

FUTURE OF CHARGING FOR OFFICIAL CONTROLS IN GREAT BRITAIN AND NORTHERN IRELAND

EXECUTIVE SUMMARY

1. This paper provides an update on progress towards implementing the recommendations of the Tierney Report surrounding the development of a new time cost charging system for introduction in 2009/10.
2. It outlines the various options considered for a new charging system, and the financial implications of each and sets out recommendations for approval.

The MHS Board is asked to:

- **recommend** to the FSA Board the introduction of time based charging for MHS services rather than the current flat rate charge for throughput. Time based charging will introduce a commercial relationship between the MHS and FBOs which is fundamental to the Transformation of the MHS.
- **recommend** to the FSA Board increases in time cost charges by 12% for the 2009/10 year to enable the MHS/FSA to meet the financial target set by the FSA Board to recover an additional £3m contribution from FBOs in 2009/10.
- additionally **recommend** to the FSA Board the recovery of £0.5m from industry out of the £10m SRM costs currently paid for by the FSA.
- **advise** on any issues that they want the FSA Board to consider in coming to their decision in July 2008.

ANNEXES

- Annex 1 – Consumer Impact
- Annex 2 – Illustrative impact assessments
- Annex 3 – Advisory Body observations
- Annex 4 – Checks and balances

SPONSORS

Steve McGrath – Meat Hygiene Service, Chief Executive

Mike McEvoy – Meat Hygiene Service, Director of Finance

David Hart – Food Standards Agency, Deputy Head of Meat Hygiene and Veterinary Division

CONTACT

Richard Collier – Meat Hygiene Service, Finance Executive 01904 455457

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ISSUE

3. To update the MHS Board on the introduction of time based charging that will establish a commercial relationship between the MHS and Food Business Operators (FBOs). This change in approach is fundamental to MHS Transformation. Time based charging will introduce strict economic and commercial disciplines. This will provide all parties with real incentives to minimise MHS resources and reduce unutilised time.

STRATEGIC AIMS

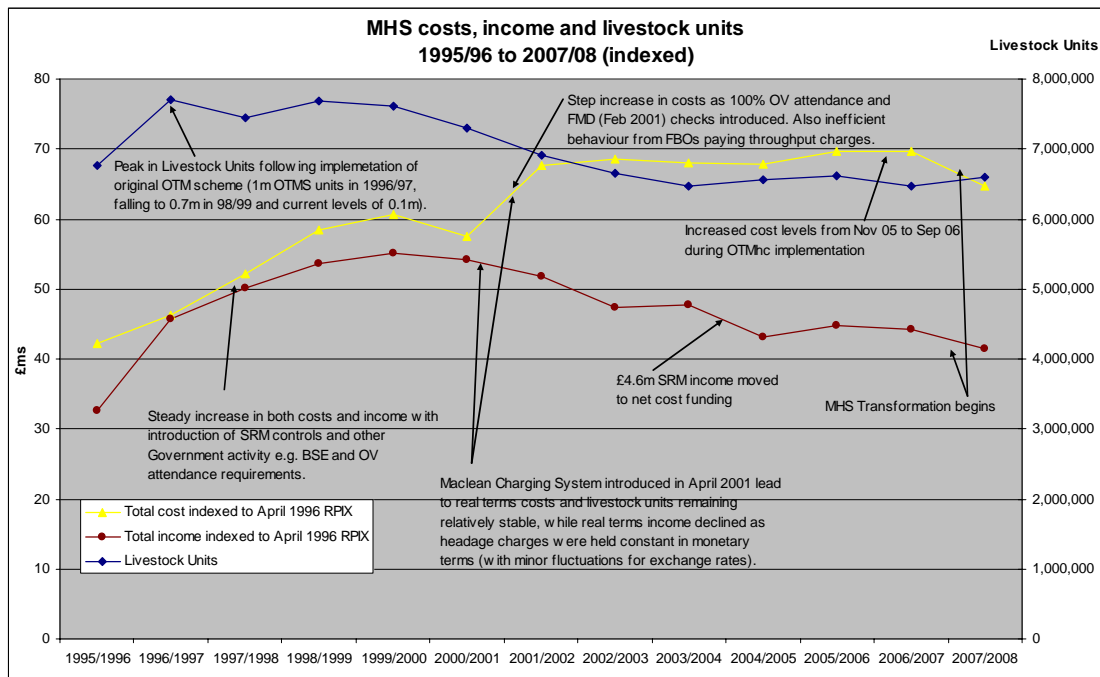
4. Following his Review of the Delivery of Official Controls in Approved Meat Premises, the FSA Board accepted Tierney's recommendation that the MHS,:
 - should develop a new time based charging system for introduction in 2009/10;
 - progressively recover a greater proportion of official control costs (£3m in 2009/10);
 - introduce appropriate charges for SRM controls as a contribution to the £10m costs currently funded by the FSA;
 - provide financial incentives to FBOs to make efficient use of MHS services.
5. The recommendations were widely circulated and published and all stakeholders including FBOs, trade representatives and Ministers should be aware of the FSA Board's proposals.

BACKGROUND

6. The Maclean charging system, where charges are based on a throughput charge per animal slaughtered or tonnes of meat cut up, was implemented in GB in 2001 to protect small and medium sized businesses from the full cost of official controls. However, all businesses have benefited and the system has provided substantial support to the meat industry in GB amounting to around £190 million. In Northern Ireland, the system has provided support in the region of £12 million over the past 3 years. In GB the support to industry ranges from 25% of the cost of official controls in large abattoirs to 93% in the smallest abattoirs.
7. In addition to Tierney the MHS and FSA executive, the majority of the Stakeholder Charging Working Group, the Advisory Body (subject to conditions) and the Food Advisory Committees in Scotland, Wales and

Northern Ireland support the move to time based charging in principle because it will introduce a commercial discipline that will encourage industry, MHS and DARD to use official control resources more efficiently and for all parties to work in partnership to maximise resource utilisation.

8. With the implementation of Maclean, whilst initially MHS costs increased to incorporate the requirement for 100% OV attendance, cost thereafter remained relatively flat in real terms and in line with Livestock units processed. However, in real terms total revenue declined as Maclean provided support to all slaughterhouses.



