Contracting Options Analysis for FSA Delivered Official Controls (FSADOC)

Introduction

There are currently 6 geographical contracts in place for the delivery of meat official controls in FSA approved meat establishments in England and Wales. This includes slaughterhouses, cutting plants, co-located cold stores and game handling establishments. These controls are delivered through the provision of Official Veterinarians (OVs) and Meat Hygiene Inspectors (MHIs) though a sole supplier.

There has been significant interest in both the previous tender exercise and the management and delivery of the current contract from multiple stakeholder groups. As an underpinning objective we aim to improve transparency across the entire tender exercise, where appropriate. Initiatives taken to support this will include opening pre-market discussions to all stakeholders, not just potential bidders, and to encourage external interested parties to be part of the evaluation process so that they feel involved in the overall decision making for the award of the new contracts.

Considering the contracting options is the third part of the premarket engagement process, including undertaking a market health analysis, which feeds into the delivery model assessment, which in turn feeds into the contracting options.

Long List of Contracting Options

A long list of contracting options was produced by looking at all aspects of the current contracts in the following themes:

1. Staffing

    a. OV and MHI contracted together,

   b. Blended employed and outsourced staff Lots,
   c. Separate OV and MHI contracts
   d. Some fully employed staffing Lots – (OV and MHI)
   e. Some fully employed staffing Lots (MHI only)
   f. Some fully outsourced staffing lots (OV and MHI)

2. Contracting Options
   a. 6 contracts – 2 per FSA region
   b. 7 contracts – 1 current lot split into 2 areas as separate contracts
   c. 9 contracts – 1 current lot split into 4 separate contracts
   d. 1 contract for England and Wales
   e. 3 contracts – 1 per FSA region
   f. 12 contracts – 1 per FSA region
   g. Separate contracts for red and white meat species
   h. Separate contracts for different species – Poultry, Cattle, Pigs, Sheep & Goats, Horses

3. Contract Duration
   a. 5 years
   b. 4 years + 2 year extension
   c. 4 years + 1 year extension
   d. 4 years
   e. 3 years + 2 year extension
   f. 3 years + 1 +1 year extension

    g. Less than 3 years

4. Core Contract Services

    a. Delivery of Meat Official Controls

    b. Delivery of Dairy Hygiene Inspections

    c. Delivery of Game Official Controls

    d. Delivery of Food Business Operator (FBO) audits

    e. Delivery of Unannounced Inspections

    f. Delivery of other sampling services for FSA

    g. Delivery of Egg Hygiene Inspections

    h. Wine Inspection

    i. Delivery of Shellfish Sampling

    j. Delivery of Feed Inspections

5. Additional Contract Services

    a. Innovation (legislative, digital, modernisation) as part of the contract

    b. Innovation of services

    c. Supplier laundry provided by the FSA.

    d. Supplier single use PPE provided by FSA.

    e. Supplier laundry provided by Supplier.

    f. Supplier single use PPE provided by Supplier.

    g. Supplier laundry provided by FBOs.

    h. Supplier single use PPE provided by FBOs.

6. Service Model
    a. Managed service
    b. Supply of staff
7. Cost Model
    a. Cost plus fixed profit per hour with adjustment clause.
    b. Cost plus fixed profit amount with adjustment clause.
    c. Cost plus profit percentage with adjustment clause
    d. Fixed total price
    e. Cost without profit percentage or profit per hour.
8. Cost Model Assumptions
    a. Premium overtime rate paid through the contract.
    b. Coding of facility time for contract staff
    c. Separate payment of travel time
    d. Annual segmented price increase
    e. Service Credit Regime
    f. Incentives/gainshare
    g. No premium overtime rate paid through the contract.
    h. No coding of facility time for contract staff
    i. No separate payment of travel time
    j. Annual uplift
    k. Index linked uplift e.g., RPI, RPX
    l. Different rates for different services

m. Agreed soft caps for costs.

n. Multi Lot discount

o. Overhead payment mechanism - fixed

The FSA's priority with regards to the retender is to ensure service continuity of the Meat Official Controls which is critical to the multi-billion-pound meat industry.

A high secondary priority area is to increase market resilience, ensuring a robust competitive market is available to service the FSA's requirements.

