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England & Wales - Cost data presentation 2019/20

- Purpose of the slides and annual process.
- Official control hourly rate calculation.
- Review and conclusion.
- Annexes
 - Allowances.
 - Indirect cost detail.
 - Discounts.

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Purpose and Process

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The purpose of the slides

- The presentation of the cost data for meat industry hourly charge rates for 2019/20.
- The presentation covers England & Wales.
- To clarify and provide transparency on:
 - direct and indirect essential support costs of official controls,
 - process to calculate hourly rates,
 - FSA compliance with EU & GB charging rules.
- To confirm the hourly rates have been validated by independent external audit.
- All figures displayed in these slides are budgeted costs.

The annual process

| October | The FSA budget for direct and indirect costs and hours for the following financial year are calculated. |
|------------------|---|
| November | Meat related costs are identified and based on the budget the hourly rates are calculated. |
| January | FSA legal confirm meat costs are consistent with (EC)882/2004. |
| January/February | The calculations for hourly rates are externally audited. |
| 1 April 2019 | New charge rates and discount bands implemented for FSA customers. |

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Official controls hourly rate calculation

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How the meat rates are calculated

- The direct cost per chargeable hour is calculated.
- The indirect cost of meat is calculated by Finance based on data from all FSA groups and approved by the relevant Director.
- Only the meat related indirect cost is included in the hourly rate calculation.
- The items included in the rates are reviewed by the FSA Legal Director.
- The calculations are audited by external auditors.

Official control hourly rates

| Grade | 2018/19 rate | 2019/20 rate | Change | % difference |
|------------|--------------|---------------|--------|--------------|
| OV Normal | £39.00 | £41.20 | +£2.20 | +5.6% |
| MHI Normal | £30.40 | £31.50 | +£1.10 | +3.6% |

- 2018/19 was a 53 week year compared to 2019/20's 52 weeks. Fixed costs would have been allocated over fewer hours than 2018/19, however year on year there is an increase of 28k hours. On a comparative basis of 52 weeks this is a 52k increase, which negates the change in the weeks.

| Grade | 2018/19 rate | 2019/20 rate | Change | % difference |
|---|--------------|--------------|--------|--------------|
| OV Normal | £39.00 | £41.20 | +£2.20 | +5.6% |
| Direct costs increase | | | +£2.44 | +7.1% |
| Reduction (+) / increase (-) in chargeable hours | | | +£0.09 | +0.3% |
| Indirect costs decrease | | | -£0.33 | -6.2% |
| | | | | |
| MHI Normal | £30.40 | £31.50 | +£1.10 | +3.6% |
| Direct costs increase | | | +£2.08 | +8.4% |
| Reduction (+) / increase (-) in chargeable hours | | | -£0.65 | -2.6% |
| Indirect costs decrease | | | -£0.33 | -6.2% |

Industry official controls hourly rates 2019/20

| | Budgeted OV costs | Budgeted MHI costs | 2019/20 Total budget | 2018/19 Total budget | Variance on 2018/19 |
|--|----------------------|-----------------------|----------------------------|----------------------------|---------------------------|
| Direct Costs | £14.75m | £25.44m | £40.19m | £36.99m | 8.7% |
| Indirect Costs | £1.55m | £3.61m | £5.16m | £5.66m | -8.8% |
| Total Costs | £16.30m | £29.05m | £45.35m | £42.65m | 6.3% |
| Industry chargeable hours (plussed up)* | 396,102 | 921,376 | 1,317,478 | 1,289,517 | 2.2% |
| Charge rate before discount | £41.20 | £31.50 | | | |

* Hours shown are all I and H hours budgeted.

Industry meat costs

| Budget in £m | 2016/17 budget restated to align with 2017/18 structure | 2017/18 budget | 2018/19 budget | 2019/20 budget |
|--------------------------------|---|----------------|----------------|----------------|
| <u>Direct Costs</u> | | | | |
| Employed staff costs | £19.60 | £17.85 | £16.32 | £16.83 |
| Contractor costs | £18.24 | £18.95 | £19.22 | £21.66 |
| Laundry/equipment costs | £0.61 | £0.42 | £0.62 | £0.73 |
| Frontline travel costs | £0.79 | £0.85 | £0.83 | £0.97 |
| <i>Total direct costs</i> | £39.23 | £38.08 | £36.99 | £40.19 |
| <u>Indirect Costs</u> | | | | |
| Operations support | £3.07 | £2.89 | £2.73 | £2.69* |
| Finance & Performance | £1.43 | £0.97 | £0.69 | £0.49 |
| Human Resources | £0.46 | £0.36 | £0.21 | £0.10 |
| Depreciation / Amortisation | £0.25 | £0.21 | £0.23 | £0.28 |
| Regulatory and Legal Strategy | £0.28 | £0.24 | £0.24 | £0.22 |
| Operations IT | £1.98 | £1.49 | £1.27 | £1.01 |
| Private Offices & Secretariats | £0.09 | £0.08 | £0.08 | £0.08 |
| Corporate Support unit | £0.21 | £0.21 | £0.21 | £0.30 |
| <i>Total indirect costs</i> | £7.77 | £6.45 | £5.66 | £5.16 |
| Grand total meat costs | £47.00 | £44.53 | £42.65 | £45.35 |