CHARGING OPTIONS CONSIDERED

8. The MHS/FSA has led the programme of work required to develop new charging proposals. These have been developed in liaison with industry and other government stakeholders through the Stakeholder Charges Working Group.

9. Three main options were considered:

- Option 1: Maclean Charging – Maintain status quo
- Option 2: Time Based Charging – Recommended option proposed by the FSA and MHS
- Option 3: Throughput Charging - proposed by the Association of Independent Meat Suppliers (AIMS) and supported by Small Abattoirs Federation (SAFE))

Option 1: Maclean Charging – Maintain status quo

10. It was recognised by the majority of the stakeholder group that Maclean charging (which is based on a charge per animal inspected or tonne of meat cut up) is no longer fit for purpose and that the taxpayer support that it affords is too far reaching. Option 1 is not recommended as it was generally agreed that the current arrangements:

- do not incentivise FBOs to use MHS and DARD resources efficiently, e.g. inefficient plants are rewarded with the same charges per animal as efficient plants;
- do not incentivise MHS and DARD to drive down official control time
- do not incentivise FBOs to drive up standards and compliance;
- do not allow the available support to be targeted to plants most in need; and
- cannot easily be understood by stakeholders and are costly to administer.

Option 2: Time Based Charging

11. A time based system is the recommended option.

- FBOs would be charged for MHS services based on the time that individuals spend in plant. Operating hours will be agreed between the MHS and the FBO under a Business Service Agreement.

12. A time based system will:

- Introduce a commercial discipline for all parties and encourage industry to use MHS/DARD resources more efficiently and work in partnership with the MHS/DARD to maximise resource utilisation.
- Increase the challenge from FBOs to drive down MHS/DARD staffing levels (under the current system, FBOs do not always query the staffing levels in plant because the number of MHS staff deployed does not affect their charges).
- Provide a simple and transparent charging method minimising MHS/DARD cost of administration that is easy for operators to understand.

- Provide FBOs with greater control over their charges - if they reduce their requirement for MHS/DARD attendance their charges will go down
- Incentivise FBOs to improve hygiene and welfare standards as this may provide the opportunity to reduce their charges
- Support the optimisation project to move towards the minimum levels of controls required in plants

Option 3: Throughput Charging

13. AIMS (who represent a significant number of medium and small sized operators) and SAFe are strongly opposed to time based charging proposals as they consider that this will incentivise MHS contractors to maximise the number of attendance hours in plants through low level enforcement, resulting in increases in charges to industry, and the MHS will not be able to exercise control over the contractors.
14. AIMS have therefore developed a charging proposal that is based on increased throughput charges and a significantly reduced MHS cost base which AIMS propose should be around £50m.
15. It is proposed that the throughput charges would be determined by the level of support afforded to industry with rates being set at the level required to recover the rest of the MHS/DARD costs. It is also proposed that businesses whose throughput charge would be greater than the actual cost of the controls would revert to paying for charges based on time costs.
16. This option is therefore not dissimilar to the current Maclean mechanism but is designed to increase the recovery of more costs from industry. It has the same disadvantages as Maclean, for example it does not incentivise FBOs to use MHS resources efficiently and therefore it is not recommended.
17. In summary the overall effect of implementing Option 3, which is not the recommended option, would be:
 - Significant increases in charges to all businesses that would include small and vulnerable ones that would be affected by large increases in the throughput rates which would be significantly above the across the board increase of 12% that is recommended.
 - Larger plants continuing to pay charges based on time costs at current charge out rates which are currently below the full cost rates.

- The charging would continue to provide no incentive (unlike the recommended option 2) for businesses to maximise the efficient use of MHS/DARD resources which would be damaging to MHS transformation and DARD cost reduction targets.

RECOMMENDATION 1

18. The MHS Board is asked to **recommend** to the FSA Board the introduction of time based charging for MHS services rather than the current flat rate charge for throughput. Time based charging will introduce a commercial relationship between the MHS and FBOs which is fundamental to the Transformation of the MHS.

INCREASES TO CHARGES 2009/10

19. The FSA Board agreed to Tierney's recommendation to recover a greater proportion of MHS costs (£3m in 2009/10) and introduce appropriate charges for SRM controls. Subsequently the MHS Board has agreed the MHS three year financial plan inclusive of these targets. The table below summarises the MHS income targets:

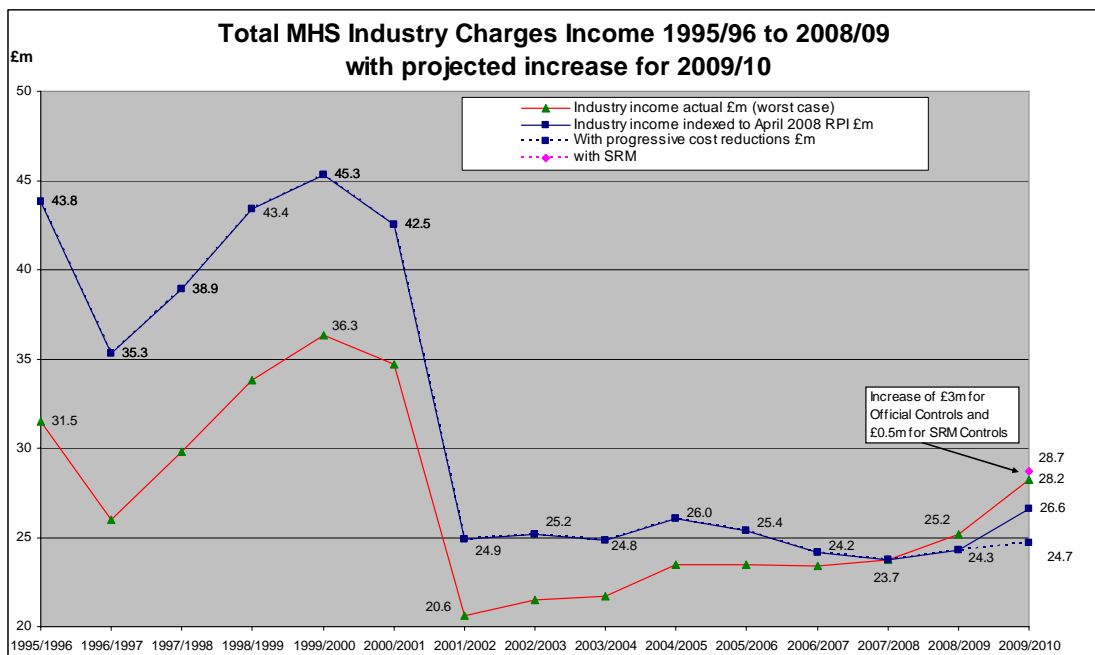
Annual increases in total Industry Charges through Comprehensive Spending Review (CSR) period 2008/09 - 2010/11		2008/09	2009/10	2010/11
£m				
FSA Board Projections	Baseline Income	23.7	32.2	35.2
	Official Controls Annual Increase	2.5	3.0	3.0
	SRM charges to Industry	6.0	-	-
	Gross Charge	32.2	35.2	38.2
Current MHS 5 Year Financial Plan	Baseline Income	23.7	25.2	28.7
	Annual Increase	1.5	3.0	6.9
	SRM charges to Industry	-	0.5	0.3
	Gross Charge	25.2	28.7	36.0
Shortfall vs FSA Board Projections		(7.0)	(6.5)	(2.2)

