

Evaluation of the Meat Charging Discount Regime

FSA 24/12/05 - Report by James Cooper

1. Summary

1.1. This paper provides the Board with background on meat charging, the operation of the current discount regime, information on the responses to the recent [call for evidence](#) on meat charging discounts and the potential for change.

1.2. The Board is asked to:

- **Note** that the exercise to determine charges for 2025/26 is ongoing and that significant increases are likely.
- **Note** that the FSA expects to continue a discount scheme in 2025/26.
- **Note** the key points raised in stakeholder responses to the call for evidence on the impact of meat charging discounts.
- **Agree** we should engage in a collaborative process with stakeholders and devolved governments to develop options and gather evidence for future plans.
- **Agree** that any options for change should include a plan for transition.

2. Introduction

2.1. In line with its legal obligations under Official Controls Regulations (OCR), the FSA is responsible for verifying operators' compliance with food safety/hygiene legislation in meat premises (abattoirs, game handling establishments and cutting plants) in England, Wales and Northern Ireland. These functions are carried out by FSA authorised officers. Abattoirs cannot operate unless officials are present, creating a complex logistical challenge to ensure operators' needs are met.

2.2. The FSA charges operators to recover costs of providing this service which is referred to as 'meat charging.' The FSA recovered around 70% (£39.5m) of its total charges to industry in 2023/24. The remaining 30% (£17.8m) was offset through a system of taxpayer-funded discounts on charges to industry. The total discount has been slowly decreasing year on year.

2.3. The current meat charging regime is based on provisions of EU legislation that transferred into domestic legislation in Great Britain when the UK left the EU. This paper focuses on the discounts regime applied to these charges which operates under domestic Meat Official Controls Charging Regulations and has been in place since 2016/17.

2.4. We are aware of arguments for consideration of wider change with respect to official controls. Any change in this area could impact on export trade and is beyond the scope of this paper.

2.5. Discounts are applied to charges for controls in slaughterhouses and game handling establishments. They are structured to provide the greatest proportional support to the smallest operations although eligible operations of all sizes receive discounts. We have gradually reduced the scale of discount over time.

2.6. The cost to the FSA of providing controls is subject to the same inflationary pressure currently being felt in the wider economy. There are also more specific factors such as efforts to increase the resilience in supply of veterinary personnel following a period of shortages in qualified staff. These factors are likely to mean a significant increase in charges from 2025/26.

3. Evidence and Discussion

How we charge

3.1. The FSA carries out an annual review of charges working with industry and concluding in February, with publication of how charges to industry are calculated for the coming charging year. These calculations include:

- **Direct costs** of FSA and contract staff delivering the work (including salary, pension and National Insurance of FSA staff).
- **Indirect costs** primarily related to supporting functions across the FSA: staff engaged in supporting rather than directly delivering controls, sampling, testing, IT, debt recovery, office, depreciation and amortisation.

3.2. The charges are time based with the two cost components combined in a single rate, direct costs are by far the major component. For example, in 2024/25, only £4.4m of the £51.2m estimated total cost relating to England and Wales related to indirect costs (8.6%).

Obligations for cost recovery

3.3. The FSA must conduct the official controls required of it under the OCR. The OCR require charges to be levied for certain official controls and the costs connected with them and provides the ability to charge for other official controls and other official activities.

3.4. The FSA is also subject to overarching HM Treasury 'Managing Public Money' guidance and parallel guidance applicable in Wales and Northern Ireland (hereafter collectively referred to as 'MPM') which states that charges for services provided by public sector organisations normally pass on the full cost of providing them. MPM additionally states that:

"Where ministers decide to charge less than full cost, there should be an agreed plan to achieve full cost recovery within a reasonable period. Each case needs to be evaluated on its merits and obtain Treasury clearance. If the subsidy is intended to last, this decision should be documented and periodically reconsidered."

