

FUTURE OF CHARGING FOR OFFICIAL MEAT CONTROLS**Executive Summary**

1. This paper provides an update on work to develop proposed new UK charging arrangements for official meat controls in approved meat plants for introduction from the start of the 2009/10 financial year.
2. The Board is asked to **agree** that, subject to Ministerial clearance, the FSA should issue for public consultation proposals to:
 - introduce time based charging for MHS and DARD¹ services to replace the current charging arrangements under which most meat plant operators pay a flat rate of charge based on throughput;
 - reduce the discounts currently applied to meat hygiene charges such that, all other things remaining constant, hygiene charges paid by meat plant operators would increase by 12% (inclusive of inflation) in 2009/10; and
 - introduce charges for controls on the removal of Specified Risk Material (SRM) from 2009/10 to recover, in the first year of charging, 5% (approximately £0.5m) of the costs of these controls.
3. The MHS Board agreed with these recommendations on 17 June. A paper developed from the one considered by the MHS Board (that reflects the views of MHS Board Members) is attached at Annex 1.

FOOD STANDARDS AGENCY AND MEAT HYGIENE SERVICE**Contacts:**

Steve McGrath Tel: 01904 455 500
 Email: steve.mcgrath@mhs.gov.uk

Mike McEvoy Tel: 01904 455 510
 Email: mike.mcevoy@mhs.gov.uk

David Hart Tel: 020 7276 8343
 Email: david.hart@foodstandards.gsi.gov.uk

¹ DARD (Department of Agriculture and Rural Development) carries out official meat controls in Northern Ireland on behalf of FSA. Controls in GB are carried out by the Meat Hygiene Service (MHS).

FUTURE OF CHARGING FOR OFFICIAL MEAT CONTROLS

Issue

1. To seek the Board's agreement, subject to Ministerial clearance, to the FSA consulting on draft regulations to implement from the start of the 2009/10 financial year:
 - a revised charging system for meat hygiene controls;
 - a reduction in the discounts currently applied to meat hygiene charges such that, all other things remaining constant, these charges will increase in 2009/10 by 12% (inclusive of inflation); and
 - the introduction of charges for SRM controls.

Strategic Aims

2. Without adversely affecting the primary and overriding aims of ensuring businesses meet their responsibility of producing safe meat and of protecting animal health and welfare, and alongside work to reduce the overall costs of official meat controls, to:
 - progressively reduce the cost to the Agency (and therefore taxpayers) of official meat controls. The estimated UK cost of meat hygiene official controls for 2008/09 is £63m² of which £35m³ will be funded by taxpayers. The estimated cost of official SRM controls in 2008/09, that is funded entirely by the taxpayer, is £11.4m⁴;
 - enable more effective targeting of any necessary continuing financial support to the meat industry;
 - provide incentives through charging for meat businesses to improve standards/compliance and make more efficient use of MHS/DARD resources; and
 - establish, to the extent possible in a single service provider environment, a more commercial relationship between the MHS/DARD and meat businesses.

² £56.7m GB, £6.5m NI

³ £31.5m GB, £3.4m NI

⁴ £10m paid by FSA for GB SRM controls, £0.8m paid for by Defra for SRM controls on over thirty month cattle in GB, £0.6m paid by FSANI for SRM controls in Northern Ireland

Background

3. The Board discussed the Tierney Report⁵ at its July 2007 meeting and, amongst other things, asked the Executive to work closely with the MHS to develop proposals for a new meat controls charging system for introduction in 2009/10, whilst, at the same time, the Agency would develop a more proportionate and risk based approach to carrying out the controls which would also result in reduced costs. Charging proposals have been developed in liaison with stakeholders and were agreed by the MHS Board on 17 June. A paper, which was developed from the one considered by the MHS Board, and which takes account of Board comments, sets out details of the background, charging options and rates considered, impact considerations and views of stakeholders is attached at Annex1.
4. This paper highlights the key issues for FSA Board consideration. The three parts below cover: (i) the proposed charging system; (ii) the proposed reduction in the discounts currently applied to meat hygiene charges; and (iii) the proposed introduction of charges for SRM controls.

Discussion

The proposed charging system

5. The Board is asked to agree that, subject to Ministerial clearance, the Agency should consult on the introduction of time cost charging, i.e. charging food business operators (FBOs) for each hour or part of each hour that an official of the MHS or DARD works in a meat plant to carry out official controls.
6. The view of the Executive is that the current charging system (which, in most cases, is based on a charge per animal inspected or tonne of meat cut up rather than the actual official control costs) fails to:
 - incentivise FBOs to use MHS and DARD resources efficiently because they are charged the same amount regardless of the level of MHS or DARD resources that are deployed;
 - incentivise MHS and DARD to drive down official control time;
 - incentivise FBOs to drive up standards and compliance; and
 - allow the available financial support to be targeted to plants most likely to be in need.

⁵ FSA 07/07/06

7. The Executive believes that time cost charging would:
- introduce greater commercial discipline to incentivise all parties to use MHS/DARD resources more efficiently by relating charges more closely to the actual costs of official meat controls and working in partnership to minimise the costs of those controls;
 - increase the likelihood of challenge from FBOs to drive down MHS/DARD staffing levels;
 - provide a simple and transparent charging method that would reduce MHS/DARD administration costs and be easier for operators to understand; and
 - incentivise FBOs to improve their standards and compliance in order to reduce official control time in plants (to the extent allowed by European law) and thereby reduce chargeable hours.
8. The Board is asked to note that the Food Advisory Committees for Scotland, Wales and Northern Ireland, the Advisory Body on the Delivery of Official Controls, and the majority of industry representative bodies agree in principle with the proposed move to time cost charges. However, the 'in principle' support of the Advisory Body and the majority of industry representative bodies is predicated on there being effective checks in place to ensure that no more than the necessary levels of MHS/DARD staff and contractors are used to carry out official meat controls. It is fully accepted that checks and balances must be developed and be in place before the proposed charging scheme is implemented. These would include a robust process to enable FBOs to agree the level of official control resources in their plants (see Annex 1d of Annex 1).
9. The Board is also asked to note that the strong preference of the Association of Independent Meat Suppliers (AIMS) which represents a significant number of small and medium sized red meat abattoirs and cutting plants in England and Wales, and SAFe (the Small Abattoir Federation), is to retain a charging system based on throughput/unit costs. The proposal presented by AIMS is essentially to continue the current charging arrangements but to set this against a lower cost base for official meat controls in GB. This would not resolve the problems inherent in the current charging approach (see paragraph 6 above) and evidence underpinning the suggested lower cost base⁶ has not been provided.
10. Finally, the Board is asked to note that a move to time based cost charging would introduce some uncertainty in the short term to the amount of revenue that the Agency would collect from meat control charges. This is because the focus of the FSA/MHS, DARD and industry is to drive out any unnecessary costs in the official

⁶ According to AIMS, their suggested cost base is derived from those of potential operators of an outsourced MHS.

control system. Possible implications of this in the short term are a reduction in chargeable hours and therefore revenue, and a reduction in employed staffing levels that the FSA would be required to fund and that could exceed the restructuring costs that have been built into the MHS finance plan. Whilst this presents a risk to FSA finances that cannot be quantified at present, the Executive believes that the Agency's priority must be to remove unnecessary costs and that the introduction of time based cost charging is essential to achieving this aim.

11. The Board is asked to agree that, subject to Ministerial clearance, the Agency should consult on the proposal to introduce time cost charging on condition that effective checks and balances on MHS/DARD attendance hours in plants are developed in liaison with industry representative bodies (paragraph 8 above).

Proposed reduction in discounts

12. The gap between charging revenue and the full cost of meat hygiene controls has increased significantly since 2001 when the present charging system was introduced. Since that time, cumulative UK meat hygiene charges have fallen short of full costs by more than £200m and, currently, almost all approved meat plants in the UK receive significant discounts against the full cost of meat hygiene controls. For example, meat hygiene charges for red meat abattoirs in GB range from 75% of the full costs in the largest abattoirs to less than 10% of the full costs in the smallest.
13. The Board is asked to agree that, subject to Ministerial clearance, the Agency should consult on proposals to reduce the level of discounts that currently apply to meat hygiene charges such that charges would generally increase in 2009/10 by 12% (inclusive of inflation). There may be exceptions where charges for individual plants may need to increase by more than 12% because of (i) the need to ensure continued compliance with EU minimum throughput charge rates (see paragraph 18), and (ii) in respect of plants that employ Plant Inspection Assistants (PIAs) (see Annex 1, paragraph 41).
14. With no change to the number of hours charged compared with 2008/09, the proposed changes would increase cost recovery from industry by approximately £3m in GB and £0.37m in Northern Ireland. The increase in revenue in GB is needed if the Meat Hygiene Service is to meet the financial targets it has been set by the FSA as part of its modernisation programme. The proposed increase would bring total meat hygiene charges in 2009/10 in GB up to an estimated £28m, about 50% of the total estimated gross cost of £54m. This would still be significantly less than the £45m (at today's prices) paid by industry in 1999/2000 before the current charging system was introduced. Total meat hygiene charges in Northern Ireland would increase to approximately £3.5m against estimated costs of approximately £6.5m.

15. The proposed increased cost to industry should also be seen against the cost reductions that the MHS has achieved and plans to achieve through its modernisation programme, and the similar cost reduction plans of DARD NI. The MHS reduced its operating costs by £4m in 2007/08 and plans further reductions of £5m in both 2008/09 and 2009/10. To put this in context, total hygiene charges in GB were increased by £0.5m in 2007/08 and are estimated to increase by a further £1.5m in 2008/09, and by the proposed £3m in 2009/10. MHS cost reductions are therefore making the greater contribution to reducing the burden on taxpayers. The position is similar in Northern Ireland where DARD plans to reduce its costs (of which some £7m relate to meat hygiene and SRM control costs) by approximately 18% over the next three years.

16. The impact of this proposal is subject to ongoing analyses and a draft impact assessment will be issued for comment and further development in the usual way as part of the proposed public consultation exercise. A summary of the impact assessment to date is set out in paragraphs 29 to 37 of the Annex. The main indications are that the increased cost to industry would:

- have little to no impact on consumers in terms of increased prices;
- not be a determinant factor in the commercial decisions of abattoir and/or cutting plant operators on whether to stay in business. In particular, the smallest red meat abattoirs would continue to receive significant discounts of approximately 90% and a 12% increase in charges for these abattoirs would not amount to significant sums in cash terms; and
- potentially increase the total costs of red meat and poultry livestock farmers by £2m from approximately £1785m to £1787m (i.e. by 0.09%).