20. In parallel, the MHS committed to transform itself to significantly reduce its future operating costs whilst continuing to deliver effectively against its key priorities of ensuring appropriate public health, animal health and animal welfare controls are in place.

- The MHS has defined and initiated business improvements to reduce costs in real terms from around £91m in 2006/07 to around £74m by 2012/13:
- The MHS has significantly reduced its operating costs from £91m in 2006/07 to £87m in 2007/08, a £4m (5%) reduction.

- Staff numbers have been brought down by 163, from an average of 2,023 in 2006/07 to an average of 1,860 in 2007/08. As at 31 March 2008, numbers have decreased further to 1,753. A gross reduction of 270.
- Against the £4m operating cost reduction Ministers agreed to an increase in contribution to MHS cost of £1.5m for 2008/09 – an 8% increase.
- The MHS financial plan expects a £5m real terms (excluding inflation) cost reduction in 2008/09, and an additional £5m in 2009/10, following the closure of the five regional offices.
- Against this further cost reduction the MHS/ FSA proposes to seek a further £3m contribution for hygiene controls from industry (12%) in 2009/10 and £0.5m for SRM.
- The MHS has demonstrated its capability to reduce its operating cost and, therefore, it is reasonable against a declining cost base, to ask for a greater contribution from industry to MHS operating costs. In order for the MHS to maintain its financial targets it will need to recover the additional £3m contribution from industry as set out by Tierney for 2009/10 (12% increase) as well as reducing its cost base by £5m in real terms.

21. Inclusive of the £3m additional contribution the total industry contribution of £28m would still be only around 50% of the projected £55m gross cost of official controls. The proposed £28m charge to Industry for Official Controls will still be less than the total charge to industry of £45.3m in real terms in 1999/2000 pre-Maclean.



22. Examples of the impact of increases in charges on different size plants are shown below and demonstrate the continuing support to smaller plants. Inclusive of increases to charges a red meat micro plant would pay in the region of £827 against a full cost of £9,574 – a total subsidy of 91%. Support to other size plants is proportionate as shown in the table below:

Example of impact of increases to charges on different sizes of plants

Red Slaughterhouses

2008/09

Mid Quartile Plant	Micro 1	Small 2	Medium 3	Large 4
Full time costs £	9,295	30,455	114,874	408,711
Actual Charge £	738	5,515	34,874	251,696
Maclean Discount %	92%	82%	70%	38%

2009/10

Mid Quartile Plant	Micro 1	Small 2	Medium 3	Large 4
Full time costs £	9,574	31,369	118,320	420,972
Actual Charge £	827	6,177	39,059	281,900
Discount given %	91%	80%	67%	33%

% increase of charge	12%	12%	12%	12%
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SRM Charge £	23	84	1,104	11,259
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Poultry Slaughterhouses

2008/09

Mid Quartile Plant	Micro 1	Small 2	Medium 3	Large 4
MHS full time costs (excl PIA) £	7,471	31,490	90,696	705,160
Actual charge (after PIA) £	685	0	27,261	267,215
Maclean Discount %	91%	100%	70%	62%

2009/10

Mid Quartile Plant	Micro 1	Small 2	Medium 3	Large 4
MHS full time costs (excl PIA) £	7,695	32,435	93,209	715,776
Actual charge (after PIA) £	767	1,545	30,035	299,281
Discount given %	90%	95%	68%	58%

% increase of charge*	12%		10%	12%
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* Where no %age increase is shown, this is because the previous charge was zero.

21. The EC legislation sets minimum charge rates for different species of animal in euros. The rates are converted into sterling and the sterling rates are used in the calculation of MHS charges. The conversion rate is reviewed annually and if the sterling charge rates have fallen below the EC minimum charge rates the amount charged by the MHS per carcass has to be increased. At current exchange rates some of the charges in sterling are below the EC minima. If the current exchange rate was maintained the MHS would be required to increase the charges for some species with effect from 1 January 2009. In the case of adult cattle the increase would be 16%. The effect of these changes for a full year would be around a £1m increase in charges to industry and if the existing Maclean charging system were to be maintained in 2009/10 the charges would need to be increased by this figure. The changes that are being recommended should be viewed in the light of this because the recommended 12% increase is not in addition to the changes required under the EC legislation.
22. In addition to the requirements established by the FSA, Defra also proposes to share more of its costs with industry by raising around £3.8 million in charges on behalf of Defra for checks carried out on over thirty month cattle for human consumption (OTMhc).

