

## DEVELOPMENT OF THE CONTROL BODY PILOT OPTION

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## ANNEX 4: OVERVIEW

### ***Development of the Control Body Pilot***

1. Development work on the control body pilot has been carried out in consultation with many experts, potential providers and other stakeholders - see **Annex 4.1**.

### ***Legal Basis & Timeline***

2. Article 5 of EC Regulation 882/2004 (Official Feed & Food Controls) gives powers to competent authorities, such as the FSA, to delegate specific tasks related to official controls to control bodies. 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 - see **Annex 4.2**.

### ***Purpose, Benefits, Scope, Duration and Impact***

3. Information on the purpose, benefits, the scope, duration and impact on the MHS of a Control Body pilot is set out at **Annex 4.3**.

### ***Risks & Mitigation***

4. The risk of failure of a CB pilot either financially or in service delivery would be minimised by pre-selection checks (including participation during the transition period in animal disease contingency planning and possibly a trial exercise to ensure readiness) and by post-selection monitoring/audit. In the worst case scenario, the contract would be terminated and re-tendered, with FSA arranging interim management. Further analysis is set out at **Annex 4.4**.

### ***Governance, Costs, Functions & Monitoring***

5. The proposed governance structure is set out at **Annex 4.5**. Pilot set up costs, including pension issues and management costs are discussed at **Annex 4.6**. set-up cost is estimated at £3.6m, £1.1m programme cost and £2.5m severance cost, plus between £1.4m and £5.4m<sup>1</sup> pension liability cost. This cost significantly exceeds the expectations set by the Tierney Review, which did not take account of staff TUPE in the pilot scenario.
6. An operating model is described at **Annex 4.7**. One issue of note is that Defra remains concerned about coordinating with more than one provider in handling animal disease outbreaks. Performance monitoring and measures for a Control Body pilot is set out at **Annex 4.8**. While a number of outcome-based targets and some benchmarking measures covering operational, financial and satisfaction level aspects are proposed at **Annex 4.9**.

## **OPTIONS**

7. 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.

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<sup>1</sup> This value can be higher, depending on a number of variables that will impact the actuarial valuation and will not be known prior to the transfer

- **Option 2** - not to pursue the pilot; and revisit the option of a full Control Body, if there are significant changes to the official controls environment.

## **DISCUSSION**

### ***Option 1***

8. At its meeting on 2 April the Advisory Body considered the analysis provided notably the pilot set up costs and other issues included in the following annexes, and the outcome of a market sounding meeting.

### ***Market Sounding***

9. The viability of a Control Body pilot was discussed on 12 March with a cross section of potential suppliers, including a number of major outsourcing companies, veterinary contractors and quality assurance and certification firms that provide services for farms and the food industry. A meat industry representative attended.

10. There was clear consensus that a pilot does not represent a compelling business opportunity for the providers who would command a high risk premium. It was therefore highly likely that the interest would not be sufficient. Their main reservations were:

- Limited scope for efficiencies within the geographical reach of 20%, given the need for operational and administrative overheads;
- Difficulty in benchmarking the 20% pilot against MHS, as economies of scale cannot be fully explored within the limited scope;
- Uncertainty as to long term perspective that would inhibit investment; and the
- Disproportionately high cost of this experiment given the timescale.

11. It was observed that a Control Body across the entire business was expected to deliver substantially greater savings than a pilot, and the market response was likely to be much more positive if a long-term vision could be given to providers. It was suggested that, before outsourcing, the service should be streamlined as far as possible to 'fix the problem first, outsource later'. It was also noted that the veterinary contractors at the meeting were keen on working more closely with the MHS and industry to develop more efficient ways to deliver the current service.

### ***Other issues***

12. Testing a Control Body would provide a platform for innovation and service improvements that would be expected to result in cost savings. However, the set up costs would be considerable (Annex 4.6) and limited government funds might be better spent on MHS restructuring and infrastructure to achieve successful transformation or on other FSA priorities rather than on a pilot. Some stakeholders believed that only by piloting a CB pilot would optimum operational efficiency eventually be achieved by the MHS.

13. Scottish Ministers have advised the Agency that they would not support a pilot taking place in Scotland, as they consider that public trust and confidence in the controls are enhanced by this function being delivered by the public sector,

notwithstanding that the service currently relies on contract staff. Welsh Ministers do not currently favour a pilot.

14. The Agency is seeking to change the regulations to allow responsible operators to carry out product inspection, subject to ongoing verification, but this is unlikely to happen in the near future.

### **Option 2**

15. The Advisory Body acknowledged the demonstrable progress that MHS has made. Given the introduction of clusters from January 2009, contract Lead Vets in 2/3<sup>rd</sup>s of clusters and new charging arrangements by mid-2009, and the confidence of some contractors in their ability to develop more efficient ways to deliver the service, there was merit in allowing these developments to be implemented and evaluated.
16. A 'full' Control Body would certainly be attractive to some prospective bidders and an early decision would provide a certain outcome for staff, industry and other stakeholders. Procurement of a 'full' Control Body would not take substantially longer than a pilot and, apart from staff transfer costs and handling for the much larger number of staff, the programme cost needed to outsource the whole of the MHS would not be substantially greater than the sum required to set up a Control Body pilot.
17. The Advisory Body agreed that the current situation was far from ideal and a more efficient UK meat inspection regime was required irrespective of its label ('transformed MHS' or 'Control Body').

### **Advisory Body advice**

18. Noting the latest analysis provided on the Control Body pilot option the Advisory Body recommended that
  - the Control Body pilot should not be pursued;
  - the decision on future delivery of official controls should not be predicated on MHS success or failure, but on a long term 'vision' of the industry, regulations and other issues, and the impact of these on service provision and on public health, animal health and welfare; and
  - FSA should continue to develop the business case for a 'full' control body for consideration at a later date, so that the ground work will have been completed.

The Advisory Body's advice is summarised at **Annex 5**

## **ANNEX 4.1: LIST OF EXPERTS & INTERESTED PARTIES CONSULTED**

### **Government and related bodies**

AssureQuality New Zealand  
Cabinet Office  
Central Aviation Authority  
Defra  
Government Actuary's Department  
Local Pension Fund Authority (LGPS administrator)  
Meat Hygiene Service  
National Weights and Measures Laboratory  
New Zealand Food Standards Agency  
Treasury Solicitors  
UNISON

### **External experts**

Certification and performance monitoring expert  
Procurement expert

### **Service providers**

MHS Veterinary Contractors  
Capita Advisory Services  
Vertex  
Sungard Vivista  
Atos Origin  
ADAS  
CMI  
Saiglobal/ EFSIS

In addition, individual Advisory Board members have been consulted.

## **ANNEX 4.2 LEGAL BASIS AND TIMELINE**

### ***Legal Basis***

1. Article 5 of EC Regulation 882/2004 (Official Feed & Food Controls) gives powers to competent authorities, such as the FSA, to delegate specific tasks related to official controls<sup>2</sup> to control bodies. Use of the power is subject to various conditions e.g. control bodies have to have the necessary expertise, staff and equipment; have to be accredited<sup>3</sup>; are subject to audit and inspection by the competent authority; and enforcement functions are specifically excluded. Any proposal to make use of the powers has to be notified in advance to the Commission. A Statutory Instrument would be needed to make existing legislation giving the duty of carrying out official controls to FSA (in practice the MHS) consistent with the delegation to control bodies.