The cost effectiveness and affordability of the outsourced service needs also to be carefully considered.

Short List of Contracting Options

Using the priority for the retender, the long list was reduced to a short list by excluding the contracting options that did not support the priorities of delivery certainty and market resilience. The risks and benefits for each of these options is in Annex A. Some categories have multiple options that can be selected together, where others have only a single selection that can be made. This has been identified for each category as well as the options that make up the current contract. The short list to be taken to stakeholder engagement is as follows:

1. Staffing (Multiple Selection)
    a. OV and MHI contracted together (Current Contracts)
    b. Blended employed and outsourced staff Lots (Current Contracts)
2. Contracting Options (Single Selection)
    a. 6 contracts – 2 per FSA region (Current Contracts)
    b. 7 contracts – 1 current lot split into 2 areas as separate contracts
    c. 9 contracts – 1 current lot split into 4 separate contracts
3. Contract Duration (Single Selection)
    a. 5 years
    b. 4 years + 2 year extension

    c. 4 years + 1 year extension
    d. 4 years
    e. 3 years + 2 year extension
    f. 3 years + 1 +1 year extension (Current Contracts)
4. Core Contract Services (Multiple Selection)
    a. Delivery of Meat Official Controls (Current Contracts)
    b. Delivery of Dairy Hygiene Inspections (Current Contracts)
    c. Delivery of Game Official Controls (Current Contracts)
    d. Delivery of Food Business Operator (FBO) audits (Current Contracts)
    e. Delivery of Unannounced Inspections (Current Contracts)
    f. Delivery of other sampling services for FSA
    g. Delivery of Egg Hygiene Inspections
5. Additional Contract Services (Multiple Selection)
    a. Innovation (legislative, digital, modernisation) as part of the contract (Current Contracts)
    b. Innovation of services as a separate contract
    c. Supplier laundry provided by the FSA. (Current Contracts)
    d. Supplier single use PPE provided by FSA. (Current Contracts)
    e. Supplier laundry provided by Supplier.
    f. Supplier single use PPE provided by Supplier.
6. Service Model (Single Selection)
    a. Managed service (Current Model)
7. Cost Model (Single Selection)
    a. Cost plus fixed profit per hour with adjustment clause. (Current Contracts)
    b. Cost plus fixed profit amount with adjustment clause.
    c. Cost plus profit percentage with adjustment clause

8. Cost Model Assumptions (Multiple Selection).

    a. Premium overtime rate paid through the contract.
    b. Coding of facility time for contract staff
    c. Separate payment of travel time
    d. Annual segmented price increase
    e. Service Credit Regime (Current Contracts)
    f. Incentives/gainshare (Current Contracts)
    g. No premium overtime rate paid through the contract (Current Contracts)
    h. No coding of facility time for contract staff. (Current Contracts)
    i. No separate payment of travel time. (Current Contracts)
    j. Annual uplift
    k. Index linked uplift e.g., RPI, RPX
    l. Different rates for different services
    m. Agreed soft caps for costs.
    n. Multi Lot Discount
    o. Overhead payment mechanism – fixed or variable

Annex A Risks and Benefits of Contracting Options Short List

Contract Considerations

- FSA are the only organisation that buy the Official Auxiliary (MHI) service across England and Wales

- Overseas vet schools must be EAEVE accredited to join RCVS.

- Temporary Registration currently expected to end in December 24, three months before the start of the new contract.

- Next Spending Review outcome not known. Budget for these contract(s) will need to be estimated to feed into the review as tender will not have been awarded by this point. (SR bid August 24, estimated timescale for award Oct 24)

- Limited market for delivery of these services. Only one outsourced supplier delivering these controls in the UK.

- Difficult delivery landscape to recruit and retain vets and meat inspectors for suppliers.

- The current suppliers VetTrack programme for veterinary MHIs will be in progress at the time of the retender and consideration will need to be given to the additional training these staff would require during TUPE and transition.

- The contract is for approximately 276 MHIs and 27 operational managers, as well as 261 OVs.

- Underpinning cost model assumption of risk apportionment of costs where they are best placed to be managed between FSA and the Supplier.

