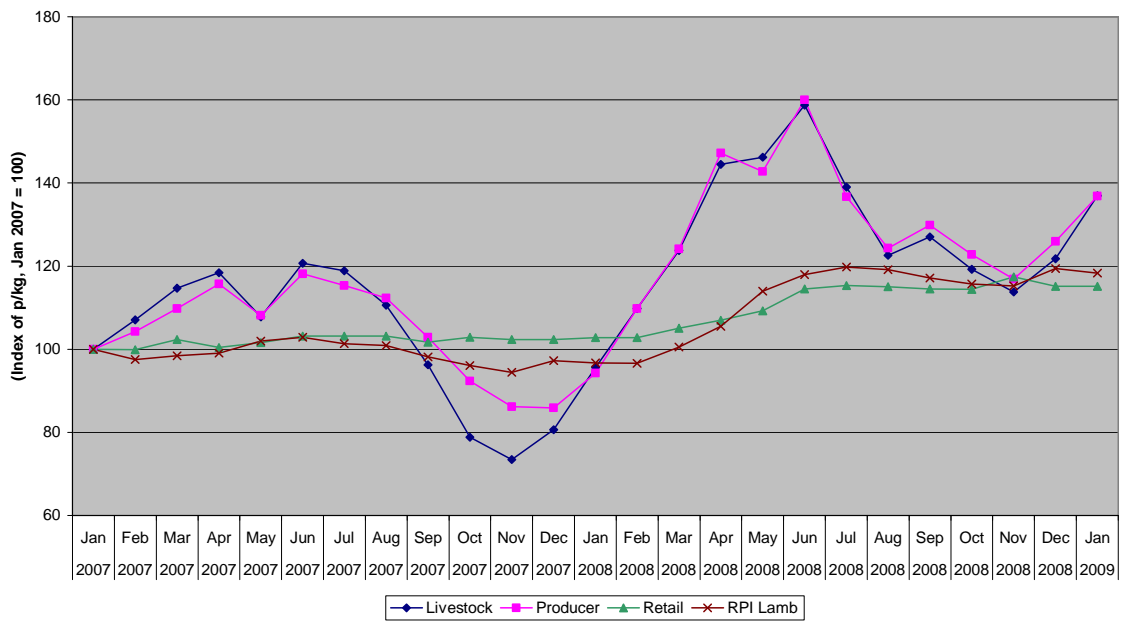
Retail prices for beef and lamb are from EBLEX (http://www.eblex.org.uk/MarketPrices/prices_old.php?rtype=10) and based on the prices of cuts collected in the MLC's Retail Prices Survey for England. Retail prices for pork are from BPEX (<http://www.bpex.org.uk/MarketIntelligence/data/FarmGateToRetailPrice.aspx>) and are based on a basket of pork products for Great Britain.

Retail Price Indices for individual meats are on a UK basis and are from the ONS (<http://www.statistics.gov.uk/statbase/tsdtables1.asp?vlnk=mm23>).

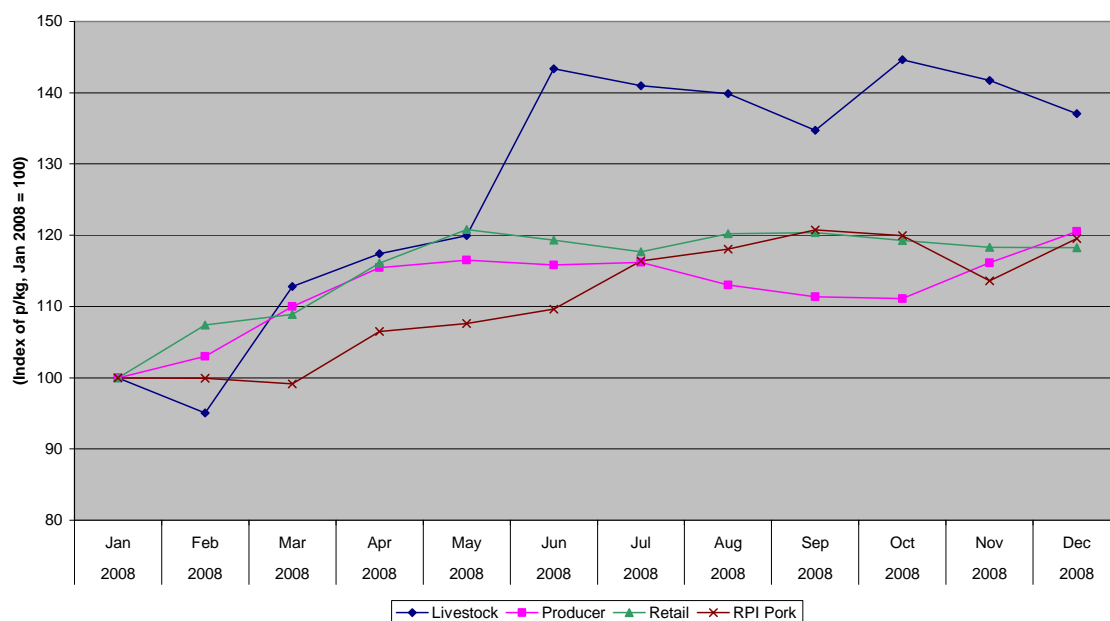
Movements in Beef Prices, Jan 2007 - Jan 2009



Movements in Lamb Prices, Jan 2007 - Jan 2009



Movements in Pork Prices, 2008



There has been a trend for consumers to move towards purchasing cheaper cuts of meat¹⁰, such as pork hock, mince and beef skirt. This trend will have damped the increase in the average price of meat per kilogram, shown above, as the charts illustrate the average price including the range of cuts available.