### ***Implementation Timeline***

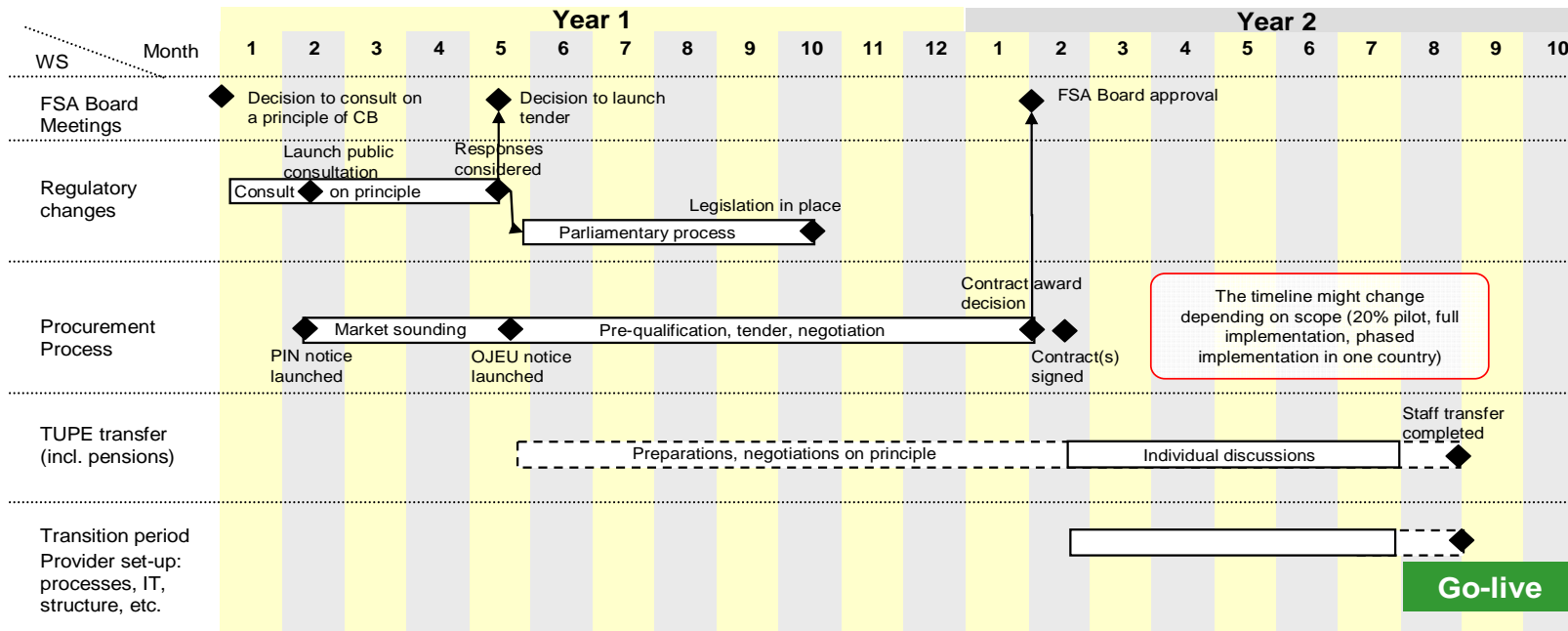
2. It is estimated that a period of about 19 months would be needed to implement the necessary consultation and procurement procedures for this project - see timeline below.
3. If the Board wishes to go ahead, the FSA would need to first consult on the principle of delegation to a control body. Consultation is normally for a period of at least 90 days, after which responses must be analysed and addressed. A decision to proceed could only be made after taking account of the consultation responses.
4. As a public body, FSA is subject to EC procurement rules designed to extend competition and obtain best value for money. Thus, in parallel with the consultation, FSA would issue a Prior Information Notice (PIN) and hold informal discussions with interested parties. If, after the consultation and these informal discussions, the decision was made to proceed, a notice would be published in the Official Journal (OJ) of the EU, followed by a negotiated or competitive dialogue procedure as appropriate. A procurement timetable of approximately 8 months is considered ambitious but realistic.
5. Once a contract had been agreed, detailed transfer negotiations with staff would take place. In the case of a pilot involving 20% of MHS staff, 4 months would be the best-case scenario.

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<sup>2</sup> 'Official control' means any form of control to verify compliance with food and feed law, animal health or animal welfare rules.

<sup>3</sup> European Standard EN45004 'General Criteria for the operation of various types of bodies performing inspection' and/or another standard if more relevant.

# Implementation timeline



The duration of approx. 19 months of the implementation timeline is determined by:

- **Public consultation on principle of delegation** prior to procurement process launch (minimum of 90 days plus 10 days to draft and agree responses).
- **Duration of the procurement process**, which is likely to follow either the negotiated or competitive dialogue procedure in accordance to EU procurement regulations. While legal minima have been applied for some of the procurement stages, more time is allowed for the dialogue/ negotiation phase. The total of approx. 8 months is considered ambitious but realistic (for comparison, the planned duration of the MHS cluster tendering process is similarly 8 months)
- **Transition phase of approx. 6 months.** In this phase detailed transfer negotiations with staff will take place – depending on number of staff transferred and resources dedicated to this process, the duration of this phase would change. 4 months in the case of 20% of MHS staff transferring could be considered in best-case scenario.

## **ANNEX 4.3: PURPOSE/BENEFITS/SCOPE OF A CONTROL BODY**

### ***Purpose/ Benefits***

1. A Control Body would provide an opportunity to:
  - seek an innovative business model to test new approaches to service delivery, possibly partnering with complementary businesses to provide new services for operators and flexibility to respond to changing needs of the industry and the gradual reduction of demand for official controls;
  - strengthen relationships with Food Business Operators to deliver efficiency and improvement in compliance levels;
  - improve staff satisfaction, by providing employees with a more rewarding working environment; and
  - deliver efficiency gains.
2. A Control Body pilot would allow lessons to be learned by FSA on how to 'manage' a CB contract, while mitigating the risks related to CB failure by limiting the scope to a proportion of MHS' business. Within the geographical and duration limits of a pilot it may not be possible to fully capitalize on the efficiency improvements, but it would allow the qualitative aspects of service delivery to be tested.

### ***Scope***

3. Under its Service Level Agreements with FSA and Defra, MHS delivers official controls in relation to public health, animal health and animal welfare at approved GB slaughterhouses, cutting plants and game handling establishments<sup>4</sup> through contract official veterinarians (OVs) and mainly employed meat hygiene inspectors (MHIs). The MHS oversees the enforcement of relevant regulations by contract OVs, individually 'appointed' as Authorised Officers. MHS HQ also provides technical services including operational instructions, the calculation and collection of charges, and carries out internal audits.
4. A Control Body pilot would employ both OVs and MHIs to deliver the same official controls and would carry out all HQ functions except those, such as responding to Parliamentary Questions, that it would be inappropriate for it to perform. As the Competent Authority, FSA would set performance targets and measures, audit and inspect performance of all CB functions and would carry out the central management role in relation to enforcement by individually authorised officers. FSA would retain final decisions in relation to policy and clearance of operational instructions.
5. To allow reasonable comparison with the MHS, a Control Body pilot would cover about 20% of GB containing as representative a sample as possible of industry in terms of large/medium/small, red/white meat slaughterhouses, cutting plants and some game plants, with about 20% of the staff, and preferably across two countries.