* See fields highlighted in slides 27 & 28 for breakdown

Comparisons of 2019/20 to 2018/19 – Direct costs

Direct costs have increased by £3.2m (8.7%)

- Contractor costs have increased by £2.44m mainly due to EU exit related pressures leading to increased resourcing costs for 2019/20.
- Employed Staff costs have increased by £0.51m mainly due to an increase in salary costs of £0.24m for the 2019/20 pay award. There has also been a substantial 33% (£0.27m) increase in employers pension contributions for non-LGPS members.
- Other budgeted direct costs for frontline staff have increased by £0.25m (e.g. travel, laundry, equipment).

Comparisons of 2019/20 to 2018/19 – Indirect costs

Indirect costs have decreased by £0.6m (8.7%)

- Operations IT costs have decreased by £0.3m due to efficiency savings in re-contracting IT services.
- Office accommodation costs have decreased by £0.1m due to smarter use of FSA's office space.
- HR costs have reduced by £0.1m due to a reduction in training spend.
- Other costs have decreased by £0.1m.

What is not included in the costs?

The following areas are excluded:

- Food/Meat Policy and Science costs;
- FSA costs when supporting Local Authorities;
- All IT costs that do not specifically relate to meat;
- Devolved office running costs;
- Pension deficit costs;
- Preparatory work for exiting the EU;
- Work on the Regulating Our Future programme;
- National Food Crime Unit.



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Review and conclusion

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Review of calculation

The costs that the meat industry is charged under (Annex VI (EC) 882/2004) are:

- the salaries of the staff involved in the official controls;
- the costs for the staff involved in the official controls, including facilities, tools, equipment, training, travel and associated costs;
- the laboratory analysis and sampling costs.

Review of calculation

“Based on the findings of this year’s assurance review, we can validate that the functionality of both the HCR [Hourly Charge Rate] and ABC [Activity Based Costing] models appears to be robust, concluding that the hourly rates charged for MHIs and OVs have been calculated appropriately.”

Mazars (Audit Report February 2019)

Operational change

- Regulating our Future (ROF) Meat strand - we have developed an overarching model encompassing all aspects of Official Control delivery in approved meat establishments – including the audit function. This provides a starting point against which ROF principles can be applied to develop an interim and longer-term target operating model to describe the longer-term strategy for operational delivery.
- Review of Operational Policy on approvals – the FSA will continue to implement the agreed recommendations from this review during 2019/20.
- Animal Welfare – as part of its Animal Welfare Assurance Plan, the FSA will support and assure the enforcement phase of mandatory CCTV in abattoirs and plan for WATOK Annex II changes due in December 2019.
- Developing a single operational transformation delivery plan to implement outcomes of findings from strategic review of Official Controls and cutting plant and cold store review.

Future developments

- The FSA is committed to effective controls which would best protect the consumer and that are as efficient as possible.
- Implement a new veterinary services contract to support delivery of meat official controls in time for expiry of existing contract in March 2020.

Conclusion

- After a number of years of below inflation increases, and some reductions, hourly charge rates to industry have increased mainly as a result of some significant costs pressures that have been partially mitigated by efficiencies in indirect costs.
- An increase in chargeable hours as a result of higher throughput has also helped to mitigate some of the cost pressures.
- There is separate engagement with industry representatives to agree discount rates on these charges.