17. The proposals for a single rate of increase of 12% in charges for all plants aim to be equitable. In proposing this approach, the Executive has been mindful of the requirement placed on the Agency by EU legislation to take into consideration, when setting charges, the interests of businesses with a low throughput and the needs of geographically isolated businesses. This requirement aligns with the public policy drivers across UK Government and devolved administrations for local food supply chains, sustainable food procurement and for supporting rural economies. The proposed approach continues to give the greatest discounts (in percentage terms) on charges to the smallest abattoirs. The proposals would result in the discount for a typical example of the smallest red meat slaughterhouses reducing from 92% this year to 91% next year - still a very considerable level of financial support.

18. In terms of compliance with EU charging rules, movements in the £/€ exchange rate have resulted in a number of the current UK throughput charging rates falling below the EU minima required. In some cases the difference is significant. For example, the UK charging rate for adult bovines is approximately 15% below the

minimum allowed. Under current charging legislation, UK charging rates will be increased automatically from 1 January 2009 to reflect the exchange rate that is published in early September 2008 in the Official Journal of the European Union. These higher charges will also need to be factored into the proposed time cost charging system to ensure that the minimum EU rates are observed under the new charging arrangements. If the exchange rate remains as it is, this might mean that the increase in charges for some plants (e.g. some slaughterhouses that only slaughter adult bovines) would need to be increased by more than 12% to ensure compliance with EU legislation.

19. Particular care has been taken to ensure that there should not be any significant winners or losers as an immediate result of moving from the present charging system to the proposed time based system. This approach is considered necessary to avoid the creation of new competitive advantages or disadvantages between plants in the first year of the new charging system, apart from those that develop through decreases in official control time that the system is intended to engender. Under the proposed system, based on current FBO activity and MHS/DARD attendance levels, meat hygiene charges for all plants would increase by 12% other than where charges need to be increased further to ensure compliance with EU law (paragraph 17 above) and in respect of plants that employ PIAs (see Annex 1, paragraph 42). In considering further reductions to discount levels beyond 2009/10 it is proposed to analyse the discounts that currently apply so that any anomalies in official control resources and therefore in charges that may exist, for example where plants of a similar size and type have widely differing levels of discount, may be identified and remedial action taken where necessary.
20. The Board is asked to note that the Advisory Body on the Delivery of Official Controls has expressed concerns about the proposed reduction in discounts that would result in a 12% increase in charges. Their concern centres on the fact that current and ongoing work of the FSA, MHS and industry to analyse official control time in plants (i.e. the Optimisation Review⁷ and the Resource Utilisation Initiative⁸) indicates that further savings may be possible beyond those already planned. In light of this, the Advisory Body has suggested that the level of increase to charges in 2009/10 should not be finalised until the level of savings from this work is clear. The Executive accepts that there is the potential to further reduce official control time in plants and thereby reduce costs and is committing resources to pursue this outcome. However, the Executive believes that it is unnecessary for this work to be completed before we consult on draft legislation to increase charges by 12% as proposed. The main reason for this view is that, as and when official control time is reduced in meat plants, the beneficial effect of

⁷ A joint MHS/DARD, FSA and industry project to visit slaughterhouses to review reasons for differences in the deployment of MHS/DARD resources (employed and contracted), identify best practice and opportunities for improvement.

⁸ The Scottish Association of Meat Wholesalers with the support of the FSA/MHS is undertaking an independent review of MHS resourcing and activity in member plants in Scotland.

reduced charges for FBOs will be immediate in that there will be fewer hours for which to charge. In addition, the Board is asked to view the proposed increase to charging levels in the context of the significant level of discount to charges that would still apply (see paragraph 14).

21. We recognise the need for industry to know as soon as possible the full picture of financial charges beyond 2009/10, to assist them in making informed investment decisions. However, the Board is asked to note that it is not possible for the Executive to propose adjustments to charging levels beyond 2009/10 at this time. Setting charging levels for just one year is necessary because of: (i) the uncertainties that exist as to the future of official controls (paragraphs 3 and 20 above); (ii) detailed analysis of the current discount levels is needed to determine whether there are anomalies that need to be addressed (paragraph 19 above); and (iii) future levels of support to the meat industry should be set against a continuing assessment of the reasons for providing that support and a continuing assessment of the impact of the charges. The Executive and MHS will develop a forward plan for the Board's consideration in 2009 that will review the proposed direction of travel to 2012/13. The Executive's current intention is to propose reducing the total level of support for meat hygiene charges in GB from an estimated £25m in 2009/10 to £10m in 2012/13, which was the approximate level of funding that the Agency had initially for this purpose. Also, during the period leading up to 2012/13 it is intended to consider the appropriateness or otherwise of further reductions in the level of support towards full cost recovery beyond 2012/13.
22. Whilst charging rates for years beyond 2009/10 are not specified in this paper, it is envisaged that a similar approach to charges after 2009/10 would be proposed so that the largest discounts (in percentage terms) would continue to be applied to the smallest slaughterhouses. Any proposals for changes to charges beyond 2009/10 would be informed by the public policy drivers referred to in paragraph 17 above and discussed with stakeholders before being put to the Board. Such proposals would also be likely to require legislative change and, therefore, public consultation.

The proposed introduction of charges for SRM controls

23. Official controls on the removal of SRM were introduced in 1996⁹. It was the intention of Government to introduce industry charges to recover the cost of these controls in 1999 but the issue was deferred by the then MAFF Minister in the face of intense industry lobbying. The responsibility for SRM controls subsequently transferred to the FSA and the policy not to recover these charges has been continued.

⁹ These were preceded by controls on specified bovine offals from 1989.

24. It is now proposed to consult on the introduction of charges from the start of the 2009/10 financial year to recover 5% (approximately £0.5m) of the current costs of SRM controls, in the first year of charging. Some of these costs relate to SRM controls on cattle aged over thirty months (OTM cattle) that are funded by Defra. As such, part of the revenue from charging that relates to the OTM SRM controls would reduce Defra's costs¹⁰.
25. In proposing this level of cost recovery the Executive is conscious that: (i) this cost would fall entirely on red meat abattoirs and red meat cutting plants; (ii) it would be in addition to increases in meat hygiene charges that might most affect those abattoirs slaughtering adult bovines (see paragraph 17 above), (iii) cost transfers are also being proposed by Defra¹¹; and (iv) as with meat hygiene controls, there is also the potential to reduce the costs of SRM controls.
26. In order to provide a consistent means of charging, it is proposed to base the SRM charge on the time spent on these controls and to apply the same percentage discounts that will apply to the calculation of meat hygiene charges.
27. As with hygiene charges, it is also proposed to assess the need for increases to SRM charges beyond 2009/10 in light of the changing cost base and a continuing impact assessment.

Risk

28. These proposals will be contentious. Failure to implement either the proposed charging system or the proposed rates would have serious implications for the modernisation of the MHS. The Board is also asked to note that a review of EU charging rules is taking place that could result in the need to make further changes to charging arrangements in the UK, though any changes that might be required are not expected to be necessary until 2011 at the earliest.

Board Action Required

29. The Board is asked to **agree** that, subject to Ministerial clearance, the FSA should issue for public consultation proposals to:
- introduce time based charging for MHS and DARD services to replace the current charging arrangements under which most meat plants pay a flat rate of charge based on throughput;

¹⁰ Defra's hygiene costs relating to OTM cattle would similarly be reduced as a result of the proposed increase in meat hygiene charges.

¹¹ Defra's policy intention may not be shared by all four UK countries as this is a devolved area.

- reduce the discounts currently applied to meat hygiene charges such that, all other things remaining constant, hygiene charges paid by meat plants would increase by 12% (inclusive of inflation) in 2009/10; and
- introduce charges for controls on the removal of SRM from 2009/10 to recover, in the first year of charging, 5% (approximately £0.5m) of the costs of these controls.

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 Geoff Tierney's Report¹ surrounding the development of a new time cost charging system, and the requirement to reduce the subsidy provided to industry for introduction in 2009/10. The paper is based on the MHS Board paper that was presented at an extraordinary MHS Board meeting on 17 June 2008, which has been revised to develop it further and to reflect comments received by Board members.
2. It outlines the options considered for a new charging system, the consultation that has taken place in determining the preferred option and sets out the associated financial implications. The recommendations made to the MHS Board by the FSA and MHS Executive are detailed below:
 - **recommend** to the FSA Board the introduction of time based charging for MHS/DARD services rather than the current flat rate charge for throughput. Time based charging will introduce a more commercial relationship between the MHS and the operators of approved meat plants (Food Business Operators/FBOs) which is fundamental to the Transformation of the MHS.
 - **recommend** to the FSA Board a reduction in the discounts currently applied to meat hygiene charges such that, charges paid by FBOs would increase by 12% (£3m) for the 2009/10 year. This, together with reduced operating costs, would enable the MHS to meet the financial targets that they have been set by the FSA Board.
 - additionally **recommend** to the FSA Board the recovery of 5% (around £0.5m) of the total SRM² controls in 2009/10.

All three recommendations were accepted by the MHS Board.

¹ The Review of the Delivery of Official Controls in approved Meat Premises: Final Report

² Breakdown of SRM total based on 2008/09 forecast:

- £10m paid for by FSA for GB SRM controls;
- £0.8m paid for by Defra for SRM controls on over thirty month cattle in GB;
- £0.6m paid for by FSANI for SRM controls in Northern Ireland.

ISSUE

3. To update the MHS Board on the introduction of time based charging that would establish a more commercial relationship between the MHS and FBOs (although it is recognised that there cannot be a fully commercial relationship given that the MHS is the sole supplier for official control services in Great Britain (GB) meat establishments, as is DARD³ in Northern Ireland. This change in approach is fundamental to MHS Transformation. Time based charging would strengthen economic and commercial disciplines to encourage MHS/DARD and FBOs to minimise MHS resources and reduce under-utilised time.

STRATEGIC AIMS

4. Following his Review of the Delivery of Official Controls in Approved Meat Premises, the FSA Board⁴ 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 meat hygiene official control costs (£3m is proposed for 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. While compiling his report Geoff Tierney sought information and views from a wide range of industry stakeholders. This debate with trade associations and individual FBOs attracted considerable media attention. The progress of the report, his deliberations and final decision at the FSA Board were the focus of significant attention in publications such as the Meat Trades Journal. The recommendations were widely circulated and published and all stakeholders including FBOs, trade representatives and Ministers were made aware of the FSA Board's decisions.