Sterling depreciated against the Euro by 28% between January 2007 and January 2009, and has remained at a low level in the early months of 2009, although above the lowest point reached at the end of December 2008. Historically UK farmgate prices tend to be higher when sterling is weaker against the Euro and vice versa. All else equal, weak sterling makes imports more expensive and exports cheaper, so boosts returns to domestic production.

2.4 Returns from Farming and Meat Production

Provisional estimates of farm income data released by Defra in January 2009¹¹ show that Total Income from Farming (TIFF) in the United Kingdom is estimated to have risen in 2008 by 41.9% in current prices, or by 36.3% in real terms, to £3.46 billion. Total Income from Farming per full time person equivalent is estimated to have risen by 41.9% in current prices, or by 36.3% in real terms, to £18,185. Increased input costs were outweighed by an increase in the value of output of 25.6%. High prices in the livestock sector resulted in an increase in the value of total livestock output of 23.9%. This picture is not uniform across the UK; for example, in Scotland 2008 TIFF

¹⁰ For example, see Mintel and media articles

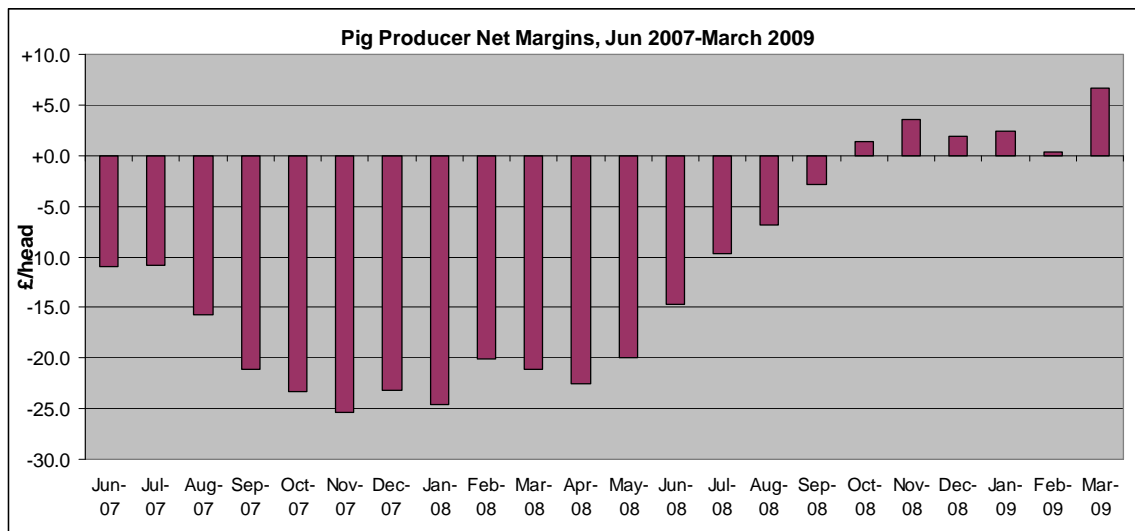
¹¹ <https://statistics.defra.gov.uk/esg/farmincomesns.htm>

estimates¹² show that aggregate incomes have decreased by £11.9 million in 2008 to £629.6 million in cash terms, a fall of 1.8% over the previous year, and 5.6% in real terms.

Average farm business income across all farm types in England is expected to fall by around 8% at current prices in 2008/09, reflecting lower prices for some of the main commodities from the 2008 harvest, notably cereals, and increased prices for inputs such as fuel and fertiliser. Despite this fall it is projected to be higher than in the four years prior to 2007/08. Within the individual farm types, grazing livestock, dairy and specialist pig farms are forecast to have higher incomes whilst those on cropping farms are expected to fall.

Insolvency Service statistics published in February 2009 show bankruptcies of individuals in the farming sector in England and Wales were running at around 30-40 per quarter for the first three quarters of 2008¹³. This is similar to, or even below, levels observed in recent years. There were 15-20 farm company liquidations per quarter in the first three quarters of 2008, which is a little above the recent level of 10 per quarter. The number of liquidations across the whole economy rose by 30% in the third quarter of 2008 compared with the same period a year ago.¹⁴

Net margins vary between sectors and businesses. Data from the National Beef Association suggest that beef production systems of all types are operating under negative net margins. The chart below illustrates that the general trend in British pig producer (abattoir) net margins has recently become positive after a period of negative net margins.



¹² Scottish Government Rural and Environment Research and Analysis Directorate
<http://www.scotland.gov.uk/News/Releases/2009/01/29094604>

¹³ Quoted in Defra February 2009 Farming And Food Brief:
<https://statistics.defra.gov.uk/esg/publications/monthly%20brief/february2009FarmingFoodBrief.pdf>

¹⁴ Note that because of the high asset values in farm businesses, failing companies will generally be disposed of through a sale before the formal liquidation process begins.

Source: BPEX Market Intelligence section

(<http://www.bpex.org.uk/MarketIntelligence/data/Producernetmargins.aspx>). Note that this should be considered indicative of general trends only and may not be representative for all pig producers

2.5 Summary

The information set out in this note shows that recent trends in the meat production sector suggest that the sector overall is performing relatively well within a difficult macroeconomic situation. The volume of meat production has been relatively stable in recent years, compared to earlier years. There has been substantial growth in livestock prices, producer (i.e. processor) prices and retail prices of meat products over the last year, and for beef and lamb changes in producer prices have moved in close relation to changes in livestock prices. Weak sterling tends, all else equal, to boost returns for the meat production sector. Total income from farming has risen substantially in 2008. However, despite some relatively positive indicators currently, industry confidence in the future is low.

ANALYSIS OF THE RESPONSES TO THE PUBLIC CONSULTATION

Proposal

1. To introduce a charge to recover 5% of the cost of official controls on the removal of Specified Risk Material (SRM), including additional BSE controls¹⁵ that apply to cattle slaughtered for human consumption that are required to be tested for BSE.