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Chargeable allowance

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Standard allowances

| Allowance code | Allowance narrative | 2019/20 charge before discount | 2019/20 discount | 2018/19 charge before discount |
|----------------|--|--------------------------------|------------------|--------------------------------|
| CASL | Casualty slaughter call-out | £26.55 | 50% | £25.15 |
| COVA | Sunday working as part of normal week | £66.35 | 50% | £62.85 |
| HTIM | Half time contractual overtime for Saturday working as part of normal week | £86.30 | 50% | £81.70 |
| NGHT | Night shift | £44.80 | 50% | £61.15 |
| SHFT/UNSO | Shift working | £27.50 | 50% | £25.65 |
| UNSH/UNSP | Unsocial hours | £14.15 | 50% | £13.70 |

Explanation of movement in allowance rates

- The allowances are calculated based on the 'MHI direct' cost per hour and the trend in actual occurrences.
- With the introduction of Stow charging from 2016/17 a new methodology was adopted for allowance charging.
- After three years of Stow charging the methodology for the calculation of allowance rates has been further reviewed and improved. This has led to movements up and down in the charge rates for 2019/20.
- Nationally calculated allowance rates replaced charges based on the payments to the specific individuals in particular plants to match the way the hourly rates are calculated.
- The most significant change for 2019/20 is a 27% reduction on the Night Shift allowance. Currently this allowance is only claimed at a small number of premises, by a small number of staff.
- All other allowances have increased allowing for an increase in both salary costs and employers pension contribution rates.

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Indirect cost detail

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Indirect cost outputs

Operations Support covers

- Regulatory Delivery– meat premises approvals, business and tactical support for frontline operations (instructions, guidance, reporting), SLA and contract management.
- Field Support – providing core support to frontline meat staff.
- Health & Safety of staff in meat establishments.

Finance & Performance covers

- Finance – billing and collection for meat FBOs, payroll processing for meat staff and accounting for meat related services.
- Procurement – purchases of meat related goods and services.
- Office accommodation of all meat related support staff.

Organisational Development (HR) covers

- Human Resources support.

Indirect cost outputs

Regulatory and Legal Strategy support covers

- Legal Branch – legal input on meat related issues.
- Internal Audit – audit of FSA processes used in the meat establishments and support systems.

Corporate Support Unit covers

- Ordering supplies for operational staff.
- Processing certificates of competence.
- Organising meetings and events with meat industry stakeholders, visits to meat plants, etc.

Operations IT

- IT – technological support/infrastructure for field staff.

Private Office & Secretariat support covers

- Chief Executive's Office – dealing with complaints, PQs and Freedom of Information requests on meat premises.

Indirect costs apportionment between Industry & Government

| <u>Budgeted indirect costs</u> | <u>Industry Charges</u> | <u>Government</u> | <u>FSA</u> | <u>Total</u> |
|--------------------------------|-------------------------|-------------------|--------------|--------------|
| £m | 91.01% | 3.30% | 5.69% | 100.00% |
| Operations support | £2.69 | £0.10 | £0.17 | £2.96 |
| <i>Sub total</i> | £2.69 | £0.10 | £0.16 | £2.95 |
| Finance & Performance | £0.49 | £0.02 | £0.03 | £0.54 |
| Human Resources | £0.10 | £0.00 | £0.01 | £0.11 |
| Depreciation / amortisation | £0.28 | £0.01 | £0.02 | £0.31 |
| Regulatory and Legal Strategy | £0.22 | £0.01 | £0.01 | £0.24 |
| Operations IT | £1.01 | £0.04 | £0.06 | £1.11 |
| Private Offices & Secretariats | £0.08 | £0.00 | £0.01 | £0.09 |
| Corporate Support Unit | £0.30 | £0.01 | £0.02 | £0.33 |
| Total indirect costs | £5.16 | £0.19 | £0.32 | £5.68 |