Discounts

3.5. A key feature of the charging regime since 2009 is the provision of discounts on the time-based charges. The FSA has powers to specify and vary the percentage of time costs

payable by operators as deemed appropriate for different premises or types of premises.

3.6. Discounts are applied based on the hours FSA-authorized officers spend on controls. For example, in a monthly invoice for a red meat slaughterhouse in England/Wales in 2024/25, a 90% discount applies to the first 22.5 hours of Official Veterinarian (OV) / Meat Hygiene Inspector (MHI) work, then a 75% discount to the next 57 hours etc. This means, for example:

- A small red meat slaughterhouse needing 15 OV and 27 MHI hours per month will pay only 16% of the total charges.
- A large red meat slaughterhouse needing 400 OV and 1600 MHI hours per month will receive a larger discount in cash terms but will pay 88% of the total charges.

3.7. The number of discount bands are the same for England, Wales and Northern Ireland but percentages relating to the bands may be different because the meat industry in Northern Ireland has a greater proportion of large and very large businesses.

3.8. To move towards meeting our MPM obligations identified in paragraph 3.4 the FSA has reduced the total discount given to the industry in recent years, with a decrease of 11% in England and Wales and 15% in Northern Ireland from 2021/22 to 2023/24. The two discount bands based on the lowest hours which are intended to support the smallest operations remained at 90% and 75% in England and Wales, and 85% and 70% in Northern Ireland. See **Annex A** for discount percentage bandings from 2021/22 to 2024/25.

Call for Evidence

3.9. Where a public body is not recovering the full cost of its services there is a requirement for this to undergo periodic review. It is timely to do so now as new Ministers in a new Government will need to take a view on the discount when considering the FSA's Spending Review settlement for 2026/27 onwards, and FSA will need to provide advice on the implications.

3.10. As a first step, the FSA launched a Call for Evidence on 12 September 2024, seeking input from stakeholders on the benefits and value for money of discounts on meat charges. This concluded on 24 October 2024, with 93 responses received chiefly from individual meat businesses and representative organisations. The analysis of the call for evidence responses is in progress. The following paragraphs provide a high-level overview of the main points raised.

3.11. A recurring theme in responses from both large and small operators, was that smaller operations rely heavily on the discount from charges they receive for their continued viability. Responses also highlighted the important role that some small rural abattoirs play in their local economies through the service they provide to farmers by helping them get products to market and, potentially, the benefits to animal welfare by the transport of animals for slaughter over shorter distances than might otherwise be the case.

3.12. Larger businesses and representative bodies indicated that costs had been increasing and discounts reducing for some time which they believe is unsustainable. They felt that discounts help support farming, domestic food production and investment by abattoirs. They were of the view that the removal of discounts would increase costs for businesses and consumers at a challenging time, resulting in less choice for consumers, more imports and a reduction in domestic food security. The issue of competition was also raised, indicating that the scale of UK charges can reduce the competitiveness of UK products in international markets.

3.13. The majority of responses were from the meat industry and its representative bodies with few from consumers and consumer bodies. However, as regards impact on consumers, some responses made the point that small operators support communities and consumer choice in terms of the range of local, regional and specialist products available to them. It was suggested that as profit margins in the slaughtering sector are tight any increase in costs would be passed on to other parts of the supply chain and then consumers. It was also observed that any closures of smaller abattoirs would affect the businesses they serve which produce local/specialist foods identified as such and their customers and lead to dominance by large businesses; reduced consumer choice; increased food miles; and a potential reduction in animal welfare.

3.14. Bodies representing FSA employees, and the Meat Hygiene Inspector profession highlighted in their responses the importance of the controls to public health and confidence/trust in the food system and the importance of the people who undertake them.

3.15. As touched on above, some parts of the industry were of the view that the current implementation of the official controls regime is inefficient and over-costly.

3.16. An overview of the call for evidence can be found at **Annex B**. A more detailed analysis of responses is ongoing.