Sensitivity analysis

23. The cost to the consumer of MHS inspection charges is very low in relation to the purchase price of meat. Under the current charging system over 90% of slaughterhouses pay a standard throughput charge. For example, for cattle aged eight months or more the MHS standard throughput charge is £3.44 per carcass. When this is converted to an amount for a piece of meat the MHS charge represents a cost of less than 2p per kg of beef that currently retails at around £5 per kg for braising steak to £23 per kg for sirloin steak. The corresponding figures for lamb and pork are less than 2p and 3p per kg respectively. The charge for a chicken is less than 1p for a small broiler that would cost from around £3.00 to purchase¹. This assumes that the costs of official controls are passed on to the consumer. For this analysis this is not an unreasonable assumption and it puts some perspective on the proposed increases in charges. The table in **Annex 1** gives a full breakdown of this analysis.
24. If a proposed increase in inspection charges for 2009/10 of 12% were to be introduced the revised costs to the consumer of official controls are shown in the table below with the 2008/09 figures for comparison:

¹ Current retail prices taken from www.mysupermarket.com (independent supermarket price checker)

Cost of standard charges for official controls on meat (per kg or per bird)			
	2001/02 (First year of Maclean)	2008/09	2009/10
Beef	1.5p	2p	2.24p
Lamb	1.6p	2p	2.24
Pork	2.2	3p	3.4
Chicken	0.6p	1p	1p

25. It is estimated that less than one third of the increase in official controls costs would be passed on to the consumer, while the remaining two thirds would be passed on to the primary producer. For example in relation to beef, 0.08 of a penny to the customer and 0.16 to the producer for each kg of beef produced.
26. Based on comprehensive financial analysis of 173 UK abattoir companies carried out in March 2007, it has been estimated that MHS charges for meat hygiene controls amount on average to 1.3% of FBO gross costs.
27. Therefore, MHS charges in 2008/09 will equate to £25m out of an estimated £1.9bn total FBO costs. In 2009/10, with a 12% (£3m) increase including 3% inflation, this would be £28m out of an estimated £2bn.
28. To enable the MHS to meet its financial targets and in context of the economic data above and that the MHS has demonstrated that it is continuing to reduce its cost base the MHS Board is asked to recommend to the FSA Board a 12% (£3m) increase to charges for hygiene controls and an £0.5m contribution to SRM controls for 2009/10.

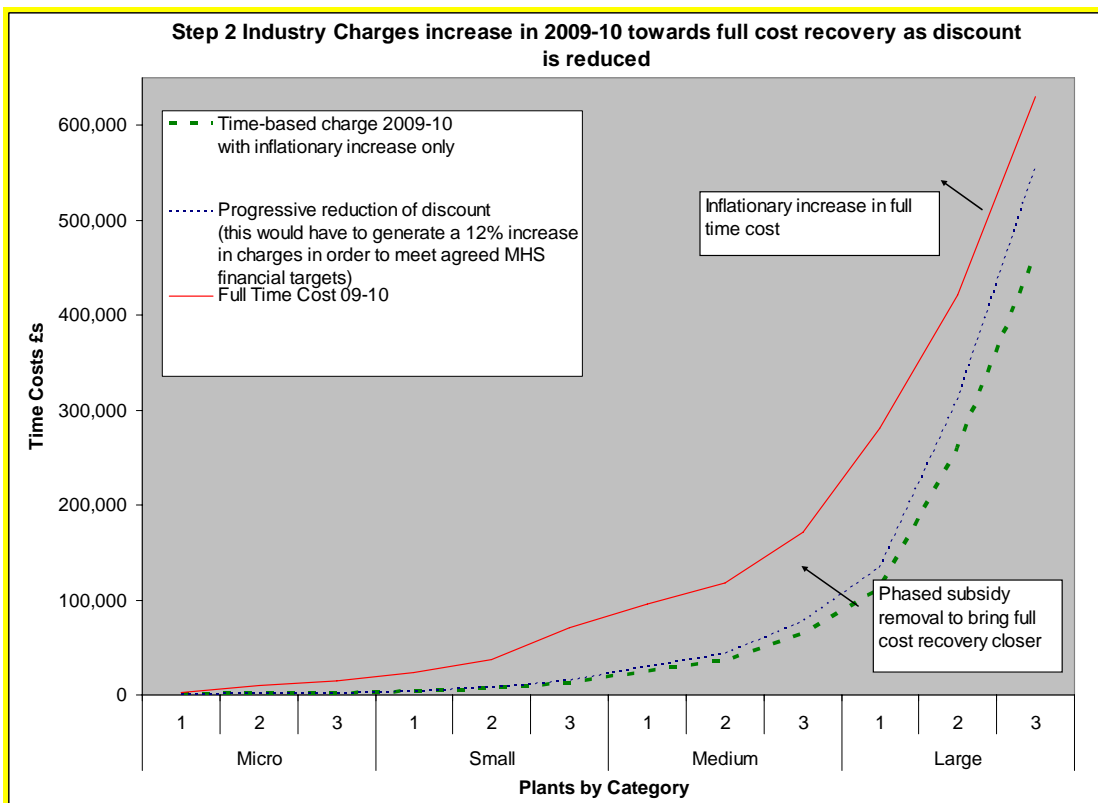
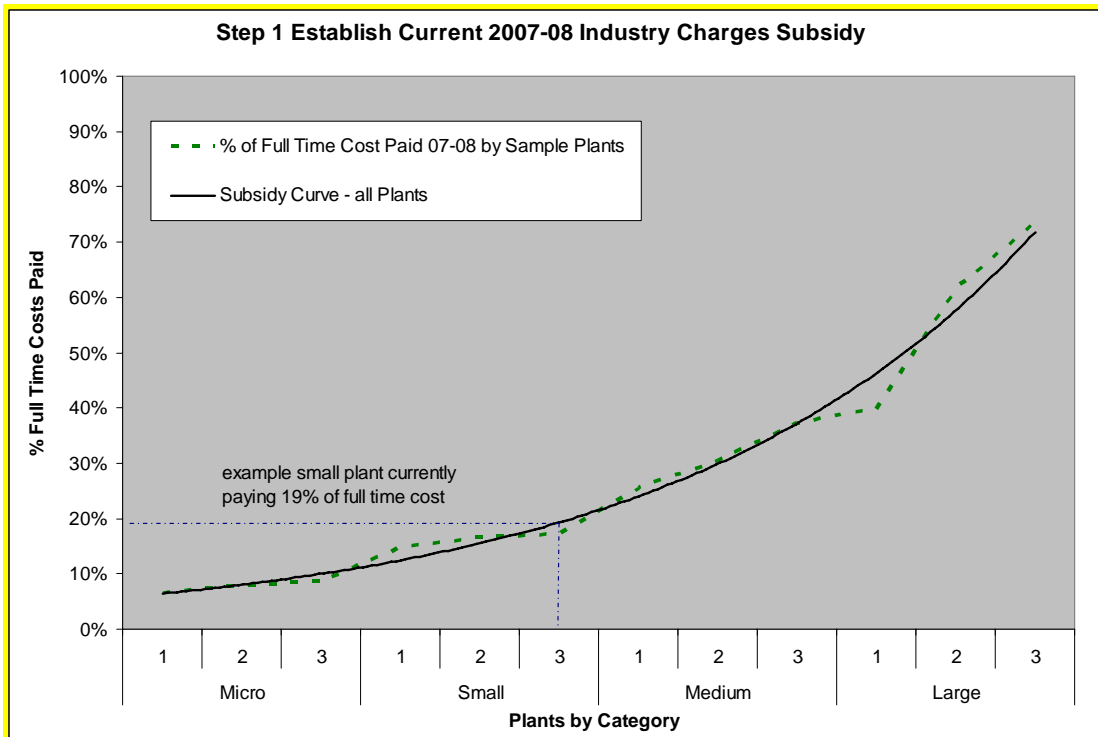
RECOMMENDATION 2