Staffing Options	**Risk**	**Benefit**	**Comments**
OV and MHI Contracted together	Potential suppliers specialising in providing veterinary services may struggle to provide the MHI requirement under these contracts.	Reduced contract management, increased flexibility of resourcing as OV and MHI from the same supplier. Possible pathway for MHIs with an EAEVE accredited vet degree to progress to OV when English Level achieved. Provides value for money.	Current Model
Blended Employed and Contracted Lots - MHIs	Them and us culture with some employed staff being very critical of contract staff.	Reduces risk of delivery failure by spreading the resource contingency options across all lots. Maintains a hybrid model. Provides more value for money than fully employed Lot.	Current Model
Contracting Options	Risk	Benefit	Comment
6 contracts – As Is – 2 per region.	Still some lots which are less attractive - South	Aligned FSA field operations management	Current Model

Staffing Options	Risk	Benefit	Comments
	West and North to South Wales. Lots are quite large as each lot covers 2 FSA areas which might put off potential suppliers.	structure so easier to contract manage. Previous contract analysis identified 6 lots as the most effective and attractive way to deliver the services across E&W, by reducing the financial unattractiveness of some areas. May allow benchmarking of performance across suppliers if multiple suppliers are awarded.	
7 contracts – 1 current lot split into 2 areas as separate contracts	Increased costs if delivered by multiple suppliers. Backfill across lots would be difficult. Increased contract management for FSA. Increased management layers. Some contracts may be	Smaller contracts may be more attractive to potential suppliers in the current delivery landscape. May encourage consortiums of SMEs to be formed to bid. May allow benchmarking of performance across suppliers if multiple	

Staffing Options	Risk	Benefit	Comments
	less attractive than others due to their location (south- west). Could be delivered under different contract terms than the larger contracts.	suppliers are awarded. Still aligned to FSA field operations management structure.	
9 contracts – 1 current lot split into 4 separate contracts.	Splitting an FSA area in half which does not match the Field Operations management structure. Increased costs if delivered by multiple suppliers. Backfill across lots would be difficult. Increased contract management for FSA. Increased management layers. Some contracts may be less attractive than others due	Smaller contracts may be more attractive to potential suppliers in the current delivery landscape. May encourage consortiums of SMEs to be formed to bid. May allow benchmarking of performance across suppliers if multiple suppliers are awarded.	

Staffing Options	Risk	Benefit	Comments
	to their location (south-west). Could be delivered under different contract terms than the larger contracts.		
Contract Duration Options Years (+ optional extension)	Risk	Benefit	Comment
5	Costs fixed for 5 years so inflation built in for all 5 years. Given the changing delivery landscape, 5 years may be too long to be fixing prices and scope for these contracts. 5-year budget for FSA will be unknown at this point.	Fixed cost for 5 years so know what the contract cost is. Allows more time for changes to the delivery model to be piloted	
4 (+2)	Given the changing delivery landscape, 4 years may be too long to be fixing	Allows contract to run for 2 years before extension or retender decision needs to be made.	Pricing for optional extension can be requested during the

Staffing Options	Risk	Benefit	Comments
	prices and scope for these contracts. 4-year budget for FSA will be unknown at this point.	Allows more time for changes to the delivery model to be piloted. Breakpoint built into the contract after Y4.	tender or at point of extension
4 (+1)	Given the changing delivery landscape, 4 years may be too long to be fixing prices and scope for these contracts. 4-year budget for FSA will be unknown at this point.	Breakpoint built into the contract after Y4. Allows more time for changes to the delivery model to be piloted	Pricing for optional extension can be requested during the tender or at point of extension
4	Costs fixed for 4 years so inflation built in for all 4 years. Given the changing delivery landscape, 4 years may be too long to be fixing prices and scope for these contracts. 4-year budget for FSA	Fixed cost for 4 years so know what the contract cost is. Allows more time for changes to the delivery model to be piloted	

Staffing Options	Risk	Benefit	Comments
	will be unknown at this point.		
Core Contract Services Options	Risk	Benefit	Comment
Delivery of Meat Official Controls	If not, outsourced FSA do not have the capability or capacity to deliver this inhouse. Demand for services is driven by meat industry which is outside FSA control.	Outsourcing the delivery of this work allows FSA to meet its regulatory obligations. Provides better value for money than delivering this inhouse.	Current Model
Delivery of Dairy Inspections	FSA have both full and part time dairy inspectors undertaking this work. Specific training is required to deliver this work which may increase tender costs if included.	Cheaper to deliver than insourced delivery. Would provide task variety to outsourced staff which may aid retention. None timebound work which could be allocated to increase staff utilisation.	Current Model but suspended

