

FUTURE DELIVERY OF OFFICIAL CONTROLS IN APPROVED PREMISES

Executive Summary

1. This paper sets out the progress on MHS transformation and results of work on control body pilot and seeks Board members agreement on the recommended course of action. This decision should be made in view of market and regulatory developments presented in this paper.
2. The Board is asked to:
 - **note** the progress made in transforming the Meat Hygiene Service;
 - **note** the views of the Advisory Body;
 - **agree** that a Control Body pilot should not be further pursued; and that the option of MHS privatisation should be revisited only if there are significant changes in the official controls environment; and
 - **agree** that MHS transformation targets and progress monitoring process should follow the recommendations set out in this paper.

Annexes

Annex 1 – Extract from FSA Board Meeting of July 2007

Annex 2 – The Future of Abattoirs

Annex 3 – MHS Transformation Progress

Annex 4 – Development of the Control Body Pilot Option

Annex 5 – Advice of the Advisory Body on the Delivery of Official Controls

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Issue

1. Consideration of MHS transformation progress and FSA Board decision on the future course for delivery of official controls.

Strategic Aims

2. To:
 - protect the consumer through the provision of proportionate risk-based official controls on fresh meat and meat products produced in approved meat premises;
 - move towards full cost recovery for official meat controls by reducing the costs of the controls and increasing charges to industry;
 - drive up compliance and standards at approved meat plants through constructive dialogue and partnership working with industry, charging incentives and, where necessary, enforcement action.

Background

3. At its July 2007 meeting the Board discussed the Tierney Report¹ and largely accepted the recommendations made in the accompanying paper, including :
 - to adopt a more risk and evidence-based approach to the regulation of meat hygiene, meat inspection activities and enforcement;
 - to allow the MHS to transform itself, whilst the FSA continued work on the development of a control body option;
 - to consult on increased meat inspection charges whilst developing a new charging system for introduction in 2009/10; and
 - to work with the poultry industry to remove barriers to the greater use of plant employed staff known as Plant Inspection Assistants (PIAs) for post-mortem inspection

¹ FSA 07/07/06

- to set up an Advisory Body to advise the Board on the future delivery and cost recovery of official controls in meat plants.
4. The Board agreed (extract from minutes at Annex 1) that there should be a 6 monthly review of MHS progress and performance and that work should continue in parallel on the delivery partner model, including preparing a plan to pilot this approach with groups of plants.

Future Demand for Official Controls

5. Future demand for official controls in the UK will be determined by two major drivers: meat industry trends and regulatory reform. The main cost driver for the MHS is not throughput but the number of abattoirs and the number of MHS staff hours required by FBOs.
6. Meat consumption in the UK has remained at a fairly stable level in the recent years and no significant changes are predicted in consumption patterns. At the same time meat prices have not kept pace with production cost increases, resulting in reducing domestic production and growing reliance on imports. Given the still significant, albeit decreasing, spread between the UK and world meat prices, this trend is unlikely to reverse.
7. The historic decline in abattoir numbers is likely to continue. The number of red meat abattoirs is projected to decrease from the present 290 to between 200 and 220 by 2015 (Annex 2). Macroeconomic factors will shape the industry landscape in the next years but are difficult to predict. These include: demand for western style foods from China, India and other developing nations, global food and feed prices and changes in WTO and CAP policies.
8. Official controls in meat premises will continue to require a large resource for as long as ante- and post-mortem inspection remains the responsibility of the competent authority. Attempts to move more of that responsibility to plant operators were blocked by the European Parliament during negotiation of the EU Hygiene Regulations and there is no immediate prospect of significant amendment being achieved before 2010. The EU Hygiene Package does however allow scope to provide flexibilities for small and remote premises and, more radically, to pilot new approaches to official controls. Some of the other Member States have already started to initiate pilot projects, e.g. in the poultry sector, and we will be monitoring these carefully.
9. The FSA is preparing a strategy for achieving risk-based meat hygiene regulations and is working with MHS and industry to identify areas where pilots would be most productive in the UK within the current regulations ('Optimisation Review' team).

10. There is scope within the current regulations for industry to contribute to the reduction of costs by optimizing their operations so as to increase the efficiency with which the MHS resources are used.

11. MHS will respond to changes in the industry environment. Its use of a contracted veterinary workforce provides flexibility to reduce inputs in a phased and controlled manner.

Charging

12. Progress is being made on the development of a new charging system to be implemented in 2009/10 in consultation with industry stakeholders, Defra, Scottish Government and Welsh Assembly Government. Details of the proposals will be discussed at the July FSA Board meeting.

MHS Transformation

13. Summary of main points on Transformation progress (details at Annex 3)

- Based on the 2007/08 provisional results, currently being audited by National Audit Office, MHS has met all three financial targets set for it by the FSA - Gross cost, Net cost and Cost per Livestock Unit. Gross cost of Operations has been reduced by £4.4m from £91.3m in 2006/07 to £86.9m in 2007/08.
- MHS has defined and initiated business improvements to reduce costs in real terms (unadjusted for inflation) from £91m in 2006/7 to £74m by 2011/12 (19%). This will result in a reduction in the net cost of operations from £33m to £13m by 2011/12, assuming a projected increase in revenue from £58m to £61m over the same period. These projections are broadly in line with the Tierney trajectory, which predicted a cost of £73m in 2011/12 for the Control Body and represent an improvement of 3% over the £76m MHS bid presented by Tierney in July 2007.
- The new cluster structure and procurement process for service provision in the clusters is being implemented.
- Initiatives are under way to streamline the management structure and support functions, including rationalisation of regional offices, centralisation of support functions in HQ, and IT costs.