- 29 The MHS Board is asked to **recommended** to the FSA Board increases in time cost charges by 12% for the 2009/10 year to enable the MHS/FSA to meet the financial target set by the FSA Board to recover an additional £3m contribution from FBOs in 2009/10 and additionally that £0.5m is recovered from industry as a contribution to the £10m SRM costs currently paid for by the FSA.

CHARGING IMPLEMENTATION STRATEGY*2009/10 strategy*

- The charges would be calculated using the full hourly cost of official controls to each FBO and this cost would be shown on the invoice.
- The full cost would be discounted in line with the support provided currently under the Maclean calculation to avoid there being significant changes in the level of support to individual plants. In other words, the proportion of full costs that each business paid previously would be the basis for the proportion of the costs charged in 2009/10.
- In moving from the Maclean formula to time cost charging, it is proposed that the proportion of time costs charged will be increased by the same percentage for all plants.
- The current treatment of poultry slaughterhouses employing PIAs will be retained in a modified form for a transitional period. A national average rate for PIAs (plus an additional 25% for operator overheads) will be used in the calculations and each year this discount will be reduced (starting in year 1 with 75% of the discount being applied to charges) until it is phased out completely.
- Appropriate checks and balances on MHS attendance levels will be incorporated in the new charging mechanism to ensure FBOs have confidence in the system (see **Annex 1** and 3 for details).
- Enhanced premium charging arrangements may be introduced in 2010/11 or later if partnership working does not deliver the required efficiencies.
- In addition in 2010/11 or later process enhancements may enable discounts to be applied to FBOs paying by direct debit.

30. The graphs below illustrate how the proposed transition from a headage rate based charging system to a time based system would work:



2010/11 and subsequent years

- It is not possible at this stage to propose charge/discount rates for 2010/11 onwards. This is because there are a number of variables that need to be assessed once the basic time cost system is in place (e.g. the reduction in official control hours that

the charging system will drive, and the effect of other MHS transformation work streams such as the introduction of clusters).

- Annual inflationary increases would be applied to the full cost rates if appropriate and the discount for each plant would be adjusted such that, industry wide, the level of discount is reduced gradually and the discount is adjusted to reflect the characteristics of the plant.
- Based on annual impact assessments the discount rate could be changed to ensure that appropriate support is targeted to businesses that need it most. Discounts may need to be reduced more slowly for more efficient plants and more rapidly for less efficient plants. Stakeholders representing larger sized premises have argued for a more rapid removal of the subsidy for all operators to prevent the subsidy distorting competition.
- A graduated removal of Plant Inspection Assistant (PIA) allowances in poultry plants as transitional relief for FBOs using their own staff will be incorporated into the system.

CONSULTATION TO DATE

31. There has been significant internal and external stakeholder consultation throughout the development of the proposed options for a new charging system, including:

- Written communications with all FBOs, including issuing the Policy Framework² for the development of new charging arrangements in September 2007
- Four meetings of a Stakeholder Charges Working Group including representation from industry, FSA, Defra, and SW&NI Rural Affairs departments to discuss different charging options where all of the representatives (with the exception of two trade associations) supported a move to a time cost basis of charging
- Various other stakeholder meetings on a one to one basis
- Meetings of the Advisory Body which supports time cost charging in principle but wishes to see further cost reductions before an increase in charges above the rate of inflation is considered
- Proposals set out to the Wales, Scotland and Northern Ireland Food Advisory Committees who have all supported the principle of a move to introducing charges based on time costs.

² Policy Framework for the Development of New Charging Arrangements for Official Controls Undertaken at Approved Meat Plants by the MHS in Great Britain and DARD in Northern Ireland.

- Internal liaison (in particular with the FSA/MHS Executive Management Forum, Legal, Finance, Communications Divisions and FSA SW&NI, Defra and SW&NI Rural Affairs departments)
32. This consultation has resulted in majority support in principle (including trade representatives) for a move away from Maclean charging and onto a system based on the actual time costs subject to:
- there being safeguards (appropriate checks and balances) to stop the MHS/DARD maximising revenue by maximising attendance levels
 - official control hours being driven down through current work streams (optimisation and resource utilisation) and through industry and MHS partnership working and FSA pressure in Europe for legislative changes to move to more proportionate risk based controls.
 - the gradual removal of support from businesses over a number of years while retaining support to those businesses that are likely to need it the most.
33. Stakeholder liaison is continuing as the finer details of the proposals are developing in the run up to the full and final proposals being submitted to the FSA Board in July.

RISKS

FSA/MHS relations with stakeholders

34. We are aware of the industry's concerns about increases to charges for meat controls, including the view of the Advisory Body on the Delivery of Official Controls that a 12% increase to hygiene charges in 2009/10 is not justified because there is considerably more scope to drive out costs from the official controls system beyond the levels currently planned. Against this background, pursuing a 12% increase in hygiene charges plus the introduction of SRM charges may impact on FSA/MHS relations with stakeholders and impair the partnership working relationship with industry that MHS/FSA have striven so hard to develop.