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<sup>4</sup> As well as in processing plants and cold stores co-located with these establishments.

### ***Pilot Duration / End Game***

6. To be of sufficient duration to allow delivery of the benefits, a Control Body pilot contract would be for 5 years with break clauses at 3 and 4 years; but performance assessment would be an on-going process with built in review stages to enable early reaction to performance variances and timely decision-making on the way forward after the pilot period. Broadly, the following options will be available, depending on the outcomes of the pilot and MHS transformation:
  - A. Mixed delivery  
Control body maintained within same or extended area, following a further tender; MHS operates in remaining part of GB; or
  - B. Control body delivery  
MHS decommissioned; MHS staff transferred under TUPE to one or more control bodies throughout GB, following further tendering;
  - C. MHS delivery  
Control body decommissioned; ex-MHS staff transferred back to MHS.

### ***Impact on MHS***

7. The MHS is tendering for the supply of OVs in its 37 clusters from January 2009 on 5 year contracts with options to terminate at 3 and 4 years. The Control Body pilot area would follow MHS cluster boundaries to minimise the impact on MHS contracting arrangements, but **immediate action** would be needed to exclude the proposed pilot area from MHS re-contracting arrangements and to rollover existing contracts until the Control Body was ready to take over.
8. Immediate moves towards a pilot are likely to adversely affect staff morale and work in both the pilot and non-pilot areas and MHS believes that it could divert Unison's attention from current negotiations on terms & conditions.
9. A 20% reduction in business volume would have a negative impact on the scope for saving back-office costs and MHS transformation targets. Details of consequential staff reductions remain to be established and, if staff are not transferred to the Control Body or the FSA pilot management team, there would be additional severance costs.

## ANNEX 4.4: RISKS & MITIGATION ACTIONS

No.	RISK	MITIGATION
<b>FSA, DEFRA AND PUBLIC HEALTH RISKS ASSOCIATED WITH CONTROL BODY</b>		
1	Increased risks to meat hygiene and safety due to lower inspection standards	<ul style="list-style-type: none"> <li>▪ Robust target definition and performance monitoring and audit approach, including independent audit provider</li> </ul>
2	Reduced ability to handle natural emergency situations, e.g. animal disease outbreak	<ul style="list-style-type: none"> <li>▪ Clear definition of procedures, roles and responsibilities in emergency situations included in the contract.</li> <li>▪ Perform testing exercise in transition stage of the pilot to ensure readiness.</li> </ul>
3	Failure to achieve the planned level of benefit	<ul style="list-style-type: none"> <li>▪ Assume realistic benefit levels based on business cases developed in the procurement process as basis for contract</li> <li>▪ Provide appropriate incentives to DPs to deliver efficiency gains</li> <li>▪ Allocate benefits to “benefits owners”</li> <li>▪ Senior Responsible Officer targeted to deliver</li> </ul>
4	Delivery partner failure resulting in risk to service delivery continuity	<ul style="list-style-type: none"> <li>▪ Periodic performance reviews built into the process to identify and mitigate potential problems early</li> <li>▪ Critical/Significant breach and sanctions (e.g. removal of part of pilot area) defined in the contract to provide for a phased exit if necessary</li> <li>▪ Where there is more than one delivery partner (including MHS) this will permit the take over of the area managed by failing provider</li> </ul>
5	Inconsistent delivery standards across different delivery partners	<ul style="list-style-type: none"> <li>▪ Specify standards of delivery clearly in the contract</li> <li>▪ Establish FSA approval process for significant changes in operational policies</li> <li>▪ Set-up a coordination and knowledge sharing mechanism/ forum between delivery partners and MHS</li> </ul>
6	Decline in consumer confidence - private sector risk perceived as high	<ul style="list-style-type: none"> <li>▪ Invite consumer representatives to provide views and monitor progress of the project - periodic updates to the Advisory Body</li> <li>▪ Build consumer awareness of what happens in other countries and of the organisations (private and public) promoting meat safety</li> </ul>
7	Damage to UK's reputation in the EU and increased EU and/or FVO monitoring and inspection visits	<ul style="list-style-type: none"> <li>• Consult with the EU Commission early on in the process (the EU has no expressed right of veto under Art. 5 of EC Reg. 882/2004 but ant concerns would have to be addressed)</li> </ul>

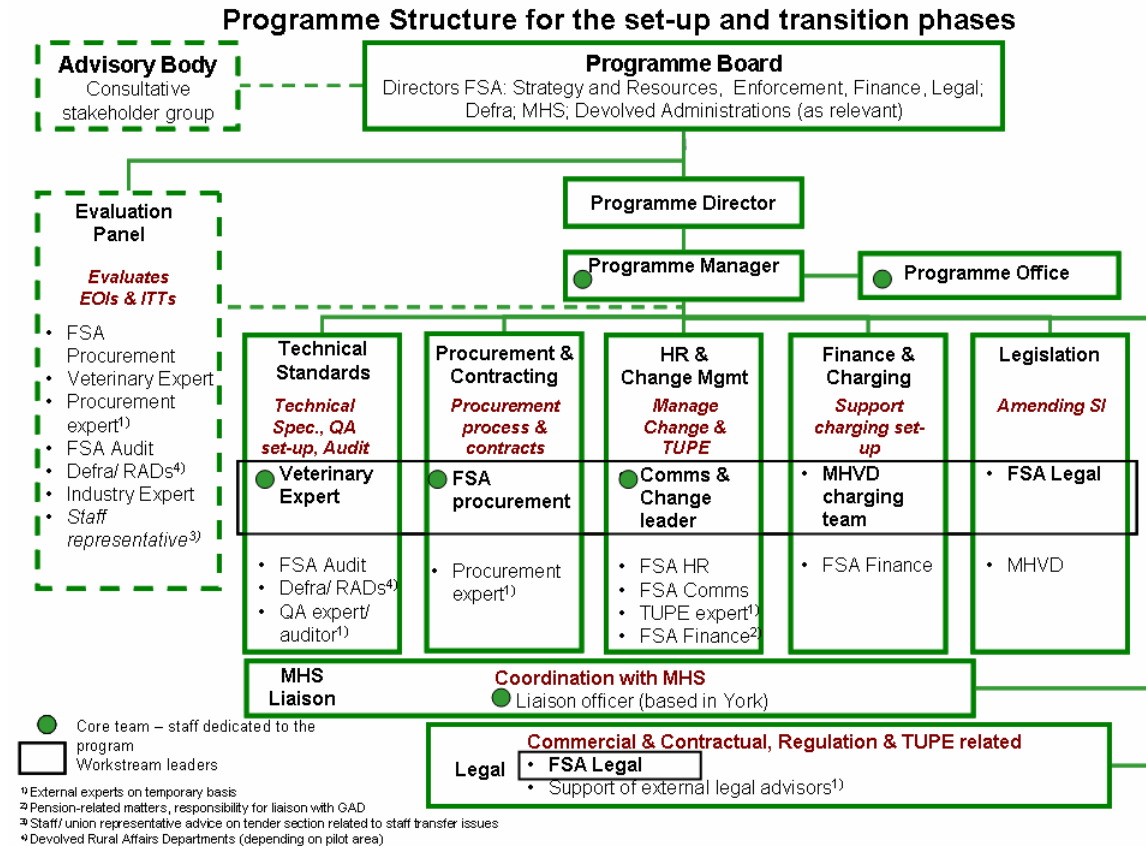
<b>PROGRAMME IMPLEMENTATION RISKS RELATED TO PILOT/ CONTROL BODY SET-UP AND TRANSITION</b>		
8	Project delays caused by delays in regulatory reform	<ul style="list-style-type: none"> <li>▪ Issue PIN at same time as 3-month consultation period preceding procurement launch</li> <li>▪ Contingency period allowed for in timeline</li> <li>▪ Stakeholder engagement to ensure concerns are addressed in the early stages</li> </ul>