Note. This would be a new charge that would be permitted under, but is not required by, European legislation. It would represent a small first step towards recovering the full cost of these controls.

Discussion

2. Industry responses argued strongly that the introduction of this charge was inappropriate because:

- a) Government/taxpayers and not industry should pay for these controls because they are public health protection measures;
- b) there were significant cost savings that could be generated if these controls were more proportionate and risk-based;
- c) industry could not meet the cost of the proposed charge given both the current economic circumstances and the extra costs that red meat businesses were already having to absorb, e.g. following the increases to certain meat hygiene charge rates in January 2009 (e.g. 18% for adult bovines);
- d) concern that the cost of SRM and BSE related controls, as calculated from the coding of this work by MHS/DARD, was not accurate;
- e) businesses already carried out a significant amount of the work required to ensure that SRM/BSE controls are effective, e.g. sampling, product tracing, segregating, managing products and waste, etc. As such, industry already incurred significant cost and should not also have to pay for the 'policing' of the action they are taking; and
- f) the proposed charge would be illegal under Article 27.7 of EC Regulation 882/2204 which requires that where controls are carried out at the same time and place there shall only be one charge.

Discussion

4. The Executive does not accept that the proposed charge would be illegal or that it would be inappropriate for industry to meet a reasonable share of the cost

¹⁵ Controls set out in the Transmissible Spongiform Encephalopathies (England 2008) 2008 No. 1881, Schedule 2 part 2 and equivalent regulations in Scotland, Wales and Northern Ireland.

of SRM/BSE official controls. However, we are mindful of the other industry comments and that a balanced view must be taken of the impact of this proposal given the recommendation above on meat hygiene charges (see **Annex 1D**), the general economic circumstances, and the cumulative impact of other increased costs that red meat businesses are having to absorb. The Executive is also mindful of the fact that, as set out in the table below, the overall cost of these controls is reducing at a rate that suggests that the intended cost savings to the Agency from the new charge can be achieved without the need at this time for the introduction of a new charge.

Year	SRM control costs
2007-08	£ 9,773
2008-09	£ 8,096 (estimate)
2009-10	£ 6,850 (estimate)
Year	BSE testing controls
2007-08	£5,057
2008-09	£4,482

Recommendation

3. It is recommended to defer this proposal for consideration as part of the development of future charging proposals.

ANALYSIS OF THE RESPONSES TO THE PUBLIC CONSULTATION

Proposal

1. To enable charges to be made for the full costs of official controls that may be carried out on-farm or other place of origin.

Note. MHS and approved veterinarians employed by local practices are able to carry out these controls. MHS does so on a limited and infrequent basis. However, under UK charging Regulations MHS/DARD cannot currently charge for the controls, which means that costs cannot be recovered and local veterinary practices may be at a commercial disadvantage when competing for this work.

Summary of consultation responses

2. This proposal attracted little comment. Most that were received were in favour of the proposal, but the point was raised that farming businesses might not be able to afford to pay the full cost of these controls. A further comment was that any charges raised should not be duplicated by further charges when carcasses are processed at other businesses (e.g. slaughterhouses, game handling establishments and cutting plants).

Discussion

3. Under the proposal, charges would be made for the time costs of undertaking any necessary meat hygiene controls on farm or place of origin. Charges would also fall due in the normal way for other official controls on the carcasses required at other meat businesses (e.g. slaughterhouses, game handling establishments and cutting plants). As such there should be no question of duplicating controls and thereby duplicating charges.

4. In light of the comments received that some farms would not be able to afford full cost charges, and in order for this charge to be consistent with other meat hygiene charges, the Executive considers that, on reflection, this new charge should be discounted with reference to the charging discounts that apply to slaughterhouses with similar levels of throughput. This approach would not resolve the problem that private veterinary practices that might want to bid for this work would continue to be placed at a commercial disadvantage, though the introduction of the charge would be a step in the right direction.

Recommendation

5. To pursue the introduction of this charge and to set the level of charge for each farm/place of origin with reference to the charging discounts that apply to slaughterhouses with similar levels of throughput.

ANALYSIS OF THE RESPONSES TO THE PUBLIC CONSULTATION

Proposal.

1. To change the implementation date for future changes to UK minimum charge rates that are required due to variations of the £/Euro exchange rate from the start of each calendar year to the start of each financial year.

Summary of consultation responses

2. The great majority of the respondents who commented on this proposal were in favour. However, some suggested that UK rates should be revised against the EC minima more than once a year. Half yearly and quarterly revisions were suggested.

Discussion

3. The Executive considers that the minima should not be adjusted more frequently than once a year as was suggested in some responses, since doing so could mean more regular changes to UK charge rates and therefore greater uncertainty of charge rates for industry. It could also work against the interests of industry because any weakening of the pound would require increases to charge rates. However, it would not be the intention of the Agency that UK charge rates would be reduced if the pound strengthened. This is because reducing some UK rates in these circumstances would be:

- a) contrary to the need to recover an increasing amount of the costs of official controls;
- b) at a cost to the Agency in that the extra moneys from previous increases to rates to comply with the EC minima have been offset against general charge increases that would otherwise have applied; and
- c) inconsistent with the treatment of rates for other animals that had not been affected by exchange rate movements because those rates were already significantly above EC minimum rates.

4. However, in response to the suggestion that the minima should be adjusted more frequently than once a year, the Executive proposes to apply an average exchange rate based on those that applied at the start of each month of the preceding calendar year. This would help to ensure that UK charge rates would not increase to the level of a £/Euro exchange at a single point in time which may not be typical of rates over a longer period.

Recommendation

5. To pursue this recommendation and, in response to a suggestion from consultees, to change from applying an exchange rate prevailing at one point in time to applying an average exchange rate based on the previous calendar year.