Achievability

35. Changes to the charging system and increases in rates requires the making of secondary legislation in each UK country. UK Ministers may be unwilling to make the necessary legislation if the increases are considered to be unreasonably high or if they do not fit-in with wider political objectives. In these circumstances, one or more of them might

seek to dissuade the FSA from consulting on such a proposal. In Wales, the Minister must agree to the drafting of the necessary SI that would be the subject of consultation. Without this agreement, the consultation there could not proceed and the opportunity for UK-wide legislation would be lost, which some legal opinion considers would be contrary to EC law.

NEXT STEPS

36. The MHS Board is asked to:

- **recommend** to the FSA Board the introduction of time based charging for MHS services rather than the current flat rate charge for .throughput. Time based charging will introduce a commercial relationship between the MHS and FBOs which is fundamental to the Transformation of the MHS.
- **recommend** to the FSA Board increases in time cost charges by 12% for the 2009/10 year to enable the MHS/FSA to meet the financial target set by the FSA Board to recover an additional £3m contribution from FBOs in 2009/10.
- additionally **recommend** to the FSA Board the recovery of £0.5m from industry out of the £10m SRM costs currently paid for by the FSA.
- **advise** on any issues that they want the FSA Board to consider in coming to their decision in July 2008.

37. A paper will go to the FSA Board meeting in July 2008, who will be asked to make a decision on which option will go forward for public consultation in September 2008, subject to the views of Ministers.

38. Should the FSA agree to the recommended option, there will be a need for new regulations to bring the changes to the charging system into force. These regulations will provide charging provisions for a one year period and will need to be amended to reflect charging proposals for future years subject to further consultation and impact assessment. The longer term aim is to implement continuing regulations to provide more certainty for operators, and to reduce the administrative burden of the consultation process.

39. The intention is that the new charging regulations and charges system will be implemented at the end of March 2009.

IMPACT OF MHS PROGRESSIVE APPROACH ON CONSUMERS

1. The cost to the consumer of MHS inspection charges is very low in relation to the cost of the meat that they purchase. Under the current charging system over 90% of slaughterhouses pay a standard throughput charge. For example, for cattle aged eight months or more the MHS standard throughput charge is £3.44 per carcass. When this is converted to an amount for a piece of meat that would be meaningful to a consumer the MHS charge represents a cost of less than 2p per kg of beef that currently retails at around £5 per kilo for braising steak to £23 per kilo for sirloin steak. The corresponding figures for lamb and pork are less than 2p and 3p per kg respectively. The charge for a chicken is less than 1p for a small broiler that would cost from around £3.00 to purchase¹. The table below gives a full breakdown of this analysis.

MHS Charge per kg meat sold				
Species	Standard throughput charge per carcass £	*Average saleable yield from carcass kg	MHS throughput charge per kg of meat £	**Current meat prices per kg
Bovine	3.44	184.2	0.02	Sirloin £22.99 Braising £4.99 Chump £11.98
Sheep	0.27	13.4	0.02	Half leg £7.49 Tenderloin £7.69
Pig	0.99	36.7	0.03	Leg joint £4.69
Poultry	0.01		Per bird 0.01	Free range £4.89 Broiler £2.89

* Data source: Agriculture and Horticulture Development Board (formerly Meat & Livestock Commission)
The average saleable meat yield from an average carcass allowing for losses of waste products is:

1. 92.1 kg for a 131.5 kg side of beef (or 184.2 kg for the whole carcass)
2. 13.4 kg for a 17.7 kg lamb carcass
3. 36.7 kg for a 51.3 kg pig carcass

** Data source: mySupermarket.com – all prices quoted are for Sainsbury's on 2 June 2008

The standard charges used are:

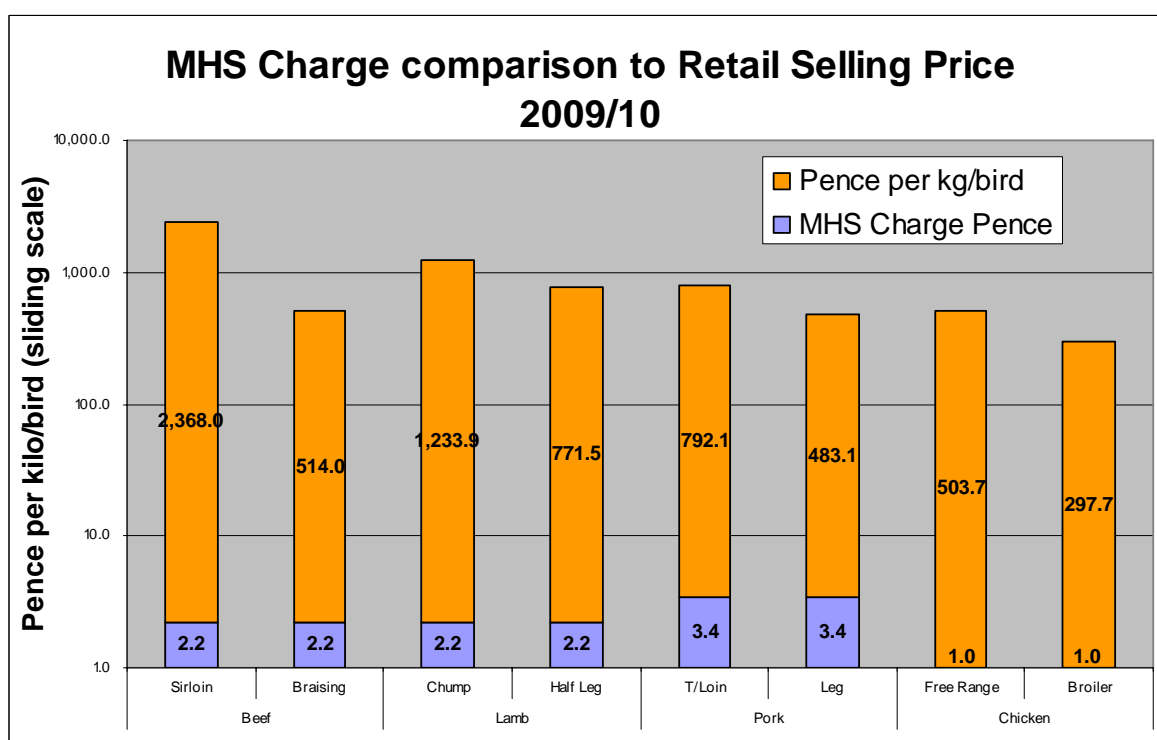
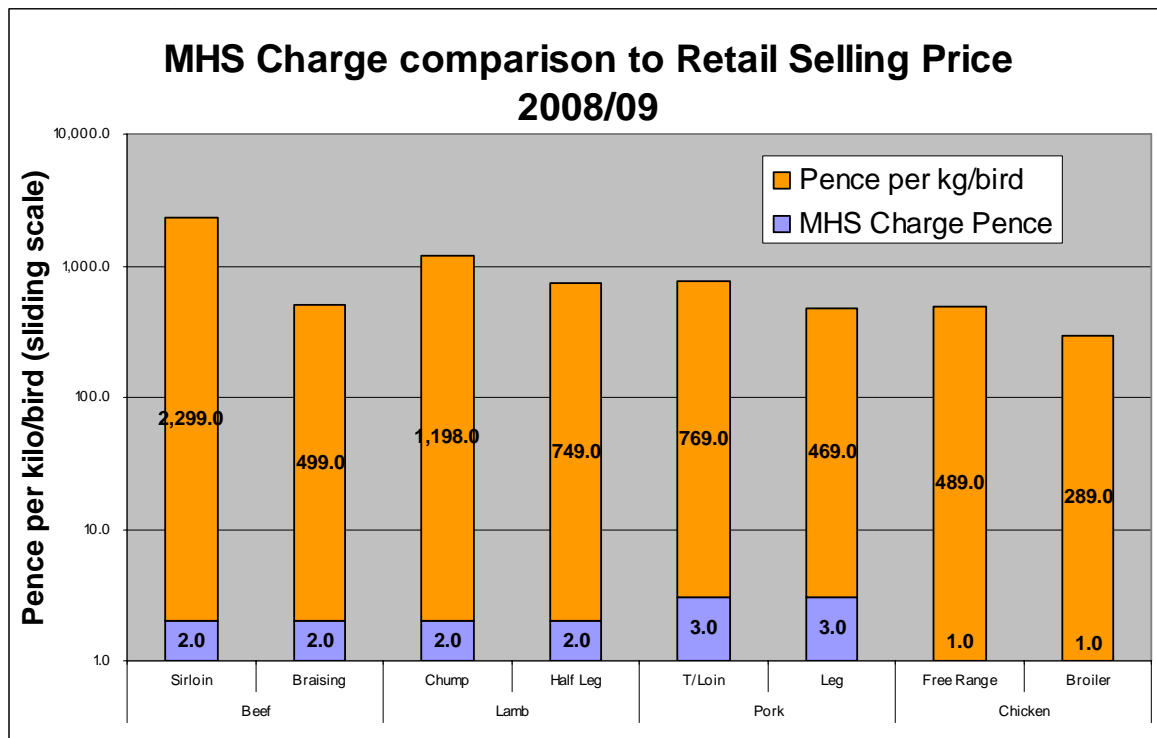
Bovine - aged 8 months or more
 Sheep - carcass weight between 12 and 18 kg
 Pig - carcass weight 25 kg or greater
 Poultry - all broilers and other poultry less than 2kg

¹ Current retail prices taken from www.mysupermarket.com (independent supermarket price checker)

2. If a proposed increase in inspection charges of 12% were to be introduced the costs of official controls would represent:

- Beef 2.24p per kg
- Lamb 2.24p per kg
- Pork 3.4p per kg
- Chicken 1p per bird

3. The graphs below illustrate inspection costs in relation to the price of meat.



4. It is estimated that less than one third of the increase in official controls costs would be passed on to the consumer however, while the remaining two thirds would be passed on to the primary producer. For example, in relation to beef, less than 0.08 of a penny to the consumer and 0.16 to the producer for each kg of beef produced.

Option 2 - MHS/FSA Charges Red Slaughterhouses

Annex 2

12% Increase Option 2008/09

Quartile	Micro	Small	Medium	Large
Plant	1	2	3	4
Full time costs £	9,295	30,455	114,874	408,711
Actual Charge £	738	5,515	34,874	251,696
Maclelan Discount %	92%	82%	70%	38%

2009/10

Quartile	Micro	Small	Medium	Large
Plant	1	2	3	4
Full time costs £	9,574	31,369	118,320	420,972
Actual Charge £	827	6,177	39,059	281,900
Discount given %	91%	80%	67%	33%

% increase of charge	12%	12%	12%	12%
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SRM Charge £	23	84	1,104	11,259
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	£
Total Official Control Revenue from all Red Slaughterhouses 2009/10	22,028,206
Total Revenue Increase on 2008/09	2,360,165
Total SRM Revenue 2009/10	506,349

Option 2 - MHS/FSA Charges Poultry Slaughterhouses

Annex 2

12% Increase Option 2008/09

Quartile	Micro	Small	Medium	Large
Plant	1	2	3	4
MHS full time costs (excl PIA) £	7,471	31,490	90,696	705,160
Actual charge (after PIA) £	685	0	27,261	267,215
Maclean Discount %	91%	100%	70%	62%

2009/10

Quartile	Micro	Small	Medium	Large
Plant	1	2	3	4
MHS full time costs (excl PIA) £	7,695	32,435	93,209	715,776
Actual charge (after PIA) £	767	1,545	30,035	299,281
Discount given %	90%	95%	68%	58%

% increase of charge*	12%		10%	12%
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£	
Total Official Controls Revenue from all Poultry Slaughterhouses 2009/10	5,492,394
Total Official Controls Revenue Increase on 2008/09	588,471

* Where no %age increase is shown, this is because the previous charge was zero.

Increases are not equal for the final charge because the deduction of the PIA creates distortion as it bears no relation to the MHS charge.