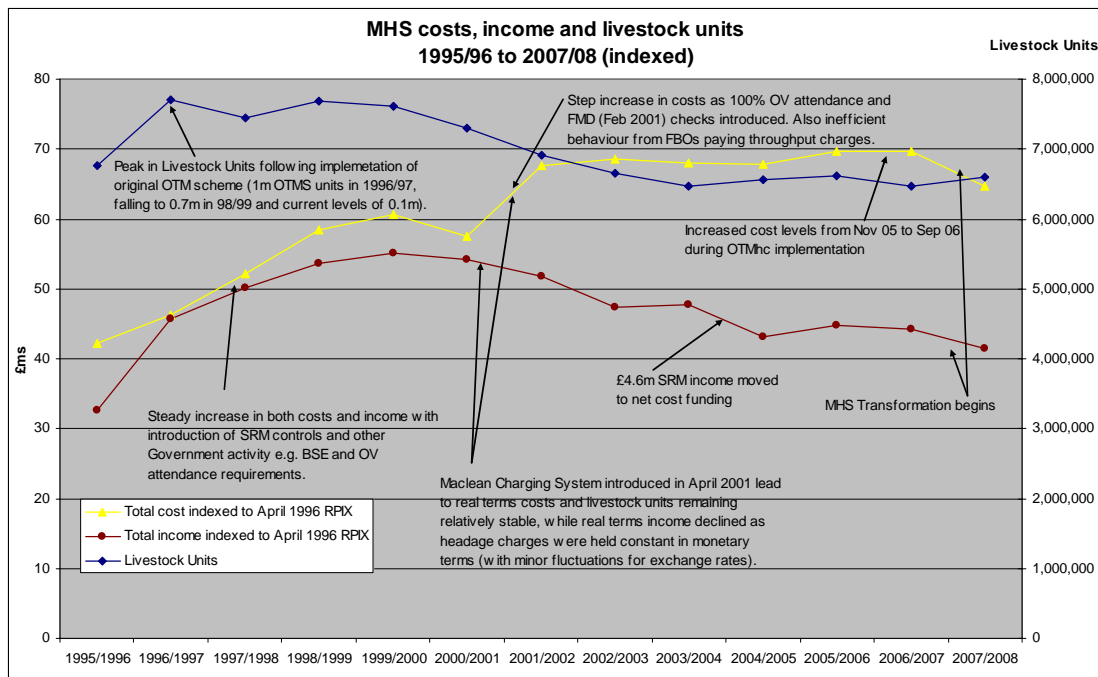
³ Department of Agriculture and Rural Development

⁴ FSA 07/0706

BACKGROUND

6. The Maclean charging system, where most 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 this has cost taxpayers around £190 million since 2001. 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 and the MHS and FSA Executive, the majority of the Stakeholder Charging Working Group⁵ (the 'Stakeholder Group'), the Advisory Body for the Delivery of Official Controls (the 'Advisory Body')) and the Food Advisory Committees in Scotland, Wales and Northern Ireland support the move to time based charging in principle because it would introduce a commercial discipline that would 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. Under the Maclean system, whilst MHS costs increased initially due to the implementation of an EC requirement for 100% OV attendance, costs thereafter remained relatively flat in real terms and in line with the number of livestock units processed. However, in real terms total revenue declined as Maclean provided support to most slaughterhouses rather than to small and medium sized ones as had been intended.

⁵ See paragraph 55 for representation



OPTIONS CONSIDERED

9. MHS/FSA have jointly led the programme of work to develop new charging proposals. These have been developed in liaison with representatives of industry and from other Government Departments through the Stakeholder Group.

10. Three main options have been considered:

- Option 1: Maclean charging system – maintain status quo;
- Option 2: time based charging – proposed by the FSA/MHS and Tierney in his Review of the Delivery of Official Controls; and
- Option 3: throughput charging - proposed by the Association of Independent Meat Suppliers (AIMS) and supported by Small Abattoirs Federation (SAFe).

Option 1: Maclean Charging System – maintain status quo

11. It was recognised by the majority of the Stakeholder Group that the Maclean charging system (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 supported by the MHS Board, the Advisory Body, the majority of organisations representing stakeholders or the Food Advisory Committee's of Scotland, Wales and Northern Ireland and is therefore not recommended for implementation. It was generally agreed that the current arrangements:

- do not incentivise FBOs to use MHS and DARD resources efficiently - inefficient plants pay the same charge per animal or per tonne of meat 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 subsidy to be targeted to those plants most in need; and
- is not easily understood by stakeholders and is costly to administer.

12. Neither the Advisory Body nor the MHS Board support this option and it is **not recommended**.

Option 2: Time Based Charging

13. The option would result in FBOs being charged for MHS/DARD services based on the time necessarily spent on chargeable official controls in each plant.

14. A time based system would:

- introduce a more commercial discipline for all parties and encourage FBOs to use MHS/DARD resources more efficiently;
- increase the likelihood of challenge from FBOs on MHS/DARD staffing levels (under the current system, FBOs have no incentive to query the staffing levels in plant because the number of MHS/DARD staff deployed does not normally affect their charges. Under a time based system, the FBO would be charged for all MHS/DARD hours and would therefore be likely to challenge the level of resource where they considered this to be unreasonable);
- provide a transparent charging method that would be easy for operators to understand and which would minimise MHS/DARD administration costs;
- provide FBOs with greater control over their charges - their charges would go down if they worked with the MHS/DARD to achieve more efficient ways of working that enabled a reduction in their requirement for official controls time;
- incentivise FBOs to improve hygiene and welfare standards, resulting in a reduced audit frequency and a reduction in audit charges;

- support the Optimisation Review⁶ to move towards the lowest practicable levels of controls required in plants (charges would reduce if controls were removed); and
- include safeguards to prevent the number of charged hours from rising above those that were required by MHS/DARD to sufficiently carry out their duties.

15. A time based system is the recommended option. It is supported in principle by the stakeholders mentioned in paragraph 11 above.

Option 3: Throughput Charging

16. AIMS (which represents a significant number of medium and small sized businesses) and SAFe are strongly opposed to time based charging proposals as they consider that this would give an incentive to the MHS and its contractors to maximise the number of attendance hours in plants, resulting in increases in charges to industry.

17. AIMS have proposed that charges should continue to be based on throughput at rates determined by the total level of subsidy provided to industry and the level of MHS/DARD costs to be recovered. Time costs would be charged where a throughput charge was greater than the actual cost of the controls.

18. This option is therefore similar to the current Maclean mechanism and has the same disadvantages. The Stakeholder Group considered that this approach would not provide the incentive for MHS and FBOs to reduce MHS attendance levels in plants. Additionally the proposal is founded on an operating cost model of £50m. The Stakeholder Group considered that the reduction to MHS operating costs from £91m to the £50m proposed was not substantiated and was therefore unlikely to be achievable. This option is not supported by the MHS Board, the Advisory Body, the majority of stakeholders or the Food Advisory Committee's of Scotland, Wales and Northern Ireland and is not recommended.

⁶ The aim of the optimisation review is to challenge the status quo and investigate cost and practice variations at plant level, identifying best practices and barriers that need to be addressed.

REDUCING THE SUBSIDY PROVIDED TO INDUSTRY - 2009/10

19. In July 2007, the Board agreed to Tierney's recommendation to recover a greater proportion of MHS costs (£3m is proposed in 2009/10) and introduce charges for SRM controls. Subsequently the MHS and FSA Boards agreed the MHS three year financial plan inclusive of these requirements. The table below summarises the MHS income targets:

| Annual increases in total Industry Charges through Comprehensive Spending Review (CSR) period 2008/09 - 2010/11 | | | | |
|--|-----------------------------------|----------------|----------------|----------------|
| £m | | 2008/09 | 2009/10 | 2010/11 |
| FSA Board Projections (as at July 2007 Tierney Report) | 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 has defined and initiated business improvements to reduce costs in real terms from around £91m in 2006/07 to around £74m by 2012/13. Against the £4m operating cost reduction in 2007/08, Ministers agreed to reduce the subsidy given to industry by increasing charges by £1.5m for 2008/09 – an 8% increase (5% plus 3% for inflation). The MHS financial plan includes a £5m real terms (excluding inflation) cost reduction in 2008/09, and an additional £5m in 2009/10.

21. A reduction in industry support of £3m for hygiene controls is required in 2009/10 to meet the targets for cost recovery from industry agreed by the Board in October 2006⁷ and referred to by Tierney. An increase in MHS meat hygiene charging revenue of 12% is required to achieve this. It is also proposed to recover 5% (around £0.5m) of the total SRM costs⁸ in 2009/10.

22. It is proposed that meat hygiene charges in NI should be increased similarly as the scope for reducing DARD costs and the financial pressures are broadly the same as those that apply in GB. As a result of reducing the discount, the total contribution for meat hygiene official controls from industry in NI would increase from £3.1m in 2008/09 to £3.5m in 2009/10 out of a total cost of around £6.5m. In addition, charges for SRM would increase revenue by another £29k.