Staffing Options	Risk	Benefit	Comments
Delivery of Game Controls	Demand for this work is seasonal - peaks and troughs	Outsourcing the delivery of this work allows FSA to meet its regulatory obligations. Provides better value for money than delivering this inhouse.	Current Model
Delivery of Some Audit and UAI	FSA have full time Auditors and Unannounced Inspectors undertaking this work. Perceived as a conflict of interest to have suppliers. auditing the FBO's where they deliver the controls.	Allows contingency where employed resources cannot deliver these controls. Provides task variety. Provides better value for money than delivering this inhouse.	Current Model but used infrequently
Delivery of other FSA Official Controls – Eggs,	Current contractual agreements in place so timings might not be right	Task variety. May offer better value for money.	Contract expires March 25 with

Staffing Options	**Risk**	**Benefit**	**Comments**
	to include in the new contract. Outside current areas of expertise of supplier staff. Would increase foot fall to inspection locations.		extension to March 26
Delivery of other FSA sampling services	Would increase foot fall to inspection locations. May be outside the expertise of supplier staff.	Task variety. May offer better value for money to FSA.	
Additional Contract Services Options	Risk	Benefit	Comment
Innovation as part of the FSADOC contract (legislation, digital, modernisation)	Supplier is trying to deliver official controls and innovate delivery in the same contract. No incentive for the supplier to make contract delivery more	Innovation is built into the contract and so is costed in. Supplier is best placed to understand where efficiencies can be made.	Current Model

Staffing Options	Risk	Benefit	Comments
	efficient as will reduce revenue.	Gainshare included in contract as an incentive.	
Innovation in delivery of Official Controls as a separate contract	FSA have an Operations Modernisation Team whose remit is to identify, pilot and implement changes to the current delivery model and this would be a duplication of this work. Increased costs as a separate contract would be put in place in addition to FSADOC. The suppliers of FSADOC and Innovation fail to work together to drive changes to the delivery model.	Supplier unhindered by delivering the controls and can focus on identifying and piloting changes to make efficiencies.	

Staffing Options	Risk	Benefit	Comments
Supplier Laundry provided by FSA	FSA managing garments on behalf of the supplier. FSA responsible for cost of the replacement of lost garments. Recharging costs to the supplier increases admin time for contract. No incentive for supplier to be efficient.	Consistency of garments worn by staff working for or on the behalf of the FSA. Economies of scale in larger contract with laundry supplier which gives better value for money.	Current Model
Supplier Laundry provided by Supplier	FSA and Supplier garments may be different style and quality. Additional laundry services needed on site for supplier garments.	No recharging of costs to the supplier No additional costs to FSA. Supplier responsibility to ensure they have the garments they need to deliver official controls and utilise them efficiently	
Supplier Single Use PPE provided by FSA	FSA managing single use PPE on	Consistency of PPE used by FSA and supplier.	Current Model

Staffing Options	**Risk**	**Benefit**	**Comments**
	behalf of the supplier. FSA responsible for cost of the replacement PPE Recharging costs to the supplier increases admin time for contract. No incentive for supplier to be efficient.	Better value for money through economies of scale in contract.	
Supplier PPE provided by Supplier	Supplier uses different PPE to FSA staff which causes issues. Increased deliveries of PPE to site from different PPE suppliers.	Supplier responsible for provision of all kit except a helmet with an FSA logo and utilising them efficiently	
Service Model Option	Risk	Benefit	Comment
Managed Service	Requires separate but not necessarily additional or higher cost management	Recovery of VAT at 20% estimated to be c. £8m per year in current contract. Established model provides reliability	Current Model

Staffing Options	Risk	Benefit	Comments
	function across suppliers and FSA	in terms of continuity of service and flexibility to cover FSA resourcing gaps.	
Cost Model Options	Risk	Benefit	Comment
Cost Plus Fixed Profit Amount with adjustment clause	No incentive for supplier to provide increased hours as no additional profit can be made. Incentive for supplier to reduce hours as this would reduce cost whilst maintaining a fixed profit amount. FSA Unit costs increase as hours reduce which is the current trend because the cost of the profit is spread over fewer hours.	Provides certainty for supplier and FSA. Supplier best placed to manage supplier risk costs. FSA would pay less if hours reduced even with a fixed profit amount.	Current Model