Option 2 - MHS/FSA Charges Game Dressing

Annex 2

12% Increase Option 2008/09

Quartile	Micro	Small	Medium	Large
Plant	1	2	3	4
Full time costs £	474	1,170	3,886	29,865
Actual Charge £	25	221	989	1,858
Maclean Discount %	95%	81%	75%	94%

2009/10

Quartile	Micro	Small	Medium	Large
Plant	1	2	3	4
Full time costs £	488	1,823	4,003	30,791
Actual Charge £	28	248	1,108	2,081
Discount given %	94%	86%	72%	93%

% increase of charge	12%	12%	12%	12%
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		£
Total Official Controls Revenue from all Game Dressing 2009/10		59,950
Total Official Controls Revenue Increase on 2008/09		6,423

Option 2 - MHS/FSA Charges Cutting Plants

Annex 2

12% Increase Option 2008/09

Quartile Plant	Micro 1	Small 2	Medium 3	Large 4
Full time costs £	230	436	1,136	1,669
Actual Charge £	87	349	579	1,335
Maclean Discount %	62%	20%	49%	20%

2009/10

Quartile Plant	Micro 1	Small 2	Medium 3	Large 4
Full time costs £	237	449	1,170	1,719
Actual Charge £	97	391	648	1,495
Discount given %	59%	13%	45%	13%

% increase of charge	12%	12%	12%	12%
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	£
Total Official Controls Revenue from all Cutting Plants 2009/10	503,453
Total Official Controls Revenue Increase on 2008/09	53,941

Option 2 - MHS/FSA Charges Summary Sheet

Annex 2

	£
Total Official Control Revenue from all Red Slaughterhouses 2009/10	22,028,206
Total Official Controls Revenue Increase on 2008/09	2,360,165
Total SRM Revenue 2009/10	506,349
Total Official Controls Revenue from all Poultry Slaughterhouses 2009/10	5,492,394
Total Official Controls Revenue Increase on 2008/09	588,471
Total Official Controls Revenue from all Game Dressing 2009/10	59,950
Total Official Controls Revenue Increase on 2008/09	6,423
Total Official Controls Revenue from all Cutting Plants 2009/10	503,453
Total Official Controls Revenue Increase on 2008/09	53,941
Grand Total of Official Controls Revenue 2009/10	28,084,003
Grand Total of Official Controls Revenue Increase on 2008/9	3,009,000
Total SRM Revenue 2009/10	506,349

ADVISORY BODY ON THE DELIVERY OF OFFICIAL CONTROLS SUMMARY OF THE 4th MEETING

With regard to its consideration of the following topics at its meeting on 6 June 2008 the Advisory Body:

1. Resource Utilisation Initiative

- welcomed the high-level analysis of inspection costs in a number of plants in Scotland, which appeared to suggest significant scope for rationalisation of resources associated with official controls ; and
- asked that MHS confirm the basis of official charges and collaborate with industry to examine the validity of the figures and the associated conclusions as a priority.

2. Optimisation Review

- noted the joint work now underway to review variations in MHS deployment, and to identify best practice and potential opportunities for MHS and industry to improve efficiency and areas where changes in work practices to improve efficiency would require legislative change;
- noted the timetable for delivery of a report on the initial visits to about 20 plants and the invitation for additional plants to be proposed for review; and
- noted the indication from the first few plant visits that there was scope to reduce official control time in plants although some changes might require operators to alter arrangements for delivery of animals or invest in changes to inspection points on the processing line.

3. MHS transformation

- welcomed the continued progress MHS was making, particularly the start of the review of FSA/MHS corporate services; and the review of the role of front line staff (meat technicians, etc);
- noted that the first draft of a report on its relationship with stakeholders had been circulated; ;and
- noted that the tender document for contracting out clusters was undergoing independent scrutiny.

4. 2009/10 Charging proposal

- agreed with the general principle of moving to full cost recovery but again stressed that it is unreasonable to expect industry to pay for an inefficient and therefore more expensive than necessary service
- agreed with the general principle of time cost charging;
- had significant concerns about the proposed level of charges, particularly as early evidence from the Optimisation Review and the Resource Utilisation Project indicated that there was significant scope to reduce official control time in plants beyond the amounts already proposed by MHS;
- considered that level of the increase in charges should not be stipulated until the findings of both the resource utilisation initiative and optimisation review are considered. Perhaps the MHS Board could approve an increase of up to 12% and the final level will depend on the savings made as a result of the resource utilization initiative and the optimisation review.
- had concerns that the decision to let official control contracts on an hourly basis rather than a fixed cost basis would result in increases in chargeable

hours, when the need was for a mechanism that incentivised contractors to improve their efficiency and reduce hours

- understood that the MHS/FSA were not proposing charging levels beyond 2009/10 because there were so many variables to assess prior to 2010/11, but felt that an indication of cost recovery for future years would be helpful to allow businesses to make informed investment decisions; and
- recognised that any FSA/MHS projection of future charging levels beyond 2009/10 would have to be based on current MHS transformation targets plus the added savings as a result of the findings from the resource utilisations initiative and the optimisation review.

CHECKS AND BALANCES ON THE MHS

Management control of input hours (veterinarian and inspection)

1. FBOs and Industry Representative organisations have called for a system of controls to ensure that MHS and MHS contractors do not maximise official control hours to maximise charging revenue. We recognise this concern as a strong culture of trust and reciprocity with FBOs will be critical to shaping and preventing or reducing the problems we face in the future.
2. The commitment of the industry community to our proposed charging approach is significant if we are to utilise their influence on other key stakeholders, for example the Devolved Administrations. The influence of representative bodies will be significant as we deploy our new delivery agreement if we are to avoid protracted discussions on resourcing levels with the majority of FBOs.
3. The industry community while recognising recent progress made by the MHS remains sceptical of our ability to ensure input hours are appropriate to meet official control delivery requirements (public health and animal health and welfare). They remain concerned that a time based approach will encourage the MHS to drive up input hours to maximise cost recovery. They are also concerned that in addition an hourly approach to contract pricing will encourage the preferred supplier community to maximise hours to drive their profitability. In light of these circumstances the MHS believes that a system of controls to check the reasonableness of hours worked and to enable dispute resolution must be introduced.
4. A key part of this system will be the rollout of an improved FBO business service agreement that will establish a baseline for operating activity, enabling the MHS to track and report input hours as a key performance measure. The MHS will provide information to the FBO community collectively and individually outlining how forecast hours (FBO business service agreement) varied from actual hours over specific periods of time, providing further analysis on the financial implications for the MHS and the potential implications for individual FBOs as it moves through the proposed charging transition.
5. Our approach will be refined in discussion with FBOs, industry bodies and other relevant stakeholders. The process will be implemented as part of the time based charging roll-out in April 2009 and we will review arrangements after 6-months of operation.