⁷ CLO 06/10/03

⁸ Breakdown of SRM total based on 2009/10 forecast:

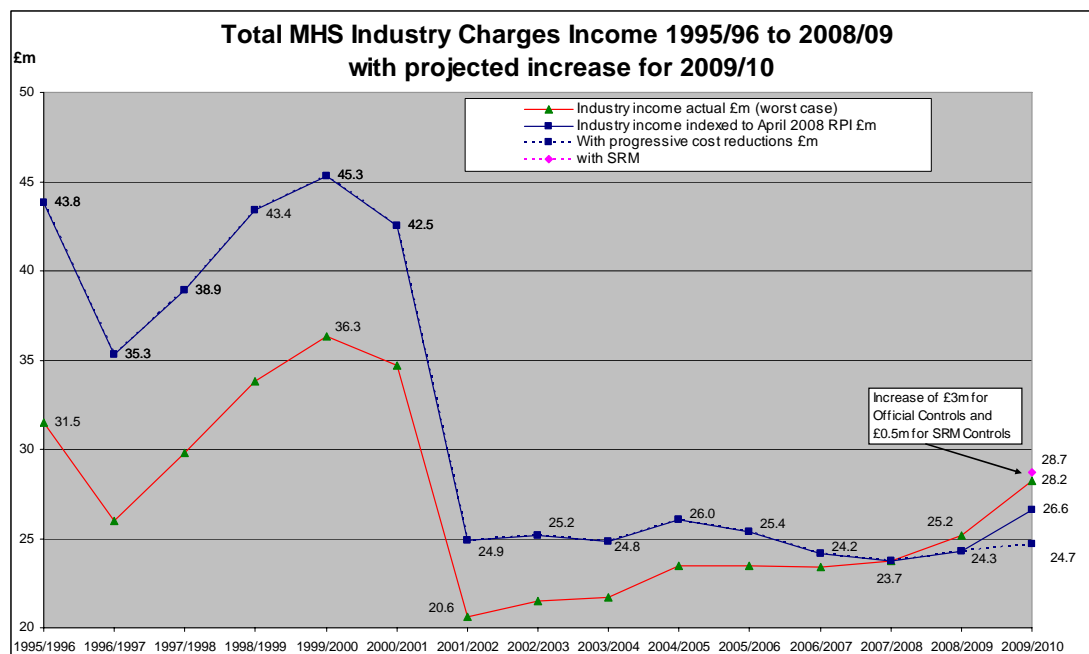
- £10m paid for by FSA for GB SRM controls;
- £0.8m paid for by Defra for SRM controls on over thirty month cattle in GB;
- £0.6m paid for by FSANI for SRM controls in Northern Ireland.

23. The FSA Board has commended the MHS for its efforts to date in reducing its operating costs. It is therefore reasonable to seek a greater contribution from industry to MHS operating costs, against this declining cost base, in order to meet the FSA Board's aspiration for reducing the subsidy it currently provides to industry.

IMPACT 2009/10

Effect of increased charges on FBOs

24. For GB, inclusive of the £3m additional contribution the total industry contribution, of £28m would still be only around 50% of the projected £54m gross cost of official controls. The proposed £28m charge to Industry for Official Controls will still be substantially less than the total charge to industry of £45.3m, at current prices, in 1999/2000 pre-Maclean.



25. Examples of the impact of increases in charges on different size plants are shown at **Annex 1a** and demonstrate the continuing support to smaller plants. Inclusive of the proposed increases to charges, a micro red meat slaughterhouse would pay in the region of £827 against a full cost of £9,574 – a total discount of 91%. Support to other size red meat slaughterhouses generally reduces as their size increases as shown in the Annex.

26. EC legislation sets minimum charge rates for different species and types of animal and for types of meat in Euros. The rates are converted into Sterling and the Sterling rates are used in the calculation of MHS/DARD charges. The conversion rate is reviewed annually and if any of the Sterling charge rates have fallen below the EC minimum charge rates the amount charged per animal or per tonne of meat has to be increased.

27. At the current exchange rate, some of the charges in Sterling are below the EC minima and, if this rate is maintained until September 2008, the charges for some types of animal and meat will need to be increased from 1 January 2009. In the case of adult cattle the increase would be around 15% - 16%. The effect of these changes for a full year would be around a £1m increase in charges to industry and would affect all types of approved meat businesses. The EC minimum rates will continue to apply in 2009/10 time cost charges would need to be increased by up to 16% to comply with the EC legislation. Under the recommended option for discounted time based charging, the proposed 12% increase would not be in addition to the changes required under the EC legislation. This change will be factored into the calculations to ensure that the new charges from April 2009 do not fall below the EC minima.

28. In addition to the need to reduce the subsidy to industry, Defra also proposes to share more of its costs with industry. These proposals include raising around £3.8 million in charges for checks carried out in GB on over thirty month cattle for human consumption. . Defra is exploring how much of the full £3.8m might be recovered from industry from April 2009 in GB in using the MHS charging system (i.e. to include recovering the amount by which the proposed increased hygiene charges and the introduction of SRM charges that would reduce Defra's costs fall below their requirements. It should be noted that were this to be proposed the hygiene and SRM elements would need to form an integral part of the FSA consultation and provision would need to be made in the accompanying draft Regulations).

Impact

General

29. The general working assumption of Defra and FSA economists is that one third of the proposed charging increases would be absorbed by FBOs with the remaining two thirds passed back to livestock farmers. There is likely to be very limited opportunity for FBOs to pass the increased costs towards consumers due to market forces, though this could happen in some circumstances (e.g. in the case of niche products). The situation would of course vary from sector to sector and between individual businesses in light of the particular market forces that might apply.

Impact on slaughterhouses

30. Based on comprehensive financial analysis of 173 UK abattoir companies carried out in March 2007⁹, it has been estimated that MHS charges for meat hygiene controls amount on average to 1.3% of FBO gross costs.

⁹ Source: The UK Abattoirs Industry (Plimsoll Portfolio Analysis – 2007). Plimsoll is the leading expert in the field of industry analysis in the UK, France and Japan.

31. Therefore, MHS charges of £25m in 2008/09 implies 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.
32. However, pre-tax profit margins for the same businesses are only around 1.5% of sales. On a worst case basis, if the slaughterhouse operators were unable to pass on any of the proposed £3m increase in charges to their customers or suppliers, average overall profit margins might fall to 1.35%.

Impact on game handling establishments

33. Little economic data is available in respect of game handling establishments but the pattern of the businesses is similar to that of slaughterhouses. On that assumption, it seems reasonable to assume that there would be little opportunity for operators to pass increased MHS charges to consumers (there are no approved game handling establishments in NI) and it would need to be absorbed by operators or passed back to game suppliers. However, it needs to be borne in mind that, in comparison with slaughterhouses, all game handling establishments are small and would continue to benefit from a high level of support. As a result, a 12% increase would result in the charge for a typical large game handling establishment rising from around £7,000 to £7,840, which would equate to support of approximately 87% of their total official controls cost.

Impact on meat cutting plants

34. As with game handling establishments, there is little economic data available in respect of meat cutting plants. For these businesses the effect of increased MHS/DARD charges might be magnified if additional slaughterhouse costs are passed to them, though, for the reason set out in paragraph 29 this seems unlikely. The effect on their own hygiene charges would be confined to the additional cost of MHS/DARD audits that are carried out at risk based frequencies. On the assumption of two such audits in 2009/10 the increase in charges would range from circa £10 to £1000 depending on the size of the plant (see table at **Annex 1a**).

Impact on livestock farmers

35. The working assumption of Defra and FSA economists is that, overall, two thirds of the increased charges would be passed back to primary producers. On this basis, using the latest information from Defra economists, the impact on livestock farmers could result in a 0.14% increase in costs for farmers of red meat animals and a 0.13% increase in costs for poultry farmers. In terms of total farm costs, using England as an example, red meat costs could increase by £1m from £1,248m to £1,249m and poultry costs could increase by £1m also from £537m to £538m. Further details would be provided in a consultation impact assessment and this would also place these increases in context with Defra's cost sharing plans that would also impact on primary producers.

Impact on consumers

36. If the full cost of MHS inspection charges were to be passed to consumers it would account for a very small proportion of the purchase price of meat. Under the current charging system over 90% of slaughterhouses pay on a throughput basis. For example, for cattle aged eight months or more the standard throughput charge is £3.44 per carcass. This equates to less than 2p per kg of beef, currently retailing at around £5 per kg for braising steak or £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 purchase¹⁰. The table in **Annex 1b** gives a full breakdown of this analysis.

37. If the proposed 12% increase in charges for 2009/10 were to be introduced, the impact would be:

| Cost to FBO (based on standard charges) for official controls on slaughterhouse meat (per kg or per bird) | | | |
|--|---------------------------------|---------|---------|
| | 2001/02 (First year of Maclean) | 2008/09 | 2009/10 |
| Beef | 1.50p | 1.86p | 2.08p |
| Lamb | 1.60p | 1.99p | 2.23p |
| Pork | 2.17p | 2.70p | 3.02p |
| Chicken | 0.61p | 0.77p | 0.86p |

Recommendation

38. 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 FSA Board is recommended to agree, subject to Ministerial clearance to commencing the process of public consultation to reduce the discount for meat hygiene controls that would increase charges by 12% (£3m). In addition, to include in the consultation, the introduction of a charge for SRM controls recovering 5% of MHS/DARD costs amounting to approximately £0.5m in 2009/10.

¹⁰ Current retail prices taken from www.mysupermarket.com (independent supermarket price checker).