2019/20 Staff related indirect costs – Meat

| Group | FTE | Meat % | Meat FTE | Indirect cost £m | Industry cost 2019/20 £m | Industry cost 2018/19 £m | Variance £m | Variance % |
|--------------------------|--------------|--------|-------------|------------------|--------------------------|--------------------------|--------------|------------|
| Regulatory Delivery | 39.1 | 56.6 | 22.1 | £1.25 | £1.14 | £1.20 | £0.06 | 5% |
| Field Delivery (Support) | 21.6 | 48.2 | 10.4 | £0.80 | £0.73 | £0.73 | £0.00 | 0% |
| Finance | 21.0 | 21.9 | 4.6 | £0.15 | £0.13 | £0.25 | £0.12 | 47% |
| Procurement | 9.0 | 11.1 | 1.0 | £0.07 | £0.06 | £0.07 | £0.01 | 18% |
| IT Service delivery | 20.0 | 12.5 | 2.5 | £0.12 | £0.11 | £0.10 | £-0.01 | -12% |
| Information Management | 18.8 | 10.2 | 2.0 | £0.13 | £0.12 | £0.11 | £-0.01 | -9% |
| HR Org Development | 26.7 | 3.7 | 1.0 | £0.07 | £0.07 | £0.06 | £-0.01 | -16% |
| Legal | 21.0 | 5.2 | 1.1 | £0.07 | £0.07 | £0.07 | £-0.00 | 0% |
| Internal Audit | 11.0 | 25.5 | 2.8 | £0.16 | £0.15 | £0.17 | £0.02 | 13% |
| Communications | 22.4 | 0.0 | 0.0 | £0.00 | £0.00 | £0.00 | £0.00 | 0% |
| CEO's Office | 7.7 | 13.0 | 1.0 | £0.08 | £0.07 | £0.07 | £0.00 | 4% |
| Chair & Deputy's Office | 10.0 | 0.0 | 0.0 | £0.00 | £0.00 | £0.00 | £0.00 | 0% |
| Corporate Support Unit | 36.6 | 24.9 | 9.1 | £0.33 | £0.30 | £0.21 | £-0.09 | -46% |
| Subtotal | 265.0 | | 57.6 | £3.25 | £2.95 | £3.06 | £0.10 | 3% |

2019/20 Other Indirect Costs over £100k – Meat

| Associated Cost | Full cost £m | Meat % | Indirect cost £m | Industry cost 2019/20 £m | Industry cost 2018/19 £m | Variance £m | Variance % |
|---|--------------|--------|------------------|--------------------------|--------------------------|-------------|------------|
| Field Management and Regulatory Delivery travel | £0.23 | 93.6 | £0.22 | £0.20 | £0.06 | -£0.14 | -254% |
| Sampling and testing costs | £0.69 | 100 | £0.69 | £0.63 | £0.72 | £0.09 | 13% |
| Financial IT systems costs | £0.19 | 9.3 | £0.02 | £0.02 | £0.03 | £0.01 | 27% |
| Legal debt recovery costs | £0.16 | 100 | £0.16 | £0.15 | £0.12 | -£0.03 | -27% |
| IT support costs | £2.48 | 20.9 | £0.52 | £0.47 | £0.75 | £0.28 | 37% |
| Software licenses and network | £0.68 | 21.4 | £0.15 | £0.13 | £0.16 | £0.03 | 17% |
| Mobile phone costs | £0.38 | 49.9 | £0.19 | £0.17 | £0.15 | -£0.02 | -11% |
| Office accommodation | £2.62 | 8.7 | £0.15 | £0.13 | £0.22 | £0.09 | 41% |
| Medicals and training | £0.00 | 0 | £0.03 | £0.03 | £0.15 | £0.12 | 80% |
| Meeting facilities for meat staff | £0.00 | 0 | £0.00 | £0.00 | £0.01 | £0.01 | 100% |
| IT support costs for Board meetings | £0.15 | 9.3 | £0.01 | £0.01 | £0.01 | £0.00 | 0% |
| Depreciation/Amortisation | £2.45 | 12.4 | £0.30 | £0.28 | £0.23 | -£0.05 | -21% |
| Sub Total | £10.02 | | £2.43 | £2.22 | £2.60 | £0.38 | 15% |
| Grand Total | | | £5.68 | £5.16 | £5.66 | | |

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Hours bands and discounts

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Hours bands and discount rates for official controls in red and poultry slaughterhouses and game establishments

- The FSA discussed with industry representatives, on 31 January, and concluded the discount bands and rates that would be applicable for 2019/20.
- The rate FBOs actually pay will be less due to the discounts which are shown in the following slide.

Discounts and bands 2019/20

| Band | Maximum annual hours 2018/19 | | | Maximum annual hours 2019/20 | | | Discount 2018/19 | Discount 2019/20 |
|------|------------------------------|---------|---------|------------------------------|-------------------|-------------------|------------------|------------------|
| | GHE | PSL | RSL | GHE | PSL | RSL | All | All |
| 1 | 3 | 315 | 171 | 3 | 519 | 162 | 90% | 90% |
| 2 | 27 | 1,014 | 759 | 12 | 1,401 | 759 | 75% | 75% |
| 3 | 42 | 2,961 | 2,358 | 48 | 3,633 | 2,328 | 57% | 55% |
| 4 | 111 | 7,866 | 5,547 | 81 | 5,400 | 6,477 | 38% | 33% |
| 5 | 402 | 22,266 | 13,434 | 306 | 20,052 | 14,427 | 32% | 28% |
| 6 | >402 | >22,266 | >13,434 | >306 | >20,052 | >14,427 | 25% | 25% |