ANNEX 2

ADVISORY BODY ON THE DELIVERY OF OFFICIAL CONTROLS SUMMARY OF THE 6th MEETING: 1 APRIL 2009

With regard to its consideration of the consultation on changes to the meat official controls charging arrangements and charging rates, the Advisory Body:

- a. noted the summary of responses to the consultation;
- b. asked for industry views on the impact/affordability of the proposed increase to meat hygiene charges to be set out in more detail in the paper to the FSA Board than the summary presented to the Advisory Body
- c. agreed with the reasons for moving to a time-based system of charges, subject to appropriate arrangements being in place to monitor changes to the levels of official controls
- d. asked that the Agency to seriously review the level of charge increases proposed in light of the strong industry representations and the current economic climate
- e. asked for responses from representative organisations to be given greater weight than those from individual businesses in the paper to the FSA Board and for the weight of the views to be indicated to the FSA Board where there was a mixed response to any given proposal;
- f. noted that the paper had a one year outlook only and indicated that a future assessment of charging increases was needed to help businesses to plan ahead;
- g. asked FSA to look at the longer term and consider a multi-year proposal for the future.

**CONSIDERATION OF THE MEAT CHARGING PROPOSALS BY
FOOD ADVISORY COMMITTEES (FACs) IN SCOTLAND, WALES AND
NORTHERN IRELAND**

SCOTLAND

Proposal 1: to introduce a new method of calculating charges for meat hygiene controls based on the time-costs of carrying out these controls. (para 3)			
Q1	Do you agree with the proposal to replace the Maclean charging system with generally applicable time-cost charges? (paras 3.1.1.2 and 3.1.3)	<i>Please tick</i>	
		Yes ✓	No
	Please give your reasons with alternative suggestions if your answer is no.		
	<i>SFAC agree with the principle of charging by time but believe that flexibility would need to be incorporated to make provision for small, remote, rural and island premises to ensure that they are not disadvantaged and they remain viable in line with Scottish Government policies on sustainability and rural communities.</i>		
Q2	Do you agree with the use of the Maclean formula to calculate the discount to be applied to the full cost of controls for each plant on transferring to the proposed system of time-cost charges? (para 3.1.3.1)	<i>Please tick ✓</i>	
		Yes ✓	No
	Please give your reasons		
	<i>Yes in principle but with the provisos outlined under Q1.</i>		
Q3	Do you agree that the discount for new businesses should be determined by reference to the discounts applicable to businesses of a similar type and size? (para 3.1.4)	<i>Please tick ✓</i>	
		Yes ✓	No
	Please give your reasons.		
	<i>Reluctant agreement because of a lack of an alternative methodology. Close scrutiny would be required to monitor such a scheme particularly in the early years to ensure consistency and proportionality over time. In addition, it would be important that the business activity matches the discounts applied.</i>		

Q4	Do you agree, in relation to poultry slaughterhouses, with the proposal to introduce a standard hourly rate of £11 for Plant Inspection Assistants' employment costs? (para 3.1.6.4 and appendix 2)	<i>Please tick ✓</i>	
		Yes	No ✓
	Please give your reasons.		
	<i>The basis on which the hourly rate is set is unclear, and the need for a fixed hourly rate is not justified. There are also concerns about how the hourly rate could be implemented and enforced. The proposals are unnecessarily complicated for what is intended and the committee would favour a simpler straight discount system based directly on current costs for the use of PAIs.</i>		
Q5	Do you agree, in relation to poultry slaughterhouses, - to deduct from the MHS charge 95% of PIA costs calculated from the proposed standard hourly rate? (para 3.1.6.6 and appendix 2)	<i>Please tick ✓</i>	
		Yes	No ✓ See note below
	Please give your reasons.		
	<i>Same as response to Q4</i>		
Q6	Do you agree with the proposal to take account of audit frequencies in calculating the rate of discount for meat cutting plants? (para 3.1.7 and appendix 3)	<i>Please tick ✓</i>	
		Yes ✓ see note below	No
	Please give your reasons.		
	<i>Agree in principle, but discounts should relate to elements of audit within the control of the business and should be related to performance in the context of food safety. This type of provision would be especially important in Scotland in the context of the small, remote, rural and island premises.</i>		

Charging Implications of Business Agreements		<i>Please tick ✓</i>	
Q7	<p>Do you agree with the proposal that the MHS should charge each business at the appropriate discount rate for:</p> <ul style="list-style-type: none"> - all chargeable working hours set out in the Business Agreement; and - any chargeable additional hours that are required? (para 3.1.8 onwards and appendix 4) <p><i>Note: we do not propose to charge for unused hours where, following notice from the business, the MHS is able to re-deploy the official control staff affected.</i></p>	Yes ✓	No
Please give your reasons.			
<p><i>It is important that the charging is closely monitored to avoid an unbalanced situation arising i.e. working hours diverging significantly from those agreed in the Business Agreement. It is also important that appropriate flexibility is factored in, particularly where there is a wide fluctuation in throughput. This is an important issue with small, remote, rural and island premises.</i></p>			
Q8	Do you agree that all hours charged should be at the discounted rate applicable to each individual business? (para 3.1.8.2)	<i>Please tick ✓</i>	
		Yes ✓	No
Q9	Do you agree that the proposal that all charges should be at the discounted rate applicable to each business sufficiently balances the interests of taxpayers and those of a business that may wish to vary its hours at short notice, e.g. due to its traditional working practices? (para 3.1.8.2.)	<i>Please tick ✓</i>	
		Yes ✓	No
Q10	Are there any other aspects of the Business Agreement process or content that may impact on the charges payable by a businesses that are concern to you?	<i>Please tick ✓</i>	
		Yes	No ✓