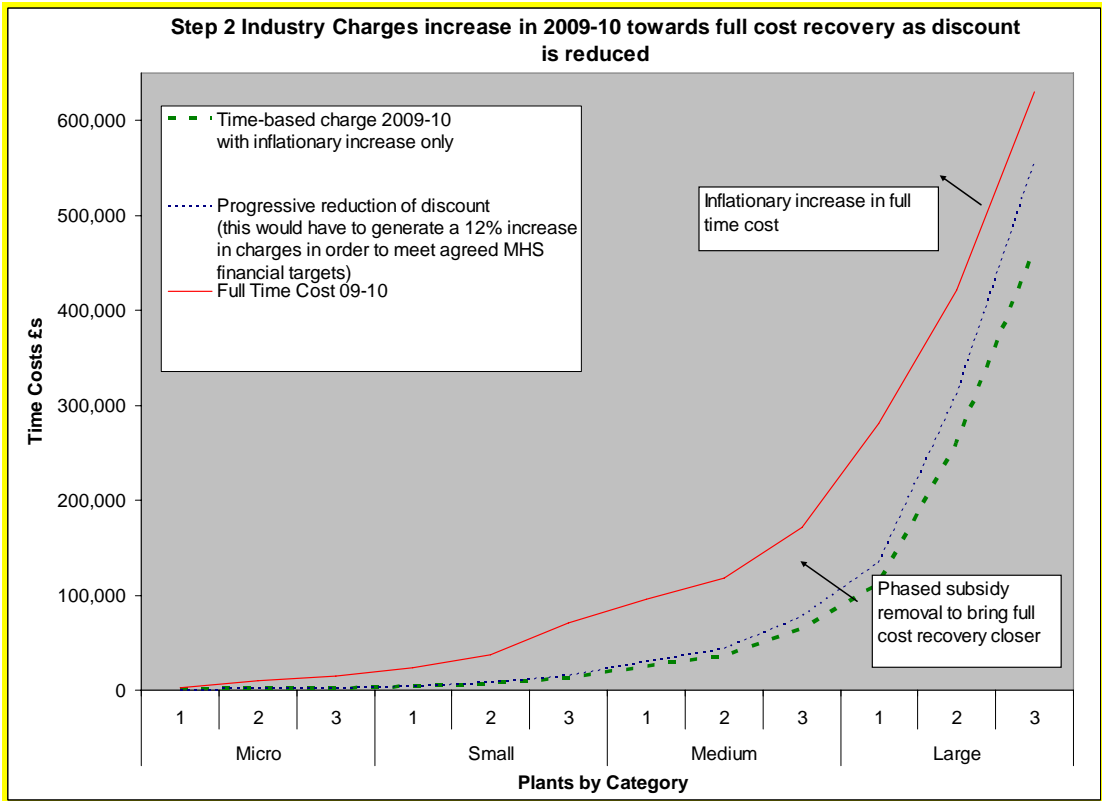
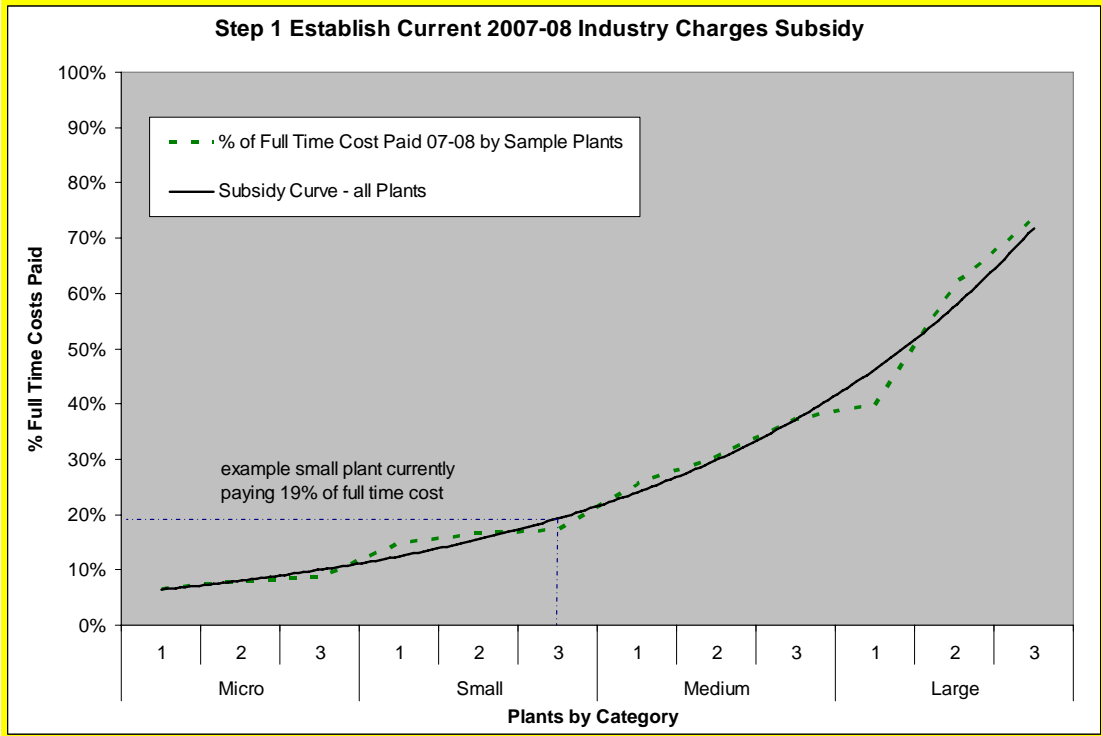
TIME BASED CHARGING IMPLEMENTATION

2009/10 strategy

39. It is proposed that:

- charges would be calculated using the full hourly cost of official controls to each FBO and the total 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 the first year of time cost charging;
- in moving from the Maclean formula to time cost charging, it is proposed that in 2009/10 all plants would pay 12% more than their 2008/09 charge on the assumption that official control time remained constant. There are two exceptions to this. Firstly, the possible need to increase time cost rates by a greater percentage to ensure continued compliance with minimum throughput rates specified in EC law. Secondly, with regard to poultry plants using Plant Inspection Assistants (PIAs) – see bullet point below);
- the current treatment of poultry slaughterhouses employing PIAs would be retained in a modified form for a transitional period (see paragraphs 41 - 44). A national average rate for PIAs (plus an additional 25% for operator overheads) would be used in the calculations and it is proposed that each year this discount would be reduced (starting in year 1 with 75% of the discount being applied to charges) until it is phased out completely. The gradual removal of this additional discount is likely to result in total increases above those affecting other operators as the subsidy to industry is reduced;
- appropriate checks and balances on MHS/DARD attendance levels would be incorporated in the new charging mechanism to ensure FBOs have confidence in the system (see paragraphs 45 - 48 and **Annex 1d** for details);
- enhanced premium charging arrangements might be introduced in 2010/11 or later if partnership working did not deliver the required efficiencies; and
- in addition, in 2010/11 or later process enhancements may enable discounts to be applied to FBOs paying by direct debit, BACS or for accepting electronic invoices for example.

40. The graphs below, which use a sample of 12 red meat slaughterhouses that are intended to be representative, illustrate how the proposed transition from a headage rate based charging system to a time based system would work:



PIAs

41. Poultry plant operators have the facility to employ their own plant inspection assistants (PIAs) to undertake official duties subject to the supervision of the Official Veterinarian (OV). Under current charging arrangements whereby the full cost of employing PIAs is offset against subsidised meat hygiene charges, it is normally more economic for FBOs to employ their own staff. FSA/MHS would prefer that all poultry plant operators used their own staff thereby taking greater responsibility for the hygienic production of meat and reducing Government inspection costs.
42. Under the current Maclean charging arrangements, the cost to FBOs of employing PIAs to undertake certain poultry inspection duties is offset against their throughput charge. For some poultry operators, the system can produce a charge of zero because of the value of the PIA offset. The introduction of time cost charging at discounted rates would have the effect, in many cases, of making it cheaper for FBOs to dispense with PIAs and to rely on the MHS to do the work instead. This would have serious adverse financial consequences for the MHS and, in view of this, it is proposed to encourage the retention of PIAs by continuing the current approach of offsetting the cost of the PIAs to FBOs against MHS/DARD charges. However, in 2009/10 it is proposed that the offset would cover 75% of those costs, rather than 100% as now. Thereafter, it is proposed that this offset would be reduced over a number of years. This proposal would mean that charges for these poultry slaughterhouses would be likely to increase by significantly more in 2009/10 than the proposed 12% level, as it would effectively result in the reduction of the current PIA subsidy.
43. Consideration was given to removing the PIA discount immediately so that FBOs simply paid the MHS time costs. However this would cause significant increases in charges made to FBOs because of the current discount. It is therefore recommended to remove the additional PIA discount gradually to:
 - limit the impact of the increase in charges (as a result of the PIA discount being removed) to a more reasonable level;
 - ensure the retention of existing PIA teams;
 - encourage the take up of new PIA teams in those premises not currently choosing this option; and
 - provide time for plants to train their own staff and implement their own team of PIAs thereby ultimately reducing the MHS staff required.

44. For 2009/10 the allowances would be restricted to 75% of the total. This would result in increases significantly above the 12% increase required to reduce the hygiene subsidy for plants using PIAs, however the increase would be considerably less than that which would apply if the PIA allowance was removed completely. Annex 1a demonstrates the impact of this proposal on poultry plants with PIAs.

MANAGEMENT CONTROL OF OFFICIAL CONTROL HOURS - CHECKS AND BALANCES

45. Effective systems to minimise official control hours are essential to the successful implementation of a time based charging system. It would be vitally important to MHS/DARD because every unnecessary hour worked would increase the under-recovery from industry of official control costs that would need to be funded by the FSA and, ultimately by taxpayers. Minimising official control hours is also vital to gaining the confidence of FBOs and Industry representative organisations that time based charging would not result in increased charges due to unnecessary official control hours being worked. The confidence of the Industry in the proposed charging approach is also very important in helping to avoid protracted discussion that might arise on resourcing levels with individual FBOs.

46. Effective management of official control hours in GB is the primary responsibility of the MHS Operations Management team who will implement a performance management framework focused upon the effective use of all input hours in the delivery of public health and animal health and welfare compliance. This will go ahead whether or not time based charging is introduced in 2009/10.

47. The effective management of official control hours will be supported by a robust escalation and challenge process to meet quickly the concerns of Industry and other stakeholders who may, for example, challenge our approach from the perspective of consumer protection. The process suggested at Annex 1d would be to give FBOs a right of appeal to a Tribunal against MHS resourcing decisions.

48. The MHS and the FSA are currently discussing the practical details of the process to ensure optimum use of available resources. The implementation of the MHS Business Service Agreements with individual FBOs is the foundation of the process and will provide individual FBOs with the opportunity to discuss resourcing with the local MHS management team. During these discussions the MHS management team will ensure that best practice is applied, utilising for example the lessons learned from the Optimisation Review currently underway.

2010/11 AND SUBSEQUENT YEARS

49. 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). However the present intentions or possibilities are that:

- discounts would be proposed to become directly linked to the throughput of each business, such that the lowest throughput businesses would benefit from the greatest discounts and the highest throughput would benefit the least. The extent to which this could be done in 2010/11 might depend on the degree of success that occurred in 2009/10 to optimise the delivery of official controls through partnership working between FBOs and MHS/DARD;
- annual inflationary increases would be proposed to apply to the full cost rates if appropriate and the discount for each plant could be adjusted such that, industry wide, the level of discount was reduced gradually. However it should be noted that industry representatives representing larger sized businesses have argued for a more rapid removal of the subsidy for all operators to prevent the subsidy distorting competition and account would be taken of this view;
- changes to discount rates might be proposed to ensure that appropriate support was targeted to businesses that needed it most such as those with low throughput or those that were situated in geographically isolated regions;
- enhanced premium charging arrangements might be proposed for introduction in 2010/11 or later if partnership working did not deliver the required efficiency gains;
- it would be proposed that PIA allowances in poultry plants, as transitional relief for FBOs using their own staff, would continue to be gradually removed; and
- in addition, in 2010/11 or later, process enhancements might enable additional discounts to be proposed for FBOs paying by promptly by Direct Debit or BACS, or by accepting electronic invoices.