Staffing Options	Risk	Benefit	Comments
	Reduction in costs that the supplier has control of could be detrimental to quality of service. If hours reduce FSA still pay the same profit.		
Cost Plus Fixed Profit Per Hour with adjustment clause	Reduces certainty for supplier as a reduction in hours directly affects the profit earned.	Incentive for supplier to accommodate increased hours requirements and no detriment to FSA when hours reduce. Maintains an equitable basis between FSA and supplier when demand fluctuates.	
Cost Plus Fixed Profit Percentage with adjustment clause	Reduces certainty for supplier as the hours may reduce which will reduce the % profit earned. Leads to differential profit margins between		

Staffing Options	Risk	Benefit	Comments
	OVs and MHIs because profit percentage is applied to different costs.		
Cost Model Assumptions Options	Risk	Benefit	Comment
No Premium rates paid for overtime	Discourages supplier to provide flexible resourcing at short notice.	No incentive for supplier to increase overtime	Current Model
No Facility time included in contract to be coded by supplier	Inconsistent approach with employed staff	Decreased cost for the FSA No impact to industry as no time charged	Current Model
No separate payment of travel time under the contract		No additional cost impact on industry Consistent approach with employed staff.	Current Model
Agreed Soft Caps	Leads to uncertainty for supplier which can result in instability and higher costs	FSA retains control and mitigates risk of cost increases.	Current Model

Staffing Options	Risk	Benefit	Comments
	factored into initial bids.		
Multi Lot Discount	May discourage suppliers from bidding if weighted in the evaluation. May be perceived as a race to the bottom line.	Allows economies of scale to be realised if suppliers win more than 1 Lot.	Current Model
Overhead Payment mechanism – Fixed	Does not reflect any changes to delivering the cost of the service. Risk to suppliers if forecast is not accurate for these costs	Provides certainty for FSA for these costs	Current Model
Overhead Payment mechanism – Variable	Leads to uncertainty for supplier which can result in instability and higher costs factored into initial bids.	Reduces certainty to FSA although soft cap can mitigate	

Staffing Options	**Risk**	**Benefit**	**Comments**
Overtime Included in the contract and paid at premium rates	Incentive for supplier to increase overtime	Encourages supplier to provide flexible resourcing at short notice.	The capability of the Contractor Payments system to pay multiple rates would need exploring
Facility Time Included in the contract for the supplier to claim	Increased cost for the FSA and current discounts would prevent all of this being recovered. Impact to industry if the associated time is charged.	Consistency of approach with employed staff Set amount allowed to be claimed (15 mins at start and end of the day).	
Travel Time Included in the contract charged separately to hours worked	Impact on industry and difficult to charge. Inconsistency of approach with employed staff.		
Annual Uplift %	Ignores real cost pressures faced by supplier	Simple to administer and offers more certainty	

Staffing Options	Risk	Benefit	Comments
Index Linked e.g., RPI/RPIX/CPI/Earning index	No direct link to actual costs within contract so may not be seen to be delivering value for money. Timing for index linking backward looking	It would create some certainty with the meat industry about charges increases because the increase in contractor costs would be known in advance.	
Annual Segmented Price Increase		Keeps balance of profitability in contract as actual costs will be paid, E.g., agreed % for pay, direct variable costs and overheads separately	
Service Credits	Risk that the tolerance levels for the service credit regime are set too high and this deters potential bidders	Compliance with Central Government governance requirement for government contracts.	Current Model
Incentives/ Gainshare	May not be in the interest of the supplier as gain share will be short term return but will result in	Supplier best placed to identify where efficiencies can be realised	Included in Current Model but not utilised.

Staffing Options	Risk	Benefit	Comments
	long term reduction.		
Different Rates for Different Services	Adds complexity and administration to contract management and charging. Risks associated with Contractor Payment system (is it capable of handling multiple rates?) Supplier may focus on more profitable services	Recovery of costs of services at appropriate rates rather than an agreed rate for all.	