Q11	Compliance with EC minimum charge rates Are you content for the date for adjusting charging rates to comply with the EC minima to move from January to April in each year starting from 2010? (para 3.1.3.3)	<i>Please tick ✓</i>	
		Yes ✓	No
	Please give your reasons below.		
	<i>The Committee would recommend a single date for adjusting charging rates in the year as proposed. Where EU rates in Euros need to be converted into £ sterling eg the EU specified minimum rates, the Committee recommends use of an average of two or more rates over a period to avoid the effects of short-term fluctuations which can follow from the use of a single day's exchange rate, as at present. Any change in charges thereby required – along with any other changes to charges - would however apply from the single date in the year as proposed.</i>		
	Proposal 2 - to increase charges for meat hygiene and animal welfare at slaughter official controls. (para 3.2)		
	Option 1: to increase charges on 29 June 2009 to each business by 4% to cover inflation. (para 3.2.2.1)		
	Option 2: to increase charges on 29 June 2009 to each business by 6% (inclusive of inflation). (para 3.2.2.2)		
	Option 3 (the preferred option): to increase total industry charges on 29 June 2009 by an increase that would recover an additional £3 million over a full year, currently estimated to be just under 9% (inclusive of inflation). (para 3.2.2.3)		
Q12	Do you agree with the way in which it is proposed to take account of the increases to some standard charges that will apply from the turn of the year? (para 3.2.1.2.)	<i>Please tick</i>	
		Yes	No ✓
	Please give your reasons.		
	<i>The Committee would recommend option 1 amended. The Committee believe that there is a case for increasing charges to reflect inflation – but that given current economic circumstances inflation is below 4% and hence the figures should be recalculated on an updated inflation rate.</i>		

Q13	Do you agree that option 3 balances the interests of businesses and taxpayers appropriately? (para 3.2.4)	Please tick ✓	
		Yes	No ✓
	Please give your reasons.		
	<i>In principle an amended option 1 would be the favoured option of the Committee with the caveat that Scottish Ministers should be satisfied that there has been a increase in efficiency with the MHS and that small, remote, rural and island businesses would not be disadvantaged and would remain viable.</i>		
	Proposal 3 – to introduce a charge to recover 5% of the cost of official controls on Specified Risk Material (SRM), including additional BSE controls applicable to cattle slaughtered for human consumption that are required to be tested for BSE. (para 3.3)		
Q14	Do you agree that this proposal is an appropriate step towards balancing the interests of businesses and taxpayers?	Please tick ✓	
		Yes	No ✓
	Please give your reasons.		
	<i>SRM controls are a public health measure, so in line with other public health measures these should be paid for by the taxpayer. We wish to have the decision deferred to have debate under the new circumstances.</i>		
Q15	Do you agree that this proposal should come into effect from 29 June 2009?	Please tick ✓	
		Yes	No ✓
Q16	Do you favour deferring the implementation of this proposal until the 2010/11 financial year?	Please tick ✓	
		Yes	No ✓
	Please give your reasons. <i>An EU wide debate and discussion needs to be held on the whole issue of SRM controls to establish what level of controls is now appropriate going forward.</i>		
	Proposal 4 – to enable charges to be made for official controls that are carried out on farm or place of origin. (para 3.4)		
Q17	Do you agree with this proposal?	Please tick ✓	
		Yes ✓	No
Q18	If proposal 4 is implemented, do you agree that the full cost of the controls should be charged? (para 3.4.2)	Please tick ✓	
		Yes ✓	No

	Proposal 5 – to require businesses to declare their working hours and working practices that are relevant to charging. (paras 3.5 and 3.5.2.1)	<i>Please tick ✓</i>	
Q19	Do you agree with this proposal?	Yes ✓	No
	Please give your reasons below. <i>Yes, provided the working hours are agreed in the Business Agreement.</i>		
	Proposal 6 – to charge a £400 fee for businesses to initiate a review of the MHS’s initial assessment of the staff resources needed to carry out chargeable official controls. (paras 3.6.1 and 3.6.2) Note: we propose that the £400 fee would be refunded if the review, or a subsequent appeal, was decided in the businesses favour.		
Q20	Do you agree with this proposal?	<i>Please tick ✓</i>	
	Please give your reasons. We would appreciate alternative suggestions if you disagree with the proposed £400 fee to secure industry representation on the review team.	Yes	No ✓
	<i>It is inappropriate to charge £400 for a review – even if it is refundable if the review is successful. The system could be open to abuse and creates unnecessary and costly additional bureaucracy.</i>		
	Proposal 7 – appeals against the MHS’s final assessment of the staff needed to carry out chargeable official controls at the premises. (para 3.7)		
Q21	Do you agree that businesses should be able to appeal against the MHS’s final assessment of staff needed?	<i>Please tick ✓</i>	
		Yes ✓	No
Q22	If proposal 4 is implemented, do you agree that the independent person who determines the appeal should be able to award costs against the business or the MHS? (para 3.7.1.1)	<i>Please tick ✓</i>	
	Please give your reasons below.	Yes	No ✓
	<i>The committee is doubtful about the independence of an “independent” person appointed by the FSA. (Please see response to Q26)</i>		

Proposed calculation of meat hygiene charge from 29 June 2009			
Q23	Red meat slaughterhouses and game handling establishments (Appendix 1)	<i>Please tick ✓</i>	
	Do you agree with the proposed method of calculating the charging discount for each business?	Yes ✓	No
Q24	Poultry slaughterhouses (Appendix 2)	<i>Please tick ✓</i>	
	Do you agree with the proposed method of calculating the charging discount for each business?	Yes	No ✓
	Please give your reasons below.		
	<i>Refer back to Q4</i>		
Q25	Cutting plants (Appendix 3)	<i>Please tick ✓</i>	
	Do you agree with the proposed method of calculating the charging discount for each business?	Yes ✓	No
Business Agreements (Appendix 4)		<i>Please tick ✓</i>	
Q26	Do you agree with the proposed resolution procedures if a business and the MHS do not agree MHS resource?	<i>Please tick ✓</i>	
	Please give your reasons below.	Yes	No ✓
	<i>See responses to Qs 20 and 22, however, the committee agrees that there should be a resolution procedure, but it should be overseen by a fully independent person and there should be no charge (refundable or otherwise).</i>		

WALES: extract from the minutes of the Committee's 3 April 2009 meeting

10.1 The Chairman welcomed David Hart from FSA headquarters who had been invited to brief the Committee, in preparation for Board discussions due to take place on 21 April meeting, on proposed changes to the arrangements for meat official controls hygiene charges. To inform the discussions, members had received a paper considered by the Advisory Body for the Delivery of Official Controls earlier in the week, which set out a range of proposals and a summary of consultation responses to them.