REDUCTION OF SRM SUBSIDY AND CHANGES TO SRM CONTROLS

50. Following the Tierney Review, the FSA Board agreed recommendations that industry should contribute to the cost of SRM controls, which currently costs the Agency and thus taxpayers around £10m per year. At the same time the Agency would develop a more proportionate and risk based approach to carrying out the controls which would also result in reduced SRM costs.
51. A project to deliver key elements of the required changes is being taken forward under the MHS Transformation Programme. These changes are being introduced in steps:
- Step 1 – last November, the requirement to apply the personal stamp was removed and MHS inspection of all consignments of imported beef carcass meat for SRM was replaced with random spot checks.
 - Step 2 – in May 2008, an audit-based approach was introduced for official control of the handling of SRM after it has been removed from the carcasses of under thirty month (UTM) cattle, and from sheep and goats, with frequency reflecting risks. This removed the need for full-time MHS/DARD presence to verify the removal of SRM from these animals at (small) slaughterhouses that demonstrate high levels of compliance. These changes are being introduced from May 2008.
 - Step 3 – introducing a system of FBO controls on the age-verification of sheep and goats and transferring responsibility for the dentition checks for sheep and goats to the FBO in those establishments demonstrating high levels of compliance. This will take place from December 2008, subject to necessary compliance monitoring of Step 2 changes.
52. The greatest potential for savings will come from the Step 3 changes. Assuming FBOs fully take on the responsibility for this work, the estimated saving on time for MHS dentition checks which are currently recovered from the FSA through a service level agreement could be up to £1m per year. It should be noted that there is a risk that industry may not be willing or able to take responsibility for these checks as the MHS are not able to demand the change.
53. A review of SRM controls for OTM cattle has begun and a risk assessment is underway, which has potential for reducing costs further. In addition, the BSE testing system is kept under review to enable modifications to be made in the light of developments.
54. It is proposed to implement charges for SRM at a low level initially, recovering around £0.5m of the total costs (or 5%) in the first year. Charges would be made in proportion to the charges made for hygiene.

CONSULTATION

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

- written communications with all FBOs, including issuing the Policy Framework¹¹ for the development of new charging arrangements in September 2007;
- four meetings of the Stakeholder Group including representation from industry, FSA, Defra, and Scotland, Wales and Northern Ireland (SWaNI) Rural Affairs departments to discuss different charging options where all of the representatives, except two representing trade associations, supported a move to a time cost basis of charging;
- stakeholder meetings on a one to one basis;
- consideration by the Advisory Body which resulted in support in principle for time cost charging, but the Body wishes to link an increase in charges to further cost reductions (see **Annex 1c**);
- proposals considered by the SWaNI Food Advisory Committees who have all supported the principle of a move to introducing charges based on time costs; and
- internal liaison with the FSA/MHS Executive Management Forum, Legal, Finance, Communications Divisions and FSA SWaNI, Defra and SWaNI Rural Affairs Departments.

56. The above consultation has resulted in majority support in principle (including trade representatives) for a move away from Maclean charging onto a system based on actual time costs subject to:

- there being appropriate checks and balances to ensure that MHS/DARD do not maximise revenue by maximising attendance levels;
- official control hours continuously being challenged through industry and MHS partnership working;
- FSA initiatives to move to more proportionate risk based domestic controls and, where necessary, to seek these in Europe regarding EU legislation; and
- the gradual removal of subsidy from businesses over a number of years while retaining subsidy for those businesses most in need.

¹¹ 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.

RISKS

FSA/MHS relations with stakeholders

57. The industry is understandably concerned about the proposed increases to charges for meat controls, and the Advisory Body on the Delivery of Official Controls considers 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

58. Changes to the charging system requires the making of secondary legislation in each UK country and therefore gaining Ministerial agreement to them. Failure to implement either the proposed charging system or the proposed rates would have serious implications for the modernisation of the MHS. The Board is also asked to note that a review of EU charging rules is taking place that may result in the need to make further changes to charging arrangements in the UK, though any changes that may be required by the EU are not expected to be necessary until 2011 at the earliest.

SUMMARY

59. The MHS Board agreed to:

- **recommend** to the FSA Board the introduction of time based charging for MHS services rather than the current flat rate charge for throughput, provided that effective methods are defined to remove the perverse incentive for contractors to increase hours to increase their profits. Time based charging would introduce a more commercial relationship between the MHS and FBOs which is fundamental to the effective control of MHS costs. This recommendation is supported by the Advisory Body and by the Food Advisory Committees for Scotland, Wales and Northern Ireland.
- **recommend** to the FSA Board a reduction in the discount provided to industry, such that charges paid by FBOs are increased by 12% for the 2009/10 year to enable the MHS to recover the additional £3m contribution from FBOs required to meet its finance targets.
- additionally **recommend** to the FSA Board the introduction of charges to recover, in the first year of charging, 5% (approximately £0.5m) of the costs of SRM controls.

60. A decision is required from the FSA Board meeting on what will go forward for public consultation in September 2008, subject to the views of Ministers. This consultation would need to be accompanied by an impact assessment and draft regulations and would need to be carried out separately in each UK country.

61. The regulations that will be required to bring the changes to the charging system into force would provide charging rates for 2009/10. They would need to be amended subsequently to reflect proposals for future years subject to further consultation and impact assessment. The longer term aim would be to implement continuing regulations to provide more certainty for operators, and to reduce the administrative burden of the consultation process.

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

ANNEXES

Annex 1a Impact Analysis – Industry

Annex 1b Impact Analysis – Consumers

Annex 1c Advisory Body – Summary of Fourth Meeting

Annex 1d Checks and Balances

**Option 2 – MHS/FSA Charges
Red Meat Slaughterhouses – Total Sector Analysis**

| 12% Increase Option | | | | | |
|---|---------|-----------|------------|------------|------------|
| 2008/09 | | | | | |
| Quartile | Micro | Small | Medium | Large | Total |
| Plant | | | | | |
| Full time costs £ | 789,065 | 3,073,106 | 10,524,776 | 27,982,720 | 42,369,667 |
| Actual Charge £ | 58,370 | 462,775 | 2,910,761 | 15,936,136 | 19,368,041 |
| Maclean Discount % | 93% | 85% | 72% | 43% | 54% |
| 2009/10 | | | | | |
| Quartile | Micro | Small | Medium | Large | Total |
| Plant | | | | | |
| Full time costs 08/09 +3%£ | 812,737 | 3,165,305 | 10,840,519 | 28,822,199 | 43,640,760 |
| Actual Charge £ | 65,494 | 519,434 | 3,266,680 | 17,876,598 | 21,728,206 |
| Discount given % | 92% | 84% | 70% | 38% | 50% |
| % increase of charge | | | | | |
| | 12% | 12% | 12% | 12% | 12% |
| 2009/10 SRM Charges | | | | | |
| Quartile | Micro | Small | Medium | Large | Total |
| Plant | | | | | |
| Full Time Costs £ | 272,396 | 868,983 | 3,414,454 | 6,003,573 | 10,559,406 |
| Actual Charge £ | 2,534 | 15,739 | 112,815 | 372,183 | 503,271 |
| Discount given | 99% | 98% | 97% | 94% | 95% |
| | | | | | £ |
| Total Official Control Revenue from all Red Slaughterhouses 2009/10 | | | | | 21,728,206 |
| Total Revenue Increase on 2008/09 | | | | | 2,360,165 |
| Total SRM Revenue 2009/10 | | | | | 503,271 |

The four size categories of plants are based on annual throughput quartiles.

**Option 2 – MHS/FSA Charges
Red Meat Slaughterhouses – Examples of Impact on FBOs**

| 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 |
| Maclean Discount % | 92% | 82% | 70% | 38% |
| 2009/10 | | | | |
| Quartile | Micro | Small | Medium | Large |
| Plant | 1 | 2 | 3 | 4 |
| Full time costs 08/09 +3%£ | 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% |
| 2009/10 SRM Charges | | | | |
| Quartile | Micro | Small | Medium | Large |
| Plant | 1 | 2 | 3 | 4 |
| Full Time Costs £ | 2,747 | 4,470 | 35,199 | 176,991 |
| Actual Charge £ | 25 | 94 | 1,243 | 12,682 |
| Discount given | 99% | 98% | 96% | 93% |
| £ | | | | |
| Total Official Control Revenue from all Red Slaughterhouses 2009/10 | | | | 21,728,206 |
| Total Revenue Increase on 2008/09 | | | | 2,360,165 |
| Total SRM Revenue 2009/10 | | | | 503,271 |

The plant specific information given above has been selected to be representative of plants within each quartile.

**Option 2 – MHS/FSA Charges
Poultry Slaughterhouses – Total Sector Analysis**

12% Increase Option**2008/09**

| Quartile | Micro | Small | Medium | Large | Total |
|--------------------|---------|---------|-----------|------------|------------|
| Plant | | | | | |
| Full time costs £ | 234,880 | 944,783 | 2,963,931 | 13,594,792 | 17,738,386 |
| Actual Charge £ | 13,870 | 54,626 | 470,390 | 4,826,287 | 5,365,173 |
| Maclean Discount % | 94% | 94% | 84% | 64% | 70% |

2009/10

| Quartile | Micro | Small | Medium | Large | Total |
|----------------------------|---------|---------|-----------|------------|------------|
| Plant | | | | | |
| Full time costs 08/09 +3%£ | 241,926 | 973,126 | 3,052,849 | 14,002,636 | 18,270,537 |
| Actual Charge £ | 22,016 | 102,616 | 756,556 | 5,770,614 | 6,651,802 |
| Discount given % | 91% | 89% | 75% | 59% | 64% |

| | | | | | |
|----------------------|-----|-----|-----|-----|-----|
| % increase of charge | 59% | 88% | 61% | 20% | 24% |
|----------------------|-----|-----|-----|-----|-----|

| | |
|--|-----------|
| Official Controls Revenue from all Poultry Slaughterhouses 2009/10 | 6,651,802 |
| Total Official Controls Revenue Increase on 2008/09 | 1,286,629 |

The four size categories of plants are based on annual throughput quartiles.