9	A suitable Delivery Partner cannot be identified and secured	<ul style="list-style-type: none"> <li>▪ Sound the market in advance of starting the formal procurement process to ensure that a sufficient number of high-calibre providers expresses interest</li> <li>▪ Use an appropriate selection procedure (competitive dialogue or negotiated) to enable the FSA and stakeholders to build the optimum</li> <li>▪ Alongside the introduction of a Delivery Partner, the MHS will continue to transform such that, if no partner can be secured, the MHS will continue to operate</li> </ul>
10	Missing deadlines and cost overrun in the set-up and transition period	<ul style="list-style-type: none"> <li>▪ Dedicated Programme Manager, supported by appropriate team</li> <li>▪ Use available FSA and MHS resources as far as possible</li> <li>▪ Ensure that good governance is in place, including Defra, consumers and Food Business Operators (FBOs)</li> <li>▪ Plan sufficient time for the set-up and transition period</li> <li>▪ Use of an external review process, such as OGC Gateway Review Process</li> </ul>
11	Insufficient initial funding	<ul style="list-style-type: none"> <li>▪ Make appropriate provisions in FSA annual budget</li> <li>▪ Investigate potential partners to share initial investment costs</li> </ul>
12	Decline in operational performance during the set-up and transition period (in the selected pilot area, as well as in other MHS areas due to diversion of management focus)	<ul style="list-style-type: none"> <li>▪ Secure commitment of senior management teams in FSA and MHS to change</li> <li>▪ Allocate sufficient resource to set-up team</li> <li>▪ Change Manager focused on people issues</li> <li>▪ Ensure support of UNISON and FBOs</li> <li>▪ Clear message as to options available after pilot completed, including the possibility of retention of the different delivery models, i.e. MHS continuity</li> </ul>
13	Pension transfer related to TUPE results in unexpected costs for the FSA and delivery partner(s)	<ul style="list-style-type: none"> <li>▪ Discuss the available options with GAD and pension funds administrators; explore all available options with respect to LGPS, including admitted body status</li> <li>▪ Clear agreement on the limits to the FSA's exposure to future increases in contributions</li> </ul>
14	Lack of buy-in from stakeholder groups – employees and FBOs, particularly in relation to TUPE issues.	<ul style="list-style-type: none"> <li>▪ Involve industry and employee representatives at all stages, including the delivery partner selection process</li> <li>▪ Ensure open dialogue and sufficient time for TUPE negotiations</li> <li>▪ Dedicated change management resources on the implementation team and support of an external TUPE expert</li> </ul>
15	Risk of additional cost and reputation damage if procurement timeline not aligned with MHS re-tendering of clusters resulting in the need to terminate the contracts early to enable pilot/ CB launch.	<p>Suitable arrangements to align timelines:</p> <ul style="list-style-type: none"> <li>▪ Option 1: Geographical area for the pilot selected and exempt from MHS tendering process, existing MHS contracts extended if the pilot procurement timeline longer than MHS cluster re-tendering timeline</li> <li>▪ Option 2: break clauses built into MHS cluster contracts to enable CB launch earlier than Jan. 2012</li> </ul>

## ANNEX 4.5: PILOT GOVERNANCE STRUCTURE

The diagram below outlines the proposed governance structure for the procurement and transition stages of a Control Body pilot.

While additional resources might be needed for some of the workstreams, the structure would not change significantly for the implementation of a full Control Body.



The general principles of the Programme structure are:

- Small core team of staff dedicated full-time to the project, supported by FSA internal expertise and external specialist support as needed (esp. legal, procurement and TUPE expertise).
- Structure is designed to support the set-up and transition process; it will then transform into pilot management team.
- Close coordination with MHS through a dedicated liaison officer and MHS involvement in the Programme Board.

The table below outlines roles within the Programme structure.

<p><b>Programme Board</b></p>	<ul style="list-style-type: none"> <li>• Presents recommendation to the FSA Board</li> <li>• Defines the objectives and sets priorities and delivery timescales</li> <li>• Monitors progress</li> <li>• Takes key decisions on funding and resourcing (including contracting of external experts)</li> <li>• Meets monthly or more frequently, if required</li> </ul>
<p><b>Programme Director</b></p>	<ul style="list-style-type: none"> <li>• Oversees progress and supports high-level stakeholder management</li> <li>• Approves recommendations and issues to be presented to the Programme Board</li> </ul>
<p><b>Programme Manager and Programme Office</b></p>	<ul style="list-style-type: none"> <li>• The Programme Manager coordinates the work streams and acts as secretary to the Programme Board</li> <li>• Reports on progress, raises issues and decision needs to the Programme Board</li> <li>• The Programme Office supports the Programme Manager and work streams, maintains the risk register and prepares a risk mitigation plan</li> </ul>
<p><b>Workstream Leaders</b></p>	<ul style="list-style-type: none"> <li>• Ensure workstream progress to plan, coordinate internal and external expertise input, report on progress and issues</li> </ul>
<p><b>Evaluation panel</b></p>	<ul style="list-style-type: none"> <li>• Analyzes and evaluates pre-qualification questionnaires and tenders and presents recommendations</li> <li>• Meets as required by the procurement process</li> <li>• Liaises with Programme workstreams as need to obtain expert opinions (part of the panel members will at the same time work on the project team)</li> </ul>
<p><b>MHS Liaison Officer</b></p>	<ul style="list-style-type: none"> <li>• Liaises and coordinates between the pilot set-up team and MHS</li> <li>• Supports MHS internal communications on pilot-related topics</li> <li>• Supports the Change Management workstream in the development and execution of transition plan</li> </ul>

## ANNEX 4.6: PILOT SET-UP & MANGEMENT COSTS

1. Total set up-cost: £5m to over £9m, depending on the pension transfer cost
2. FSA pilot team cost of approx. £1.1 m over the 15 month set-up period and an annual management cost of about £0.7m.
3. TUPE transfer of about 20% of MHS front-line staff would be required. Two pension schemes involved. Pension transfer cost for front line staff, if a lump sum payment were required to pay the LGPS pension fund deficit, likely to be in the range of £1.4m to £5.4m, although higher value is not unlikely.
4. If a severance scheme was offered and take up would be 20% of pilot area frontline staff (SMHI, MHI and MT grades), the cost is estimated at £2.5m.