10.2 Members noted the principles of the proposals in introducing a new system of calculating charges for meat hygiene controls in approved meat plants based on the time-based costs of carrying out these controls. Information was provided on the response to the Agency's consultation exercise on the issue which had concluded on 25 March. Concern was raised by a number of WFAC members in relation to the possibility of some smaller business operators being expected to pay the same rate of charge as larger businesses. Mr Hart informed Members that discounts would be based on the current charging system, which meant that small business operators would continue to receive significant discounts. Longer term, the distribution of discounts would have to be reviewed but account would continue to be taken of the needs of small, rural and low throughput operators. The Committee concluded that it was content with the principles of the proposal.

10.3 Discussions were held on proposals to increase the charges for meat hygiene controls by up to 8.9% from 29 June 2009. The Director informed Members of a meeting on 18 March between the Chief Executive of the FSA and the Rural Affairs and Deputy Health Ministers of the Welsh Assembly Government on this issue. Members noted that Ministers endorsed the reasons for proposing a change to a time-based system in order to incentivise both the FSA and business operators to make more efficient use of meat hygiene inspection arrangements, and to continue the process of reducing the cost of running the service to a minimum cost to the public purse. During these discussions the need to ensure sufficient continuing support for small rural businesses and low throughput operators was highlighted, and Ministers wanted the Agency to consider carefully the responses to the consultation and take account of the overall impact of increased charges on the industry. The Committee endorsed the view of Welsh Ministers on the proposed increase.

10.4 The Committee discussed the proposals to introduce a time-based charge to recover 5% of the costs of the controls for the removal of Specified Risk Material (SRM) and controls in relation to BSE testing. The Committee concluded that the proposal to recover the costs while desirable was not the highest of priorities, in the overall package of proposals.

10.5 Members discussed the proposal to introduce a £400 fee for businesses to initiate a semi-independent review of the MHS's initial assessment of the staff resources needed to carry out chargeable official controls at the premises. A member enquired about the possibility of making the fee refundable in the event of a business winning an appeal. David Hart confirmed that the fee would be refunded in

these circumstances. Also, the possibility of the charge being levied only if an appeal failed was discussed. In agreeing the principle of the fee, although the amount suggested might be disproportionate, WFAC was of the view that the mechanics of its operation should prevent frivolous appeals being made.

NORTHERN IRELAND

	Proposal 1: to introduce a new method of calculating charges for meat hygiene controls based on the time-costs of carrying out these controls. (para 3)		
Q1	Do you agree with the proposal to replace the Maclean charging system with generally applicable time-cost charges? (paras 3.1.1.2 and 3.1.3)	<i>Please tick ✓</i>	
		Yes X	No
	Please give your reasons with alternative suggestions if your answer is no. <i>The Committee is supportive of this proposal as being the most effective lever to achieve efficiency and reduced charges for inspectorate and FBO's.</i>		
Q2	Do you agree with the use of the Maclean formula to calculate the discount to be applied to the full cost of controls for each plant on transferring to the proposed system of time-cost charges? (para 3.1.3.1)	<i>Please tick ✓</i>	
		Yes	No
	Please give your reasons. <i>The Committee is not qualified to comment on the detail of this proposal however it does agree that there is a need for a structured transition. It is accepted that this is a reasonable transitional mechanism which enables FBO charging to be transitioned to a new scheme without any serious financial disadvantages. Based on the understanding that this is a fair way to transition and provided that no one is seriously disadvantaged the Committee support this proposal.</i>		
Q3	Do you agree that the discount for new businesses should be determined by reference to the discounts applicable to businesses of a similar type and size? (para 3.1.4)	<i>Please tick ✓</i>	
		Yes X	No
	Please give your reasons. <i>The Committee agree that new businesses should not be put at a disadvantage and therefore is in support of this proposal.</i>		

Q4	Do you agree, in relation to poultry slaughterhouses, with the proposal to introduce a standard hourly rate of £11 for Plant Inspection Assistants' employment costs? (para 3.1.6.4 and appendix 2)	<i>Please tick ✓</i>	
		Yes	No
	Please give your reasons.		
	<i>The Committee is not qualified to comment on this proposal. The quantum of charging should be left for other Stakeholders to comment on.</i>		
Q5	Do you agree, in relation to poultry slaughterhouses, - to deduct from the VPHU charge 95% of PIA costs calculated from the proposed standard hourly rate? (para 3.1.6.6 and appendix 2)	<i>Please tick ✓</i>	
		Yes X	No
	Please give your reasons.		
	<i>The Committee is not qualified to comment on the detail of this proposal. However it is supportive of FBO's paying more towards the costs of official controls so that they are brought in line with other FBO's who pay full costs. The Committee accept that this proposal is a step in the right direction and as such it supports the principle of this proposal.</i>		
Q6	Do you agree with the proposal to take account of audit frequencies in calculating the rate of discount for meat cutting plants? (para 3.1.7 and appendix 3)	<i>Please tick ✓</i>	
		Yes X	No
	Please give your reasons.		
	<i>This proposal is a reasonable starting point given that the operation of a plant can improve and/or deteriorate. The principle should be that any improvement in standards should lead to a financial benefit. Assuming that as the frequency of audits decrease the amount that the FBO pays should likewise decrease. It was agreed that any system that encourages improvement and hence leads to a lower frequency of audits should be supported provided public health protection is not compromised.</i>		