Strategic approach to the discount

3.17. MPM sets the expectation that the FSA charges fully for its services. Below full cost recovery must only happen to support specific Ministerial goals whilst providing a pathway towards full cost recovery. The FSA's priority, as set out by Parliament in our statutory objective in the Food Standards Act 1999, is to protect public health and otherwise protect the interests of consumers in relation to food. This means ensuring the official controls happen to protect health by verifying that legislative safety and hygiene requirements are being met.

3.18. Interests of consumers could additionally include wider considerations for example the cost of meat and meat products and continued choice in local, regional and specialist products identified as such. To meet the MPM requirements we need to determine if these potential benefits justify continuing to set our charges at below cost through the use of a discount scheme, how widely the benefits apply and/or whether a discount scheme is the most effective means of delivering these benefits.

Next steps to assess the evidence

3.19. There are two main sets of arguments made in response to the call for evidence, which we now need to work to assess.

3.20. As noted, the evidence we have received suggests that some small operators depend on discount support, crucial for their viability. Respondents made the case for the benefits these operators can bring to the farming community, supply chains, and consumers, reducing food miles and supporting animal welfare by helping reduce the distances animals travel for slaughter. Many of them also support consumer choice in terms of supplying specific markets. However, it should not be assumed that all small operators deliver these additional benefits for consumers, society and the wider economy. We need to work with stakeholders, including other parts of government, to consider the case for these benefits and to consider the most appropriate mechanism to deliver them.

3.21. The justifications given for provision of a discount on charges for larger businesses are different. The logistical limitations do not apply in the same way, and the direct link to specific rural communities will be less, although should not be assumed to be absent. The arguments rest more on the likely passing on of increased cost from removing support to consumers and reduction in overall international competitiveness.

3.22. While the call for evidence provided qualitative views on the need for support, we do not currently have all the quantitative evidence needed to deliver a full evaluation of the impacts of any changes to the discount on businesses.

3.23. Delivering controls which meet the needs of all businesses across the sector in terms of scale and flexibility is an inherent challenge particularly as the scale of need decreases. For example: One abattoir may require an OV full-time, but a smaller one with less throughput will require a fraction of this resource which makes it challenging to use OV time efficiently. The FSA either needs to schedule the OV for specific times, which can be inflexible for the business, or have them on standby, leading to inefficiency in the use of the resource.

3.24. We need further evidence on the scale of any likely impact of any changes to the discount when considered in the context of overall production and the practicalities of delivery. There will be a number of difficult issues to resolve not least, for example, how we determine any criteria in relation to such a diverse industry. We therefore propose the following:

- to support the next stage of the Spending Review process and build our evidence base about the industry, we plan to conduct a preliminary assessment of existing economic evidence.
- to develop options, we plan to conduct a more detailed assessment of the case for support, along with stakeholder engagement and assessment of the wider societal and consumer benefits.

3.25. If support is justified, we need to consider how it should be delivered, this requires the more in-depth approach. Discounts on our charges may not be the most effective way to achieve the relevant objectives. There might be a case for the governments to target support directly at relevant operators. There may also be wider benefits to both government and industry if support is delivered in a different way, for example facilitating opportunity for improvements through simplification of IT and administrative requirements.

3.26. As part of this approach, we will clearly need to engage across all three governments to seek views from Ministers on the case for some form of subsidy and the best way of delivering it.

3.27. Finally, it is worth noting that any changes would need careful consideration to continue to be compatible with subsidy control and state aid rules.

3.28. We are therefore **seeking Board agreement** to commence this work.

Implications for the coming years

3.29. Given the dependency of smaller businesses on the discount it is clear that any significant change in support without due consideration of mitigating actions could have a detrimental effect. The Board **is asked to note** that we made the case to HMT through the Spending Review process and have clearance for a discount scheme for the financial year 2025/26 in England and Wales, and our current planning assumption is that Northern Ireland will also have a scheme when their process is complete. The charge and discount setting process for the coming year will continue as usual.