**Option 2 – MHS/FSA Charges
Poultry Slaughterhouses – Examples of Impact on FBOs not Currently Using
PIAs**

| 12% Increase Option | | | | |
|--|--------------|--------------|---------------|--------------|
| 2008/09 | | | | |
| Quartile | Micro | Small | Medium | Large |
| Plant | 1 | 2 | 3 | 4 |
| MHS full time costs non-PIA plants £ | 7,471 | 40,279 | 98,723 | 705,160 |
| Actual charge £ | 685 | 7,174 | 13,556 | 277,447 |
| Maclean Discount % | 91% | 82% | 86% | 61% |
| | | | | |
| 2009/10 | | | | |
| Quartile | Micro | Small | Medium | Large |
| Plant | 1 | 2 | 3 | 4 |
| MHS full time costs non-PIA plants 08/09 +3% £ | 7,695 | 41,487 | 101,685 | 726,315 |
| Estimated charge £ | 767 | 8,035 | 15,183 | 310,741 |
| Discount given % | 90% | 81% | 85% | 57% |
| | | | | |
| % increase of charge | 12% | 12% | 12% | 12% |
| | | | | |
| Official Controls Revenue from all Poultry Slaughterhouses 2009/10 | | | | 6,651,802 |
| Total Official Controls Revenue Increase on 2008/09 | | | | 1,286,629 |

The plant specific information given above has been selected to be representative of plants within each quartile.

Option 2 – MHS/FSA Charges Poultry Slaughterhouses – Examples of Impact on FBOs Currently Using PIAs

| 12% Increase Option 2008/09 | | | | |
|--|--------------|--------------|---------------|--------------|
| Quartile | Micro | Small | Medium | Large |
| Plant | 1 | 2 | 3 | 4 |
| MHS full time costs £ | 16,451 | 63,025 | 113,109 | 254,773 |
| Maclean charge (before PIA) £ | 2,090 | 4,980 | 90,487 | 180,342 |
| Maclean Discount (before PIA) % | 87% | 92% | 20% | 29% |
| PIA Allowance £ | (5,459) | (1,157) | (51,506) | (43,315) |
| Actual charge (after PIA) £ | 0 | 3,823 | 38,981 | 137,027 |
| 2009/10 Discount Calculation | | | | |
| Quartile | Micro | Small | Medium | Large |
| Plant | 1 | 2 | 3 | 4 |
| MHS full time costs 08/09 +3% £ | 16,945 | 64,916 | 116,502 | 262,416 |
| Estimated charge (before PIA) £ | 2,341 | 5,578 | 101,345 | 201,983 |
| Discount % | 86% | 91% | 13% | 23% |
| 2009/10 Charge Calculation | | | | |
| Quartile | Micro | Small | Medium | Large |
| Plant | 1 | 2 | 3 | 4 |
| MHS full time costs £ | 16,945 | 64,916 | 116,502 | 262,416 |
| PIA Allowance (75%)* £ | (2,857) | (1,172) | (42,182) | (41,924) |
| Actual charge (after PIA) £ | 14,088 | 63,744 | 74,320 | 220,492 |
| Less discount | 86% | 91% | 13% | 23% |
| Actual charge (after discount) £ | 1,946 | 5,477 | 64,651 | 169,714 |
| % increase in MHS charges | 12% | 12% | 12% | 12% |
| % increase of charges due to reduction of PIA Subsidy | | 31% | 54% | 12% |
| Official Controls Revenue from all Poultry Slaughterhouses 2009/10 | | | | 6,651,802 |
| Total Official Controls Revenue Increase on 2008/09 | | | | 1,286,629 |

*The PIA Allowance for 2009/10 is calculated using a national average PIA rate. The proposal is that the allowance for 2009/10 will be restricted to 75% of this figure as part of the phasing out of this benefit. The figures quoted for 2009/10 for PIA Allowance are not directly related to those quoted for 2008/09, as the basis of the PIA allowance has been changed between the two years. The plant specific information given above has been selected to be representative of plants within each quartile.

Option 2 – MHS/FSA Charges Game Dressing – Total Sector Analysis

| 12% Increase Option 2008/09 | | | | | |
|--------------------------------|-------|--------|---------|---------|---------|
| Quartile | Micro | Small | Medium | Large | Total |
| Plant | 1 | 2 | 3 | 4 | |
| Full time costs £ | 5,998 | 28,348 | 105,522 | 474,817 | 614,685 |
| Actual Charge £ | 459 | 5,575 | 15,399 | 32,094 | 53,527 |
| Maclean Discount % | 92% | 80% | 85% | 93% | 91% |

| 2009/10 | | | | | |
|-------------------|-------|--------|---------|---------|---------|
| Quartile | Micro | Small | Medium | Large | Total |
| Plant | 1 | 2 | 3 | 4 | |
| Full time costs £ | 6,178 | 29,198 | 108,688 | 489,062 | 633,126 |
| Actual Charge £ | 514 | 6,244 | 17,247 | 35,945 | 59,950 |
| Discount given % | 92% | 79% | 84% | 93% | 91% |

| | | | | | |
|----------------------|-----|-----|-----|-----|-----|
| % increase of charge | 12% | 12% | 12% | 12% | 12% |
|----------------------|-----|-----|-----|-----|-----|

| | | £ |
|--|--|--------|
| Total Official Controls Revenue from all Game Dressing 2009/10 | | 59,950 |
| Total Official Controls Revenue Increase on 2008/09 | | 6,423 |

The four size categories of plants are based on annual throughput quartiles.

Option 2 – MHS/FSA Charges Game Dressing – Examples of Impact on FBOs

| 12% Increase Option 2008/09 | | | | |
|--------------------------------|-------|-------|--------|--------|
| Quartile | Micro | Small | Medium | Large |
| Plant | 1 | 2 | 3 | 4 |
| Full time costs £ | 474 | 1,770 | 3,886 | 29,865 |
| Actual Charge £ | 25 | 221 | 989 | 1,858 |
| Maclean Discount % | 95% | 88% | 75% | 94% |

| 2009/10 | | | | |
|-------------------|-------|-------|--------|--------|
| Quartile | Micro | Small | Medium | Large |
| Plant | 1 | 2 | 3 | 4 |
| Full time costs £ | 488 | 1,823 | 4,003 | 30,761 |
| Actual Charge £ | 28 | 248 | 1,108 | 2,081 |
| Discount given % | 94% | 86% | 72% | 93% |

| | | | | |
|----------------------|-----|-----|-----|-----|
| % increase of charge | 12% | 12% | 12% | 12% |
|----------------------|-----|-----|-----|-----|

| | | £ |
|--|--|--------|
| Total Official Controls Revenue from all Game Dressing 2009/10 | | 59,950 |
| Total Official Controls Revenue Increase on 2008/09 | | 6,423 |

The plant specific information given above has been selected to be representative of plants within each quartile.

Option 2 – MHS/FSA Charges Cutting Plants – Total Sector Analysis

| 12% Increase Option 2008/09 | | | | | |
|--------------------------------|--------|---------|---------|---------|---------|
| Quartile | Micro | Small | Medium | Large | Total |
| Plant | 1 | 2 | 3 | 4 | |
| Full time costs £ | 24,341 | 108,323 | 185,589 | 536,863 | 855,116 |
| Actual Charge £ | 16,790 | 66,037 | 110,795 | 255,894 | 449,516 |
| Maclean Discount % | 31% | 39% | 40% | 52% | 47% |

| 2009/10 | | | | | |
|-------------------|--------|---------|---------|---------|---------|
| Quartile | Micro | Small | Medium | Large | Total |
| Plant | 1 | 2 | 3 | 4 | |
| Full time costs £ | 25,071 | 111,573 | 191,166 | 552,969 | 880,779 |
| Actual Charge £ | 18,803 | 73,968 | 124,088 | 286,600 | 503,459 |
| Discount given % | 25% | 34% | 35% | 48% | 43% |

| | | | | | |
|----------------------|-----|-----|-----|-----|-----|
| % increase of charge | 12% | 12% | 12% | 12% | 12% |
|----------------------|-----|-----|-----|-----|-----|

| | | £ |
|---|--|---------|
| Total Official Controls Revenue from all Cutting Plants 2009/10 | | 503,459 |
| Total Official Controls Revenue Increase on 2008/09 | | 53,943 |

The four size categories of plants are based on annual throughput quartiles.

Option 2 – MHS/FSA Charges Cutting Plants – Examples of Impact on FBOs

| 12% Increase Option 2008/09 | | | | |
|--------------------------------|-------|-------|--------|-------|
| Quartile | Micro | Small | Medium | Large |
| Plant | 1 | 2 | 3 | 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 | Micro | Small | Medium | Large |
| Plant | 1 | 2 | 3 | 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% |
|----------------------|-----|-----|-----|-----|

| | | £ |
|---|--|---------|
| Total Official Controls Revenue from all Cutting Plants 2009/10 | | 503,459 |
| Total Official Controls Revenue Increase on 2008/09 | | 53,943 |

The plant specific information given above has been selected to be representative of plants within each quartile.

**Option 2 – Time Based Charging
Summary of GB Charges for 2009/10**

| | £ |
|---|-------------------|
| Official Control Revenue from all Red Slaughterhouses 2009/10 | 21,728,206 |
| Loss of income due to reduced chargeable hours | (355,630) |
| Total Official Control Revenue from all Red Slaughterhouses 2009/10 | 21,372,576 |
| Official Controls Revenue Increase on 2008/09 | 2,360,165 |
| Loss of income due to reduced chargeable hours | (355,630) |
| Total Official Controls Revenue Increase on 2008/09 | 2,004,535 |
| Total SRM Revenue 2009/10 | 503,271 |
| Official Controls Revenue from all Poultry Slaughterhouses 2009/10 | 6,651,802 |
| Loss of income due to Increased use of PIAs and reduced chargeable hours | (350,000) |
| Total Official Controls Revenue from all Poultry Slaughterhouses 2009/10 | 6,301,802 |
| Official Controls Revenue Increase on 2008/09 | 1,286,629 |
| Loss of income due to Increased use of PIAs and reduced chargeable hours | (350,000) |
| Total Official Controls Revenue Increase on 2008/09 | 936,629 |
| 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 | 503,459 |
| Total Official Controls Revenue Increase on 2008/09 | 53,943 |
| Grand Total of Official Controls Revenue 2009/10 | 28,237,787 |
| Grand Total of Official Controls Revenue Increase on 2008/9 | 3,001,530 |
| Total SRM Revenue 2009/10 | 503,271 |

The figures quoted in the examples are based on 2007/08 actual time costs and charges. No account has been taken for reductions in MHS staff numbers and chargeable hours arising from the MHS Transformation. The loss of income arising from these changes has been estimated and included in the above summary.