Charging Implications of Business Agreements		<i>Please tick ✓</i>	
Q7	<p>Do you agree with the proposal that VPHU should charge each business at the appropriate discount rate for:</p> <ul style="list-style-type: none"> - all chargeable working hours set out in the Business Agreement; and - any chargeable additional hours that are required? (para 3.1.8 onwards and appendix 4) <p>Note: we do not propose to charge for unused hours where, following notice from the business, VPHU is able to re-deploy the official control staff affected.</p>	Yes	No
Please give your reasons.			
<p><i>The Committee agree that business agreements should be able to be renegotiated within a reasonable time frame. It is in full support of the business agreement being the mechanism that applies discipline to both the FBO and VPHU in terms of agreeing on the number of staff and hours that are needed to get the job done. The Committee support the need for independent assessment of business agreements within establishments to ensure that there is adequate deployment of staff i.e. too few staff poses a public health and safety risk and too many staff is costly to the FBO. The Committee agree that the chargeable hours set out in the business agreement should be paid and that there should be further payment of any additional hours subject to the ability to renegotiate the business agreement with reasonable periodicity.</i></p>			
Q8	<p>Do you agree that all hours charged should be at the discounted rate applicable to each individual business? (para 3.1.8.2)</p>	<i>Please tick ✓</i>	
		Yes	No
Please give your reasons.			
<p><i>The Committee agree that in principle financial penalties should be related to persistent poor/inadequate planning, maintenance and hygiene practices. However it was recognised that flexibility needs to be built in where the changes in requirement occur through no fault of the FBO. The Committee agree that business agreements and time-cost charging are critical levers and drivers where good behaviour is to be rewarded. The Committee also recognise that there needs to be a clear mechanism of arbitration and a fair process for all parties.</i></p>			

Q9	Do you agree that the proposal that all charges should be at the discounted rate applicable to each business sufficiently balances the interests of taxpayers and those of a business that may wish to vary its hours at short notice, e.g. due to its traditional working practices? (para 3.1.8.2.)	<i>Please tick ✓</i>	
		Yes	No
	Please give your reasons.		
	<i>Answer as in Q8. The Committee agree that whilst discounted rates should be applied any abuse of the system needs to be met with financial penalties. The cost of flexibility should be built into the business agreement. The Committee feel that any inefficiencies that are built in to accommodate the way in which the FBO works should be paid by the FBO. Efficient FBO's and taxpayers should not be required to subsidise inefficient FBO's.</i>		
Q10	Are there any other aspects of the Business Agreement process or content that may impact on the charges payable by businesses that are of concern to you?	<i>Please tick ✓</i>	
		Yes	No
	Please explain and give your reasons.		
	<i>Answer as in Q8 and Q9. It is essential that both parties agree to the details of any independent arbitration system established to develop satisfactory business agreements. If necessary these should be used as early as is necessary to increase trust and transparency.</i>		
	Compliance with EC minimum charge rates	<i>Please tick ✓</i>	
Q11	Are you content for the date for adjusting charging rates to comply with the EC minima to move from January to April in each year starting from 2010? (para 3.1.3.3)	Yes	No
		Please give your reasons.	
	<i>The Committee are unable to comment on this proposal as it is not aware of how much the rate will change each year. It seems reasonable unless there are outstanding negatives associated with the proposal for either the public purse or the FBO's.</i>		

	Proposal 2 - to increase charges for meat hygiene and animal welfare at slaughter official controls. (para 3.2)		
	Option 1: to increase charges on 29 June 2009 to each business by 4% to cover inflation. (para 3.2.2.1)		
	Option 2: to increase charges on 29 June 2009 to each business by 6% (inclusive of inflation). (para 3.2.2.2)		
	Option 3 (the preferred option): to increase total industry charges on 29 June 2009 by an increase currently estimated to be just under 9% (inclusive of inflation). (para 3.2.2.3)		
Q12	Do you agree with the way in which it is proposed to take account of the increases to some standard charges that will apply from the turn of the year? (para 3.2.1.2.)	<i>Please tick</i>	
		Yes	No
	Please give your reasons.		
	<p><i>The Committee is not qualified to comment on the details of whether it should be a 4%, 6% or 9% increase. However, the Committee have supported the principle of FBO's paying a greater share of the cost of official controls and so any increase should be meaningful towards achieving that goal. The Agency's calculations seem reasonable but the Committee is not able to comment on the exact figures. The Agency should make a decision on this matter. The Committee tend towards the view that since hourly charging and business agreements drive improvement and efficiency and hence reduce Agency costs these are the most important elements to initiate.</i></p> <p><i>The current meat hygiene charging system has evolved in a way that has resulted in inequity between sectors. Changes should ensure a move towards equity and fairness in the discounts for the different processing sectors e.g. charges to pig meat industry are already higher than charges to other meat sectors.</i></p>		