3.30. Funding in subsequent years (2026/27 onwards) will be the subject of a more extensive spending review, which we know will require a robust evidence base, hence the work described above. We are not at this stage seeking a decision from the Board on the future of the discount since that analysis is not yet done. However, it would be helpful to have any steers from Board members on what we should take into account in that exercise.

3.31. Whether a decision is eventually made to continue a discount for the foreseeable future or move progressively towards full cost recovery, we must ensure arrangements are in place to provide certainty for businesses to plan and avoid abrupt impacts, while making the best use of public funds. We will consider this as part of the preliminary analysis of existing economic evidence to support a future spending review bid. We are seeking Board agreement that any options for change should include a clear, evidence-based plan for transition.

4. Conclusions

4.1. The current discount scheme has been in place since 2016/17. Economic and other factors are putting pressure on the costs of the services the FSA provides and there is likely to be a significant increase in charges from 2025/26 potentially making the discount more important to the sector than ever. However, we also need to consider the principle of having a universal discount in proportion to cost of controls and whether it is delivering the desired outcomes for taxpayers or whether there are better ways to deliver these. It is therefore an appropriate time for the Board to consider the discount in relation to MPM guidance, and the outcomes it does, or could, potentially deliver. We recognise the vulnerability of parts of the sector to change and the need for this to be a collaborative process with the industry and other government departments.

4.2. The Board is asked to:

- **Note** that the exercise to determine charges for 2025/26 is ongoing and that significant increases are likely.
- **Note** that the FSA expects to continue a discount scheme in 2025/26.
- **Note** the key points raised in stakeholder responses to the call for evidence on the impact of meat charging discounts.
- **Agree** we should engage in a collaborative process with stakeholders and devolved governments to develop options and gather evidence for the future of support.
- **Agree** that any options for change should include a clear plan for transition.

Annex A

Discount Rates by Band in England and Wales 2021/22 - 2024/25

Discount Rates by Band in Northern Ireland 2021/22 - 2024/25

Annex B

Overview of FSA Call For Evidence on Discounts to Meat Charges

The call for evidence on Discounts to Meat Charges was issued on 12 September 2024 and closed on 24 October 2024.

It was launched to gather evidence on how discounts applied to charges for Official Controls and Other Official Activities for businesses in the meat sector provide benefits to businesses and consumers.

The key information the call for evidence requested information about included:

- The benefits of offering a discount on charges
- Any negative impacts of offering a discount on charges
- The administrative burden of managing discounts on FBOs, OVAs and MHIs as well as any suggestions for simplifying administration
- The impact of being unable to provide the discount and what could happen
- How the discount or other measures could help manage or reduce the impact of the increase in charges in 2025/6 on those who will be affected
- Comparisons with discounting and charging for public sector services in other regulated sectors in the UK or in other countries

Stakeholder responses

A total of 93 responses were received in the call for evidence: 63 from food business operators, 21 from stakeholder associations, 1 from a government department, 1 from a consumer and the respondent type was 'unknown' of 7 responses. The following table shows the breakdown of responses by the type of business.

Breakdown of responses by the type of business

| Type of business responding (N.B. Categorisation based on FSA estimate) | Number of respondents per category |
|--|------------------------------------|
| Farm | 26 |
| Abattoir | 20 |
| Small abattoir | 7 |
| Butcher | 7 |
| Unknown | 7 |
| Processor | 5 |
| Wholesaler | 5 |
| Cutting plant | 4 |

Note: Some respondents fall under more than one category. Such as a farm with abattoir.

Next steps

The FSA will thoroughly review responses to the call for evidence. The responses will be tested against existing evidence, and we will identify relevant evidence gaps with an aim to address

them through future research. The evidence submitted will contribute towards an assessment of the meat charging system and the exploration of alternative options appraising the full economic costs and benefits to society.

The FSA is grateful to those stakeholders who responded.