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 purchase¹². 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 | 0.0186 | Sirloin £22.99 Braising £4.99 Chump £11.98 |
| Sheep | 0.27 | 13.4 | 0.0199 | Half leg £7.49 Tenderloin £7.69 |
| Pig | 0.99 | 36.7 | 0.0270 | Leg joint £4.69 |
| Poultry | 0.01 | | Per bird 0.0077 | 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:

- 92.1 kg for a 131.5 kg side of beef (or 184.2 kg for the whole carcass)
- 13.4 kg for a 17.7 kg lamb carcass
- 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:

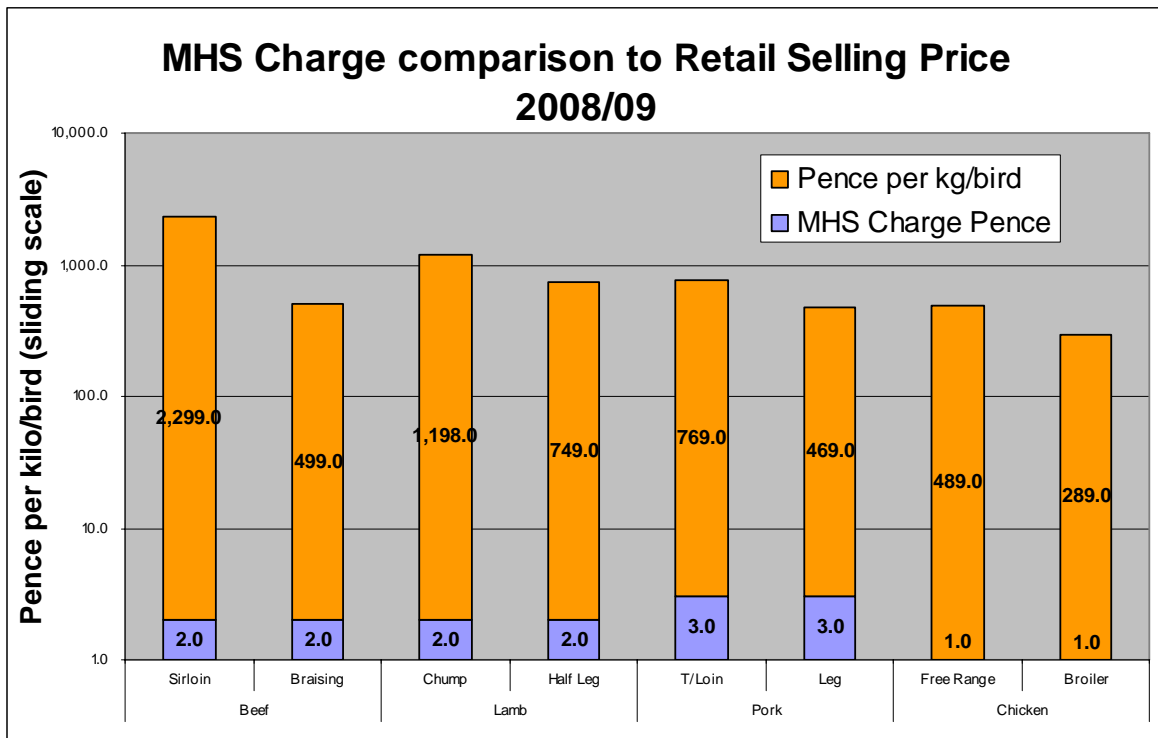
Bovine – aged 8 months or more
Sheep – carcass weight between 12 and 18 kg
Pig – carcass weight 25 kg or greater
Poultry – all broilers and other poultry less than 2kg

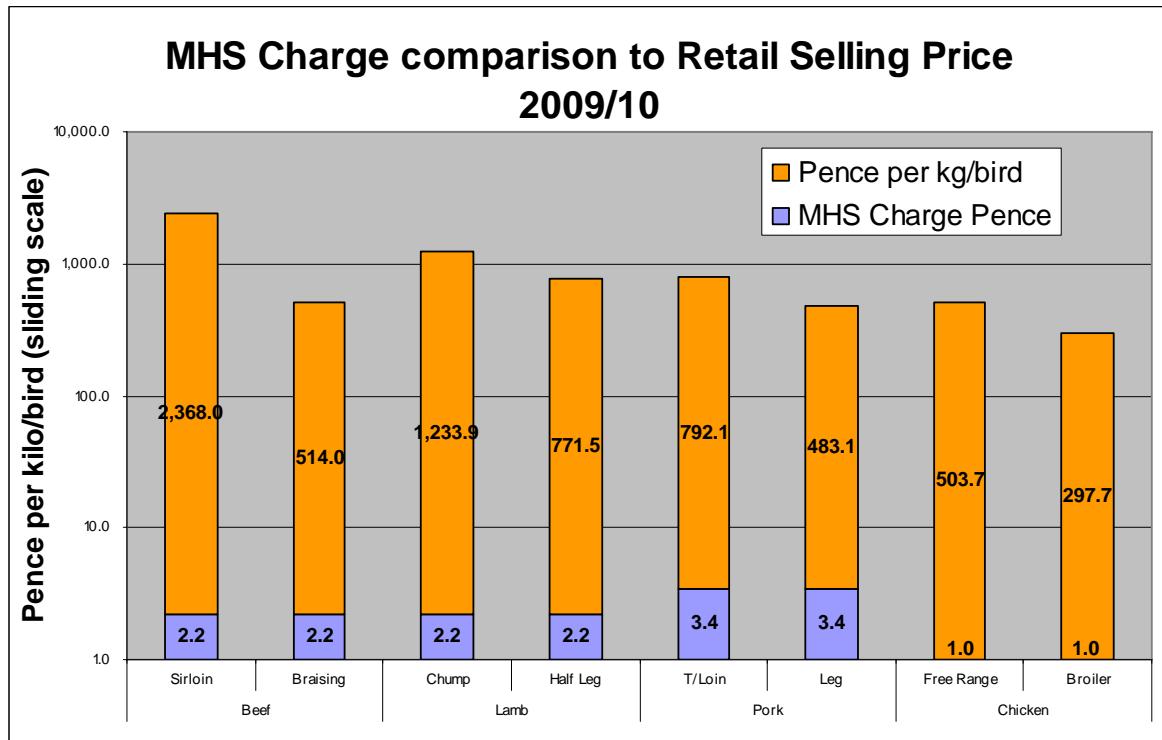
¹² Current retail prices taken from www.mysupermarket.com (independent supermarket price checker)

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

- Beef 2.08p per kg
- Lamb 2.23p per kg
- Pork 3.02p per kg
- Chicken 0.86p per bird

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





- It is estimated that, overall, less than one third of the increase in official controls costs would be passed on to consumers. The remaining two thirds would be passed on to primary producers. For example, in relation to beef, less than 0.07 of a penny to the consumer and 0.15 to the producer for each kg of beef produced.

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

Business agreement

1. The process suggested below is akin to the OTM processing RMOP¹³ which is a working agreement between MHS and FBO and has an inbuilt appeals mechanism. It is also widely recognised in the industry as a good process and has led in most cases to constructive agreement between FBOs and the MHS.
2. The key element of the Business agreement (BA) will establish both the meat hygiene service staffing levels and the hours of operation for those staff. The BA will be drafted jointly by the plant management and the MHS team and will be unique to the particular plant concerned.
3. As with any agreement between two parties a degree of negotiation will be needed between the FBO and the MHS to ensure that the level of staffing is appropriate to the circumstances associated with the individual plant and will always seek to achieve a level of agreement which ensures consumer protection is maintained through the most efficient use of MHS staff. Through a constructive dialogue it is expected that the MHS and FBO team will in the vast majority of cases agree manning levels and hours of operation between themselves.
4. However it must be recognised that there will be occasions when the FBO and MHS cannot agree on the level of staffing required and on these occasions a mechanism must be established for resolving the dispute. The diagram below identifies the suggested key steps in establishing a BA and most importantly proposes a process through which disputes could be resolved. The key stages in establishing an agreement are outlined below and would be discussed with industry representatives and be subject to public consultation.

Stage 1

5. A dialogue between the FBO and the MHS team would take place to establish a draft agreement (using a common template). It would be the responsibility of the relevant MHS and FBO management teams in the plant concerned and through negotiation a BA would be established.

Stage 2

6. If the FBO and MHS team agree the content of the BA both parties will sign the agreement and the manning levels / operating hours will be implemented with immediate effect or at an early agreed date.

¹³ Agreed Protocol for BSE Surveillance in OTM Bovines Slaughtered for Human Consumption – Required Method of Operation.

7. The FBO would not be charged for staff or hours utilised in excess of the agreed levels unless the FBO has specifically requested them or if they are due to non-compliance. Due to the dynamic nature of the meat industry especially in relation to seasonal variability etc the agreement can be reviewed at anytime initiated by either the MHS or the FBO and in any event the agreement will be reviewed at least once every twelve months. Outside of the agreement process the FBO may also request additional staff / hours but these will be subject to charge and may not always be available.

Stage 3

8. If the negotiation of the BA is not completed in a timely manner, or if agreement cannot be reached, the MHS Business Manager or the FBO would refer the dispute to the MHS Head Office for resolution.

Stage 4

9. If the FBO and the MHS cannot agree the content of the BA then the FBO could refuse to sign the agreement. However this would still be signed by the MHS and the staffing levels and operating hours would be implemented as set out by the MHS in the BA document.
10. If the FBO wished to appeal the terms of the agreement this could be done to a Tribunal. The FBO would write to the Tribunal setting out their view on manning levels and operating hours and most importantly justifying why the manning levels and operating hours suggested by the FBO should be adopted.

Stage 5

11. Once the FBO had submitted an appeal against the content of their BA a Tribunal would be convened to consider the case. It is envisaged that it could consider the case in writing or, at the request of the FBO or MHS at an oral hearing and that it would be able to visit the plant concerned to discuss separately and collectively the views of the local MHS team and the FBO management. The Tribunal would consider the issues and would ensure that its decisions complied with legislation and would not in any way compromise public health or animal health and welfare.
12. The Tribunal would determine a final decision on the disputed elements of the BA on the basis that they either accepted or rejected the entire FBO view on manning levels and / or operating hours. This 'resolved agreement' would then be implemented in the plant concerned. The FBO would not be charged for staff or hours utilised in excess of the levels determined by the Tribunal. If the Competent Authority having legal responsibility for setting official control resources, still believed additional resources were required these could be implemented without the FBO being charged for the additional costs.

13. If the FBO's appeal was felt to be unfounded then the Tribunal might have the ability to impose costs on the FBO to cover all or a proportion of the costs associated with the appeal.

Business Agreement process