The following costs should be considered:

### ***FSA Pilot Team Cost***

The FSA pilot team (see Annex 4.5) is estimated to cost approximately £1.1m over the 15 month set-up period. This includes the cost of resources dedicated to the project, as well as external advice on legal, commercial and staff transfer.

The resource requirement will be reduced in the pilot management stage, resulting in an annual cost of about £0.7m. Subject to availability of required skill profiles, estimated 20% of the set-up and 40% of the on-going management cost could be offset by staff transfer from the MHS.

### ***TUPE***

A pilot would involve the transfer of some 20% of MHS front-line staff to the successful bidder under the Transfer of Undertakings Protection of Employment (TUPE) Regulations 1981 (*as amended*). It is a best practice requirement that any new employees hired by the contractor to work on the contract after commencement, are employed on broadly equivalent terms and conditions to those of the transferred workforce to avoid a two-tier workforce. Arrangements for a role in the evaluation of potential bidders on general personnel issues have also been discussed with Unison. Other issues, such as union recognition, will be subject to discussions with selected providers.

The position with regard to TUPE of CB Pilot staff at the termination of a Control Body pilot also needs to be considered.

## ***Pension Transfer***

Rights and liabilities under occupational pension schemes are not subject to transfer under TUPE. However, under the Cabinet Office Statement of Practice on public sector transfers (“COSOP”) provision should be made to ensure that any public sector worker that is transferring to the private sector under TUPE will be given a broadly equivalent pension. Broad comparability is assessed by the Government Actuary’s Department. Large outsourcing providers typically have GAD certified schemes, and so-called umbrella schemes are available on the market from insurance companies, enabling cost-efficient set up of a scheme

MHS front line employees are split between the Local Government Pension Scheme (LGPS) and the Principal Civil Service Pension Scheme (PCSPS). The table below outlines the transfer options available for each of the schemes.

PCSPS	LGPS
<ul style="list-style-type: none"> <li>• Approx. 44% of MHS staff</li> <li>• Mainly staff employed after 1995 (part of the staff employed after this date was offered LGPS membership)</li> </ul>	<ul style="list-style-type: none"> <li>• Approx. 56% of MHS staff</li> <li>• Staff transferred from Local Authorities in 1995</li> <li>• <b>Current deficit is valued at £36.2m</b> (at 31 March 2008), a schedule has been agreed to clear the deficit over 20 years</li> </ul>
<ul style="list-style-type: none"> <li>• Provider is likely to be required to establish a comparable Direct Benefit scheme<sup>1)</sup></li> <li>• and to enter into a bulk transfer agreement with the actuaries to the PCSPS, Hewitt Bacon &amp; Woodrow</li> </ul>	<ul style="list-style-type: none"> <li>• Options:               <ul style="list-style-type: none"> <li>– Transfer to a broadly comparable scheme</li> <li>– Admitted body status with provider joining the LGPS (preferred by UNISON)</li> </ul> </li> <li>• <b>In both cases cost implications related to pay-off of deficit need to be considered</b></li> </ul>

<sup>1)</sup>Where the group of staff is too small to justify the expense, GAD can waive the broad comparability requirement to allow a Direct Contribution scheme and a suitable compensation package, however this is not likely to apply in this case  
 Source: Treasury Solicitors, Government Actuary’s Department, MHS, FSA Finance

## **LGPS**

- LGPS is presently under-funded by approximately £36.2m<sup>5</sup>. A 20 year payment schedule has been agreed to cover this deficit. Transfer of all or part of the scheme’s members will result in a one-off payment of the deficit corresponding to the transferring staff.
- Under Cabinet Office Statement of Practice ‘Staff Transfers in the Public Sector’, a bulk transfer arrangement for past service must be made available for staff to transfer their accrued pension rights. Should the accrued rights remain within LGPS,

<sup>5</sup> Provisional valuation at March 2008

there would be no impact on the deficit repayment schedule. Detailed arrangements as to the transfer would depend on negotiations with UNISON and individual employees. The cost would vary depending on how many staff choose to transfer their accrued benefits.

Option	Deficit implications	
<p><b>Benefits accrued in LGPS are frozen</b></p> <ul style="list-style-type: none"> <li>Benefits accrued in LGPS are preserved within the ceding scheme</li> <li>Active members move to a broadly comparable scheme</li> </ul>	<ul style="list-style-type: none"> <li>Likely to have no impact on the deficit payment schedule, as long as past service rights do not transfer</li> </ul>	<p>Typically staff are given a three month period in which to decide whether to remain as deferred pensioners in the public sector scheme or to use the bulk transfer agreement to move their past service into the new employer scheme.</p>
<p><b>Bulk transfer including accrued rights to a different scheme</b></p> <ul style="list-style-type: none"> <li>Accrued rights are transferred to the receiving scheme</li> </ul>	<ul style="list-style-type: none"> <li>Clearing the deficit corresponding to transferring 20% of staff in the ceding scheme in one-off payment is likely to be required</li> <li>Additionally, decrease in member number of the remaining MHS scheme may result in change of deficit valuation as the scheme risk increases</li> </ul>	

- Alternative option, an admission of the contractor to LGPS as an admitted body is preferred by UNISON. It would also be likely to have impact on the deficit valuation, as it would effectively mean a transfer of the accrued rights into a different scheme within LGPS. However, the LPFA (London Pension Fund Authority) has stated that under the Local Government Pension Scheme Regulations a “for profit” organization could not be admitted.

The size of a bulk transfer payment cannot be accurately predicted in advance because a key factor is the number of staff who will wish to exercise their bulk transfer option and the assessment of the pension liabilities attached to each of those staff. In the past, take up rates for staff offered bulk transfer options have varied very widely. Outcomes commonly lie in the range between 20 per cent and 80 per cent uptake by eligible staff, but higher and lower uptake is not unknown.<sup>6</sup> The estimated value of a required one-off payment is between £1.4m and £5.4 (see table below), but could be significantly higher, depending on deficit valuation at the point of transfer, value of liabilities corresponding to transferring individuals and impact on the remaining MHS fund.

<sup>6</sup> *Fair Deal For Staff Pensions: Procurement Of Bulk Transfer Agreements And Related Issues*, Guidance Note by HM Treasury, June 2004

LGPS deficit impact estimate		£	Assumptions, sources
LGPS Deficit		36,200,000	Provisional valuation at March 2008, previous valuation at March 2007 was at £27.6m
Number of active members		785	Membership at March 2007
Deferred pensioners and pensioners		541	
Total number of LGPS members		1,326	
Average deficit per active scheme member		46,115	
Number of LGPS active members in the pilot area		115	
Number of LGPS members that will choose not to transfer to the new employer (severance)		-17	15% assumed for LGPS members
Transferring active members		97	
Bulk transfer take-up range	20%	19	Range 20% - 80% take up from HM Treasury guidance note, June 2004 (Fair deal for staff pensions: procurement of bulk transfer agreements and related issues)
	80%	78	
Cost range - From		898,217	
To		3,592,870	
Value after adjustment valuation pay-off			Reduction in the number of active members may result in an adjustment in valuation of the remaining fund, this will require detailed actuarial work, it is assumed that it will increase the value of pay-out by at least
From	1.5	1,347,326	
To		5,389,305	50%

Sources: MHS, FSA Finance, HM Treasury guidelines

**Note:** In case of a full Control Body implementation a cessation valuation would need to be undertaken, which is likely to assume a stricter criteria than the current valuation, resulting in a higher deficit value.