Q13	Do you agree that option 3 balances the interests of businesses and taxpayers appropriately? (para 3.2.4)	Please tick ✓	
		Yes	No
	<i>Please give your reasons.</i>		
	<i>Answer as in Q12. The Committee agree that the efficiency of the system is the critical piece and again press the FSA to persist in its work to achieve a more risk based approach to official controls. When that is achieved public health, public purse and FBO's all benefit.</i>		
	Proposal 3 – to introduce a charge to recover 5% of the cost of official controls on Specified Risk Material (SRM), including additional BSE controls applicable to cattle slaughtered for human consumption that are required to be tested for BSE. (para 3.3)		
Q14	Do you agree that this proposal is an appropriate step towards balancing the interests of businesses and taxpayers?	Please tick ✓	
		Yes X	No
	Please give your reasons.		
	<i>The Committee is happy to accept this proposal. The Committee continues to support a more risk based proportionate control system.</i>		
Q15	Do you agree that this proposal should come into effect from 29 June 2009? (para 3.3.3.1)	Please tick ✓	
		Yes X	No
	Please give your reasons.		
	<i>The Committee agree with this proposal provided the necessary legislative changes can be achieved.</i>		
Q16	Do you favour deferring the implementation of this proposal until the 2010/11 financial year? Please give your reasons.	Please tick ✓	
		Yes	No X
	<i>The Committee does not favour deferring implementation of this proposal until the 2010/11 financial year subject to the proviso in Q15.</i>		
	Proposal 4 – to enable charges to be made for official controls that are carried out on farm or place of origin. (para 3.4)		

Q17	Do you agree with this proposal?	<i>Please tick ✓</i>	
	<i>Please give your reasons.</i>	Yes X	No
	<i>The Committee agree with this proposal, but note that Regulations should not be made lightly for something that does not yet pose a problem.</i>		
Q18	If proposal 4 is implemented, do you agree that the full cost of the controls should be charged? (para 3.4.2)	<i>Please tick ✓</i>	
	Please give your reasons.	Yes X	No
	<i>The Committee agree with this proposal.</i>		
	Proposal 5 – to require businesses to declare their working hours and working practices that are relevant to charging. (paras 3.5 and 3.5.2.1)	<i>Please tick ✓</i>	
Q19	Do you agree with this proposal?	Yes	No
	Please give your reasons.		
	<i>The Committee is anxious that a mutual understanding of the benefits of business agreements is sought between VPHU and FBO's. This is important because, members agreed that business agreements are an important piece of the jigsaw which, along with time charging should be used in the future to maximise efficiencies for FBO's and the inspection service. It is also essential that both parties agree to the details of any independent arbitration system established to develop satisfactory business agreements. If necessary these independent assessors should be used as early as is necessary to increase trust and transparency.</i>		
	Proposal 6 – to charge a £400 fee for businesses to initiate a review of VPHU's initial assessment of the staff resources needed to carry out chargeable official controls. (paras 3.6.1 and 3.6.2)		
	Note: we propose that the £400 fee would be refunded if the review, or a subsequent appeal, was decided in the businesses favour.		
Q20	Do you agree with this proposal?	<i>Please tick ✓</i>	
	Please give your reasons. We would appreciate alternative suggestions if you disagree with the proposed £400 fee to secure industry representation on the review team.	Yes X	No
	<i>The Committee agree with the proposal to charge a £400 fee for businesses to initiate a review of VPHU's initial assessment of staff resource under the conditions outlined.</i>		

	Proposal 7 – appeals against VPHU’s final assessment of the staff needed to carry out chargeable official controls at the premises. (para 3.7)		
Q21	Do you agree that businesses should be able to appeal against VPHU’s final assessment of staff needed?	<i>Please tick ✓</i>	
	Please give your reasons.	Yes X	No
	<i>The Committee agree with this proposal, as long as the independence of the process is robust. However, the Committee was concerned that there was not a shared understanding of business agreements between VPHU and FBO’s – this needs to be addressed. The Committee also requested a ‘learning and feedback loop’ in the system so that as lessons are learned from reviews and independent assessments the processes can be revised and made more effective.</i>		
Q22	If proposal 4 is implemented, do you agree that the independent person who determines the appeal should be able to award costs against the business or VPHU? (para 3.7.1)	<i>Please tick ✓</i>	
	Please give your reasons.	Yes X	No
	<i>The Committee agree with this proposal.</i>		
	Proposed calculation of meat hygiene charge from 29 June 2009		
Q23	Red meat slaughterhouses and game handling establishments (Appendix 1)		
	Do you agree with the proposed method of calculating the charging discount for each business?	<i>Please tick ✓</i>	
	Please give your reasons.	Yes X	No
	<i>FBO’s confirmed that the methodologies involved in the calculations were reasonable therefore the Committee has nothing to add.</i>		
Q24	Poultry slaughterhouses (Appendix 2)		
	Do you agree with the proposed method of calculating the charging discount for each business?	<i>Please tick ✓</i>	
		Yes	No

Q25	Cutting plants (Appendix 3)		
		<i>Please tick ✓</i>	
	Do you agree with the proposed method of calculating the charging discount for each business?	Yes	No
	Business Agreements (Appendix 4)	<i>Please tick ✓</i>	
Q26	Do you agree with the proposed resolution procedures if a business and VPHU do not agree VPHU resource?	<i>Please tick ✓</i>	
		Yes	No

Further comments:

The Committee support the new time-based charging regime as a lever to start driving efficiency. However members feel it is unfair to charge individual FBO's for the perceived (or real) inefficiencies of others and so would recommend an independent review of the inspection regime and the costs involved in the current and proposed system. This is especially important because of the monopoly supplier situation that exists in NI. VPHU is not currently recognised by BRC as an equivalent audit body (or vice versa) and it would be helpful if reciprocal arrangements could be made as it was recognised that there needs to be more cohesion and collaboration between audit bodies.

The meat hygiene charging system evolved in a way that has resulted in inequity between sectors. There should be a move towards equity and fairness in the discounts for the different processing sectors.

The EU legislation is archaic and should be modified to be more risk based and proportionate. The Committee recognise that the Agency has initiated discussions with the E with this objective in mind but is aware that evidence will be needed to amend the current regime. It is important that data is shared and existing external quality systems are taken into account in determining risk ratings for premises.

The Committee reflected disappointment that a comparative analysis was not included in the consultation concerning regimes in the RoI and other importers. This gap should be filled as a matter of urgency.

Maureen Edmondson
Chair
NIFAC