14. In 2007/08, investment costs for transformation amounted to £11.2m. Further investment needs for severance and IT in 2008/09 is estimated at £8.1m and £4.5m in 2009/2010 in real terms.

15. The major challenges facing the MHS are maintaining the momentum of the transformation while at the same time ensuring effective public health controls. This involves timely staff release, ensuring appropriate staff qualifications and motivation, reaching agreement on future terms and conditions with Unison and a satisfactory result in the charging negotiations.

Control Body Pilot

16. Development work on the control body pilot has been carried out in consultation with a range of experts, potential providers and other stakeholders. Results of the pilot development work are set out in Annex 4.

17. Highlights of the Control Body pilot model:

- a Control Body pilot would operate in about 20% of the MHS area and deliver the same official controls as MHS. This size would guarantee a meaningful trial, covering a representative sample of the meat industry in terms of plant size and industry segments; and
- a period of 19 months would be needed to implement a control body pilot; the timeline is driven by the duration of public consultation and the procurement process in accordance with European procurement rules.

18. The pilot set-up cost is estimated at £3.6m (£1.1m programme cost and £2.5m severance cost) plus between £1.4m and £5.4m² pension liability cost. A subsequent annual management cost of £0.7m would be required, which could partly be offset by staff transfer from MHS. This cost significantly exceeds the expectations set by the Tierney Review, which did not take account of staff TUPE³ in the pilot scenario.

19. There are significant risks and reservations related to the pilot model, including:

- lack of provider interest due to limited scope to achieve synergies, significant investment required and uncertainty of long-term objectives,
- Defra and other Rural Affairs Departments are concerned about coordinating with more than one provider in handling any animal disease outbreaks,
- Scottish and Welsh Ministers have advised the Agency that they would not support a pilot at this time; and
- potential adverse impact on MHS transformation.

² This value can vary and exceed the estimated range, depending on a number of variables that will impact the actuarial valuation and will not be known prior to the transfer

³ Transfer of Undertakings Protection of Employment (TUPE) Regulations 1981 (*as amended*).

20. Two options have emerged from the development work, market sounding discussions and from consultation with the Advisory Body:

- **option 1** - to implement a timetable for consultation and procurement with a view to launching a Control Body pilot by the end of 2009; and
- **option 2** - not to pursue the pilot; and revisit the option of a full Control Body, but only if there are significant changes to the official controls environment.

Advisory Body

21. The Advisory Body, which has 16 members representing consumers, industry, farmers, retailers, the MHS and the four rural affairs departments, considered the issues again at its third meeting on 2 April (details in Annex 5). In particular, the Advisory Body recommended that:

- MHS and FSA proposals for change include an assessment of their impact on public health, animal health and welfare;
- the Control Body pilot should not be pursued in the light of new information presented on the reluctance of outsourcers to become involved in a pilot and the associated set up costs;
- a decision on future delivery of official controls should not be predicated on MHS success or failure, but rather on changes in EU regulations, industry trends, practices in other Member States and potential cost savings; and
- more effort is put into 'transforming' the meat inspection regime, whether it is delivered by a Transformed MHS or by a Control Body.

Recommended Approach

22. Based on the analysis above, the Executive recommends that the idea of a control body pilot is now dropped, and that the approach of a single provider of official controls in Great Britain is supported. The key reasons for this are:

- cost significantly exceeds initial expectations;
- lack of market interest, with consequential limited scope for efficiency gains;
- concerns that consumer and public health interests would be best served by an improved MHS rather than privatization at this point in time.

23. Given the good progress so far on the MHS transformation, we should back the Transformed MHS as the single provider of official controls, and support the further transformation measures set out in Annex 3. Key elements of this are:

- meeting the three-year financial targets agreed by the FSA Board, including securing investment funding to continue to develop IT systems and release staff where no longer required;
- creating a culture that engages MHS staff and secures their ownership of efficiency, effectiveness and continuous improvement, including agreement with Unison on future terms and conditions;
- developing an MHS workforce which is motivated and has appropriate knowledge, skills and professional experience to deliver stakeholders' needs locally;
- ensuring sufficient flexibility to effectively respond to changes in the demand for MHS services;
- implementing a robust commercial contract for the supply of effective LVs, OV's and MHIs at an acceptable cost; and
- taking part in trials of new approaches and providing scientific evidence of their effectiveness to support the FSA in negotiating proportionate, risk-based official controls.

24. Both, to maintain confidence internally and externally in the transformation process and to ensure maximum value for money, we should:

- establish a clear and transparent performance framework for the MHS over the next three years. Key elements of this should be a limited number of meaningful qualitative and quantitative performance indicators, and arrangements to monitor activity-based financial metrics. The FSA and MHS executive teams will jointly develop this framework, and regularly report progress to the MHS and FSA Boards;
- ensure that there is joint FSA/MHS scrutiny and oversight of new investment proposals, and that MHS investment proposals are assessed alongside other FSA investment priorities. Establish a clear plan of action in relation to closer working across the corporate service areas;
- support and encourage MHS to work with the Veterinary Contractors and, in partnership with industry, to fully explore opportunities for innovative approaches to service delivery, including piloting them in selected clusters, to identify and promote successful practices;

- strengthen the current FSA /MHS /Industry 'Optimisation Review' team and expand its role to challenge the *status quo* and investigate cost and practice variations, identify best practices and barriers that need to be addressed; and
- revisit the option of a full Control Body if there are significant changes in the official controls environment.

Board Action Required

25. The Board is asked to:

- **note** the progress made in transforming the Meat Hygiene Service;
- **note** the views of the Advisory Body;
- **agree** that a Control Body pilot should not be further pursued; and that the option of MHS privatisation should be revisited only if there are significant changes in the official controls environment; and
- **agree** that MHS transformation targets and progress monitoring process should follow the recommendations set out in this paper.