### **PCSPS**

Similarly as for LGPS, transfer to an alternative broadly comparative scheme should be offered to PCSPS members. Tenderers will liaise directly with Government Actuary's Department (GAD) to obtain comparability certificate for pension schemes offered. To successfully complete the tender stage, providers will be required to prove that they have initiated the process with GAD.

### **Severance**

If a severance scheme was offered to staff that choose not to transfer to the new employer, the cost of severance payments should be considered. While offering of such scheme is not obligatory, FSA may decide to do so in agreement with staff representation and based on resource need estimates developed by the providers. Assuming that 20% of Meat Inspectors would choose this option, the severance

payments would amount to approx. £2.5m<sup>7</sup>. This cost does not include potential severance of MHS support functions staff as a result of business volume reduction by 20%.

Staff grade	Staff in pilot area 20% MHS front-line	Not transferring 0.2	Per FTE cost £	Cost £
SMHI	18	4	86,002	344,008
MHI	164	33	57,161	1,886,313
MT	21	5	47,282	236,410
	258	42		2,466,731

Source: Severance cost as per Tierney review assumptions

Assumes that all employed OVs in the pilot area would transfer

Assumed that 20% of staff of SMHI, MHI and MT grades will not choose to transfer.

<sup>7</sup> Estimate based on 42 FTE, grade split proportionate to general MHS front-line staff mix

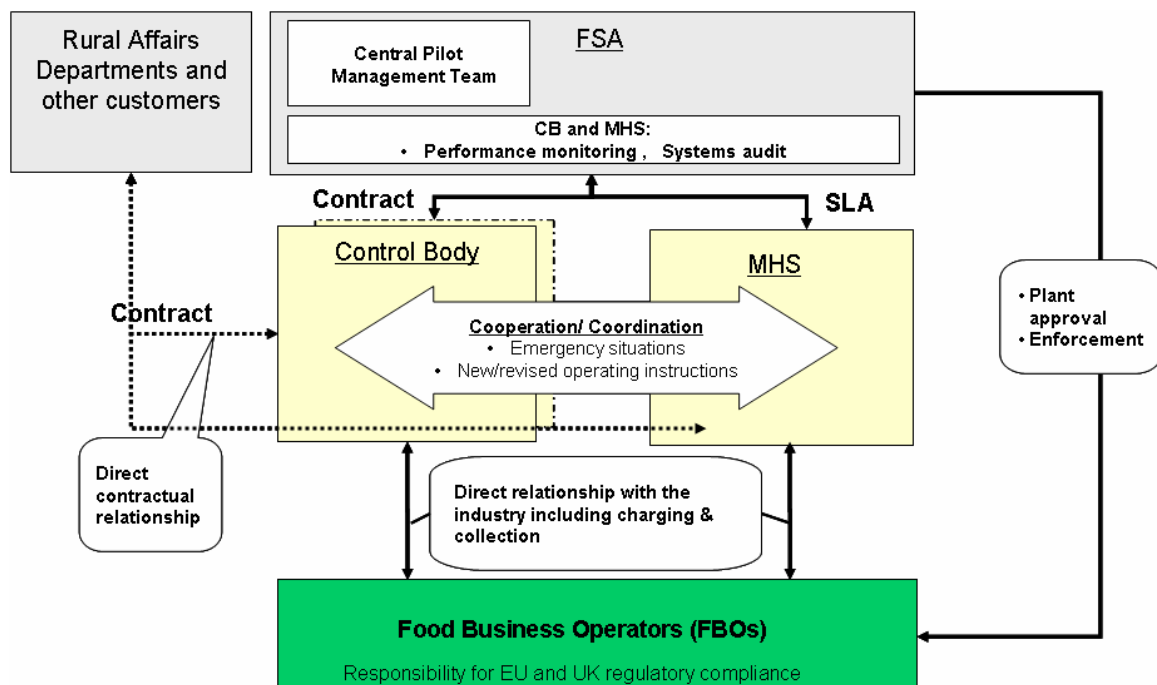
## ANNEX 4.7: PILOT OPERATING MODEL & OUTLINE OF TASKS

1. The pilot Control Body(ies) will be expected to develop innovative approaches to service delivery, while at the same time ensuring compliance with the law and fulfilling statutory requirements.
2. A CB would carry out the calculation and collection of charges and this would require an amendment to the charging legislation, expected to take effect in spring 2009
3. The same rates as MHS would be charged to create no advantage or disadvantage to businesses but the CB would calculate and report to the FBOs annually what the rates would be if they were to be calculated on the basis of actual costs incurred.

### Operating Model Overview

CB(s) will maintain direct relationship with clients and stakeholders, in particular: FBOs, Rural Affairs Department(s) and FSA.

Figure 1 Overview of relationships between FSA, Rural Affairs Departments, MHS, and Control Body(ies)



While control body(ies) will provide services independently of MHS in the pilot area, cooperation and coordination between all delivery organizations will be expected, especially with respect to:

- Response to animal disease outbreaks

- Development of operational instructions with the objective of maintaining consistency in the interpretation of regulatory requirements.

### ***Control Body Tasks***

The Control Body(ies) will be required to undertake the following tasks on behalf of the Central Competent Authorities:

- Inspections of animals and post-mortem inspections of meat and risk-based audits of Food Business Operators' controls, including Specified Risk Material controls
- Animal health and welfare checks and tasks related to contingency planning and coordination of response to animal disease outbreaks for Defra and other RADs as required, under a direct contractual relationship

**In addition**, control body(ies) will perform the following corporate and support activities:

- Technical management
- Billing and collection
- External relations
- Support to the FSA in enforcement and plant approval.

### ***Audit and Inspection Tasks***

This section summarizes the core services that CBs will be required to provide in approved establishments requiring veterinary control in accordance with the requirements of Regulation (EC) no 854/2004 and the relevant national law:

- Delivery of official controls, primarily inspection and audit, including:
  - Ensuring that FBO audits are undertaken at the appropriate frequency and in accordance with procedures agreed with the FSA
  - Undertaking analysis of audit reports and proactively reacting to compliance issues
  - Informing the FSA without delay of any occurrences of imminent risk to public health and action taken.
- A key requirement will be the provision of competent front-line staff to perform the statutory services of ante- and post mortem inspection and the audit of FBOs' procedures. This will include:
  - Appointment of OVs – in order to perform statutory tasks OVs must be designated by the FSA and have attained:
    - (i) Membership of the RCVS, and
    - (ii) Satisfactory assessment at an OV designation course (currently run on demand by Bristol and Glasgow Universities), and

- (iii) Satisfactory period of Probation – OV's must undertake a period of no less than 200 practical hours of training before undertaking FBO audits.
- Appointment of Official Auxiliaries (OAs)<sup>8</sup> - in order to perform statutory tasks OAs must have attained:
  - (i) Satisfactory assessment at an OA course or
  - (ii) Membership of the RCVS.
- OA/PIA<sup>9</sup> performance assessment – the control body will put a statistically based performance assessment system in place to measure and evaluate the accuracy of staff decision-making and their application of procedures. The system will be developed in liaison with the FSA to ensure that results are comparable between the CBs and MHS.
- Laboratory testing – the Control Body will ensure that sampling and testing as required by the regulations (trichinella, SRM,...) and liaise directly with laboratories

### **SRM & ABPI Controls**

Perform checks and audit SRM controls, the requirements of the Animal By-Products Identification Regs 1995 *as amended*, and provide adequate management reporting to FSA, Defra and other RADs as required.

### **Services provided to Defra and other RADs**

Control Body(ies) will have a direct relationship with Defra and other RADs as required, and provide the following range of services:

- Animal Welfare - Inspection, verification and enforcement of the legislation for animal welfare standards
- TSE testing of cattle
- TSE testing of sheep and goats
- TSE testing of sheep and goats in Compulsory Scrapie Flock Scheme
- TSE (CWD) Testing of Deer
- Inspection and Verification of the Cleansing and Disinfection of Livestock Vehicles
- Animal By-Products (Non SRM) – performing checks in Slaughterhouses, Cutting Plants and Game Handling Establishments to verify Food Business Operator (FBO) compliance with Animal By-Products Regulations requirements.
- Disease Control: Tuberculosis in Cattle, Deer and other farmed animals
- Surveillance of Disease –

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<sup>8</sup> Generally referred to as Meat Hygiene Inspectors in the UK

<sup>9</sup> Plant Inspection Assistants employed by operators; who perform post mortem checks under official supervision.

- Brucellosis - Collection and preparation of samples collected from reactors, inconclusive reactors and contacts with confirmed cases.
- Enzotic Bovine Leukosis (EBL) - reporting and collection of samples
- Disease Control: Notifiable Diseases – It is required that all cases of live animals or birds with clinical signs of any notifiable diseases and, all cases of carcasses and offal with suspicious lesions of any notifiable diseases be reported to the Divisional Veterinary Manager without delay. Services include sampling.
- Disease Control – The Avian Influenza and Influenza of Avian Origin in Mammals (England) Order 2006
- Horse Passports – ensuring proper identification and reporting, gathering and reporting data related to horses slaughtered into the National Equine Database
- Certification of exports of meat and meat products
- Emergency response for handling animal disease outbreaks, including:
  - Participation in contingency planning
  - Direct liaison with relevant Rural Affairs Departments and delivery of instructions to staff and communications with FBOs
  - Communication with Local Authorities in the pilot area and other relevant bodies
  - Liaison with MHS to ensure coordination of response.

All Rural Affairs Departments relevant to the pilot area will be parties to the same Agreement<sup>10</sup>,.

### ***Technical management***

CBs will be required to have sufficient veterinary expertise and resources to:

- Advise customers on the deliverability, practicality, and effectiveness of existing policies and new proposals.
- Develop operational policies for delivery of the official controls in liaison with relevant Competent Authorities<sup>11</sup>.
- Provide technical leadership, guidance and development of operational staff

**Note:** These capabilities will be critical and demonstrable expertise in this field will be one of the key assessment criteria in the selection of providers.

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<sup>10</sup> Defra's SLA with MHS currently sets the budget and the requirements of Defra, its Agencies and the Rural Affairs Departments of Scottish and Welsh Devolved Administrations.

<sup>11</sup> For details on responsibilities of the Competent Authorities see the UK National Control Plan [www.food.gov.uk/foodindustry/regulation/europeleg/feedandfood/ncpuk](http://www.food.gov.uk/foodindustry/regulation/europeleg/feedandfood/ncpuk)

### ***Billing and collection***

CBs will carry out the calculation and collection of charges and this will require an amendment to the charging legislation, expected to take effect in spring 2009.

The charging principles and rates charged will be the same for CBs and MHS for the duration of the pilot, but the billing and collection processes and systems will be run independently.

CBs will therefore be required to:

- Collect and maintain data necessary to invoice FBOs and Government Departments.
- Issue invoices.
- Calculate and report to the FBOs annually what the rates would be if they were to be calculated on the basis of actual costs incurred by the Control Body.
- Perform collection and bad debt recovery.

This will require the CBs to assume the financial risk related to bad debt. However it is not likely to be significant, in 2006/2007 the cost of bad debt amounted to 0.4% of industry revenue. Such occurrences may be reduced through closer cooperation with the industry and more effective enforcement.

### ***External relations***

The CBs will work in partnership with FSA and Rural Affairs Departments in the following areas:

- Arranging meetings, presentations and plant visits for officials from EU Member States and 3rd countries, promote the UK approach to food safety issues, and facilitate occasional visits by FSA and other officials.
- Provide timely contributions to Parliamentary Questions and Ministerial cases on request.
- Respond directly to operational queries from the public within agreed deadlines.
- Provided responses to direct requests made under the Freedom of Information Act 2000 within 20 days and to requests from the FSA within 14 days.'
- Provide information for the UK National Control Plan and annual reports.
- Cooperate with Food & Veterinary Office (FVO) Missions as required and implement agreed action plans.

### ***Enforcement and plant approvals***

FBOs have statutory responsibilities for food safety, animal health and animal welfare controls in their establishments. Where requirements are not complied with, risk-based and proportionate enforcement action may be required to achieve FBO compliance.

- Control body(ies) will propose and agree with the FSA a process for reviewing on a case by case basis “poorly performing plants”.
- While under Article 5 of Regulation (EC) No. 882/2004 enforcement cannot be delegated to a Control Body as an entity, individual professionals will be authorized by FSA and RADs to take steps to achieve operator compliance including education, advice, informal and formal warnings and if necessary, the serving of statutory notices that have regard to the procedures and practices of the legal systems for the country in which action is being taken. All actions will be reported to the Competent Authority.
- Prosecutions will only be taken by the Competent Authority, following a recommendations submitted by authorised individuals.

Plant approvals will continue to be performed by the FSA, control body staff will provide advice and attend approval visits.

## ANNEX 4.8: EXPECTED PILOT OUTCOMES & PERFORMANCE MONITORING

### *Expected pilot outcomes*

The Tierney Review identified a number of areas, in which the Control Body model was expected to deliver improvements. These included:

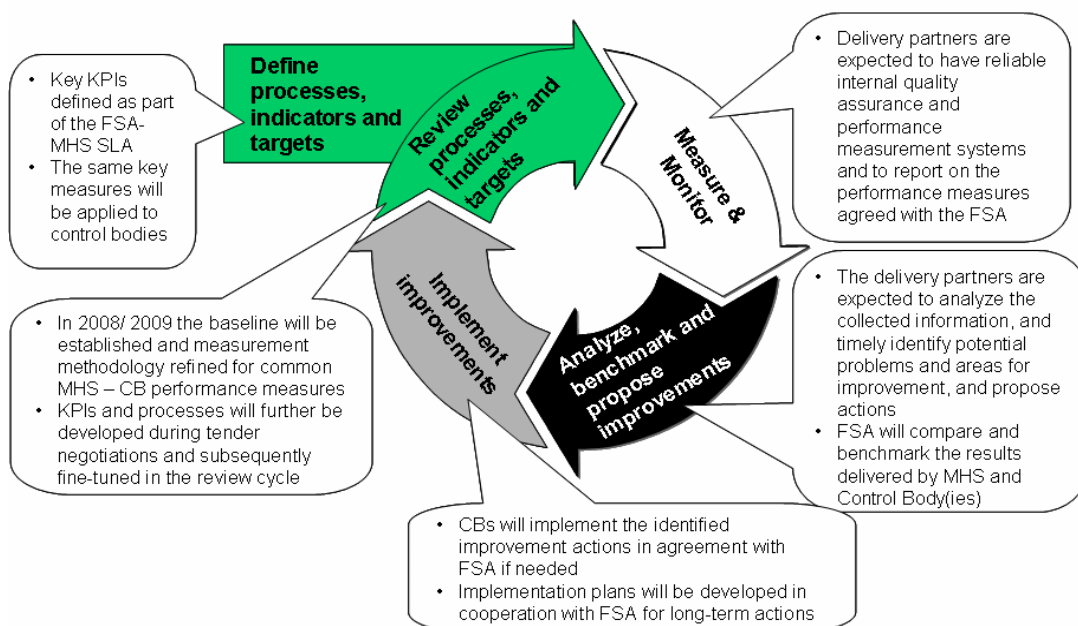
- Flexibility in response to changing needs of the industry and gradual reduction of demand for official controls. This would be achieved through innovative approaches to service delivery, partnering with complementary businesses, and driving new services for operators.
- Strengthening of the relationship with Food Business Operators to deliver efficiency and compliance level improvement.
- Improved staff satisfaction, as the innovative business model would provide employees with a more rewarding working environment.
- Performance improvements and efficiency gains driven by FSA through effective contract management and performance monitoring.

While the restricted geographical scope and duration of the pilot may limit the ability to fully capitalize on the efficiency improvements, it will allow testing the qualitative aspects of service delivery.

### *Performance monitoring approach*

Performance management and monitoring systems should facilitate continuous improvement, will follow an iterative process whereby targets are jointly agreed upon, achievement levels measured and improvement actions identified and implemented.

**Figure 2 Performance management and monitoring cycle**



The review cycle will include:

- Routine flow of information, i.e. regular monthly reporting, exception/incompliance reporting
- Quarterly review meetings, where performance levels will be discussed and action plans developed to address identified improvement areas
- Annual review of target achievement, setting targets for the following year and identifying improvements of the performance management and monitoring systems to ensure that meaningful information is captured accurately.

Performance monitoring will be supported by comprehensive risk-based audit of delivery partner systems performed by the FSA audit team supported by independent consultant(s).

This approach will be comprised of:

- Diligence performed as part of the procurement process encompassing all aspects of the requirements
- Periodic audit – a rolling 3-year audit plan will be developed based on due diligence findings and assessment of risk levels. It will draw upon the FSA audit methodology currently applied to the audit of MHS and MHS contractors and include systems audit as well as on-site performance verification.

Adequate internal quality assurance and performance management systems, including internal audit, will be one of the key areas that the bidders will be expected to demonstrate in the tendering process.

## **ANNEX 4.9: PERFORMANCE MEASURES & BENCHMARKING**

The table below summarizes performance measures on which the CB performance will be assessed and benchmarked against MHS. A number of the proposed measures are included in the SLA between FSA and MHS for the financial year 2007/2008.

Where appropriate, target values will be defined based on the results achieved during 2007/2008 and commitments made by the delivery partners during the tendering process.

Benchmarking values should be broadly comparable as:

- The selection of a representative pilot area ensures that the level of complexity dealt with by the CBs is comparable to that of MHS
- CBs will be required to perform the same range of tasks as MHS
- Employed front-line staff will transfer under TUPE and retain the same Terms & Conditions – equal starting point for the provider in this respect.

Analysis of MHS cost structure once the new organizational structure is in place will enable to determine if adjustments need to be made to ensure data comparability with respect to:

- Any support function costs that MHS are required to incur that do not apply to the CBs
- Impact on unit cost of economies of scale that MHS are benefiting from and CBs are not able to take advantage of due to smaller size.

To ensure fair comparison of financial information, providers that would supply services at the same time to the FSA under CB model and to the MHS will be required to account separately for all CB cost and revenues and ensure that the cost of any shared resources is appropriately allocated.

Measurement area			Description/ Standard	Indicators
Current SLA	Target	Benchmark		
<b>FBO Compliance levels</b>				
✓		✓	FBO audit results	Analysis of audit results over time, e.g.. Number of Action Points recorded, overall score, scores per section of the audit report. The analysis will enable the focusing of resources on identified areas for improvement and provide valuable information on the impact of delivery model on FBO compliance.
		✓		% of plants improved on audit rating (total and by audit frequency rank)
		✓		Average number of Action Points recorded per audit
<b>Operational performance</b>				
✓	✓	✓	Accuracy of front-line staff decision-making	Measures the quality of decision-making of meat inspectors; informs about the quality of service. Measurement approaches and performance measures to be defined.
✓	✓		Performance of FBO audits according to schedule	FBO audits are undertaken within 1 month of the scheduled date.
✓	✓		Accurate performance of FBO audits	FBO audit reports are scheduled and scored appropriately and conducted, documented, monitored and evaluated competently (verified by FSA/external audit)
✓		✓	Handling of poorly performing establishments	Within X months of a case review poorly performing establishments either no longer meet the criteria or are recommended for withdrawal of approval
		✓	Billing accuracy and appeals	Measures the accuracy of the data collection and billing processes as well as the quality of client interaction with respect to the billing process.
		✓	Front line staff chargeability ratio	Evaluates the utilization of front-line staff time
✓		✓	Front-line staff sick leave	Evaluates staff motivation and management practices
✓		✓	Front-line staff turnover rate	Reflects the quality of HR management practices, calculated separately for Ovs and MHs
		✓	Number of hours of service provided	Permits to monitor the changes in the number of inspection and audit hours; with more efficient use of official controls and improved FBO compliance this number would be expected to decrease over time.
		✓		Number of hours of service provided (total, inspection, audit tasks) % change of number of hours service provided (total, trends on plant level)
<b>Financial measures</b>				
✓	✓		Total MHS/ Control Body cost against target	Targets as agreed by the FSA Board
✓			Total MHS/Control Body revenue from official controls against target (FBO official controls rev.)	Target as agreed in the annual revenue projection.
		✓	Revenue generation from additional sources	Measures innovativeness of approach in generation of additional revenue sources.
✓		✓	Average cost per livestock unit	Reflects the total cost of service in relation to throughput. (Total, if possible calculated separately for poultry plants and red meat plants, overhead allocation to white/red needs to be agreed).
✓	✓	✓	Average cost per hour of attendance	Reflects the total cost of service in relation to the number of hours of service, i.e. the hourly rate at full cost recovery. Calculated as total and separately for inspection and audit tasks
		✓	Overhead as % of total cost	Reflects efficiency of support functions.
✓		✓	Bad debt cost as % of revenue	Benchmarking value, informs about the quality of FBO relationship management and collection process
<b>Client and staff satisfaction</b>				
✓	✓	✓	FBO satisfaction level	Average total satisfaction level with the quality of service received
	✓	✓	FSA satisfaction level	Average total satisfaction level with the quality of service received
	✓	✓	Defra satisfaction level	Average total satisfaction level with the quality of service received
		✓	Staff satisfaction level	Average total satisfaction level with the quality of working environment and employment conditions

SLA - included in the 2008/2009 SLA between FSA and MHs  
Target - Target value defined in the annual target-setting process  
Benchmark - measure relevant for comparison purposes