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# Cost Data Slides for 2022/23

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# England and Wales - Cost data presentation 2022/23

- Purpose of the slides and annual process
- Meat controls hourly rate calculation
- Enforcement rate calculation
- Review and conclusion
- Annexes
  - Allowances
  - Indirect cost detail

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# **Purpose and Process**

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# The purpose of the slides

- The presentation of the cost data for meat industry hourly charge rates for 2022/23.
- The presentation covers England & Wales.
- To clarify and provide transparency on:
  - direct and indirect essential support costs of meat controls,
  - process to calculate hourly rates,
  - FSA application of current GB charging (including retained EU law).
- To confirm the hourly rates have been validated by independent external audit.
- All figures displayed in these slides are budgeted costs and hours.

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# The annual process

Month	Process
November	The FSA budget for direct and indirect costs and hours for the following financial year are calculated.
December	Meat related costs are identified and based on the budget the hourly rates are calculated.
January	FSA Legal confirm the costs included in the hourly meat rates are consistent with 2017/625.
February	The calculations for hourly rates are externally audited.
2 March 2022	Combined meeting with industry to agree discount rates and present Cost Data.
28 March 2022	New charge rates and discount bands implemented for FSA customers.

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# **Meat Controls Hourly Rate Calculation**

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# How the meat controls hourly rates are calculated

- The direct cost per chargeable hour is calculated.
- The indirect cost of meat is calculated based on data from all FSA business areas and approved by senior management.
- Only the meat related indirect cost is included in the hourly rate calculation.
- The items included in the rates are reviewed by the Head of Legal Services.
- The calculations are audited by external auditors.

# Meat controls hourly rates

Grade	2021/22 rate	2022/23 rate	Change	% difference
OV Normal	£48.00	<b>£50.70</b>	+£2.70	+5.6%
MHI Normal	£31.90	<b>£33.10</b>	+£1.20	+3.8%

The proportion of total hours charged for OVs is 32% and the rate will increase by 5.6%. The majority of the hours charged are for MHIs (68% of total hours) this hourly rate will increase by 3.8%. Both rates rise due to increased contractor costs – see slide 11.

Grade	2021/22 rate	2022/23 rate	Change	% difference
<b>OV Normal</b>	£48.00	£50.70	+£2.70	+5.6%
<b>Direct costs increase</b>	-	-	+£3.86	+8.0%
<b>Reduction (+) / increase (-) in chargeable hours</b>	-	-	-£1.13	-2.4%
<b>Indirect costs decrease</b>	-	-	-£0.03	-0.06%
<b>MHI Normal</b>	£31.90	£33.10	+£1.20	+3.8%
<b>Direct costs increase</b>	-	-	-£0.03	-0.1%
<b>Reduction (+) / increase (-) in chargeable hours</b>	-	-	+£1.26	+4.0%
<b>Indirect costs decrease</b>	-	-	-£0.03	-0.1%

OV chargeable hours have increased by 12k - dividing costs over more hours

MHI chargeable hours have decreased by 44k - dividing costs over fewer hours



# Meat controls hourly rates 2022/23

Cost type	Budgeted OV costs	Budgeted MHI costs	2022/23 Total budget	2021/22 Total budget	Variance on 2021/22
Direct Costs	£18.98m	£26.56m	<b>£45.54m</b>	£43.88m	+3.8%
Indirect Costs	£1.29m	£2.87m	<b>£4.16m</b>	£4.13m	+0.7%
Total Costs	£20.27m	£29.43m	<b>£49.70m</b>	£48.01m	+3.5%
Industry chargeable hours (plussed up)*	399,303	888,048	<b>1,287,351</b>	1,311,309	-1.8%
Charge rate before discount	<b>£50.70</b>	<b>£33.10</b>	-	-	-

\* Plussed up hours take account of overtime so that one hour of overtime at time and a half rate equates to 1.5 hours in the above hours figures. These hours include all industry chargeable time, excluding time spent on enforcement activity.

# Industry meat costs: Direct costs

Budget in £m	2016/17 budget rest ated to align with 2017/18 structure	2017/18 budget	2018/19 budget	2019/20 budget	2020/21 budget	2021/22 budget	2022/23 budget
Employed staff costs	£19.60	£17.85	£16.32	£16.83	£16.96	£17.62	<b>£17.40</b>
Contractor costs	£18.24	£18.95	£19.22	£21.66	£24.14	£24.74	<b>£26.75</b>
Laundry/equipment costs	£0.61	£0.42	£0.62	£0.73	£0.62	£0.69	<b>£0.63</b>
Frontline travel costs	£0.79	£0.85	£0.83	£0.97	£0.86	£0.83	<b>£0.76</b>
<b>Total direct costs</b>	<b>£39.23</b>	<b>£38.08</b>	<b>£36.99</b>	<b>£40.19</b>	<b>£42.58</b>	<b>£43.88</b>	<b>£45.54</b>

# Industry meat costs: Indirect costs

Budget in £m	2016/17 budget resta ted to align with 2017/18 structure	2017/18 budget	2018/19 budget	2019/20 budget	2020/21 budget	2021/22 budget	2022/23 budget
Operations Support	£3.07	£2.89	£2.73	£2.69	£2.90	£2.18	<b>£2.40</b>
Finance & Performance	£1.43	£0.97	£0.69	£0.49	£0.35	£0.30	<b>£0.38</b>
Human Resources	£0.46	£0.36	£0.21	£0.10	£0.10	£0.08	<b>£0.07</b>
Depreciation / Amortisation	£0.25	£0.21	£0.23	£0.28	£0.16	£0.18	<b>£0.10</b>
Regulatory and Legal Strategy	£0.28	£0.24	£0.24	£0.22	£0.25	£0.16	<b>£0.17</b>
Operations IT	£1.98	£1.49	£1.27	£1.01	£0.92	£0.93	<b>£0.72</b>
Private Office & Secretariats	£0.09	£0.08	£0.08	£0.08	£0.08	£0.08	<b>£0.09</b>
Corporate Support Unit	£0.21	£0.21	£0.21	£0.30	£0.29	£0.22	<b>£0.23</b>
<b>Total indirect costs</b>	<b>£7.77</b>	<b>£6.45</b>	<b>£5.66</b>	<b>£5.16</b>	<b>£5.05</b>	<b>£4.13</b>	<b>£4.16</b>
<b>Grand total meat costs</b>	<b>£47.00</b>	<b>£44.53</b>	<b>£42.65</b>	<b>£45.35</b>	<b>£47.63</b>	<b>£48.01</b>	<b>£49.70</b>

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# Comparisons of 2022/23 to 2021/22 – Direct costs

Direct costs have increased by (£1.7m) (10%)

- Contractor costs included in the charge rates have increased by (£2.0m) in line with the contract renewal in 2020/21, plus additional costs due to labour market supply pressures regarding OV resource following EU exit.
- Employed Staff costs have decreased by £0.2m due to a reduction in FTEs and new starters average salary costs reducing partially offset by 2022/23 pay inflation.
- Laundry, equipment costs and travel have decreased by £0.1m.

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# Comparisons of 2022/23 to 2021/22 – Direct costs (continued)

## Direct cost analysis per grade:

### OV

Direct OV costs have increased by (£1.7m) due to additional contractor costs of (£1.8m) and employed staff costs savings £0.1m. Other direct costs - laundry, equipment and travel savings remain constant.

### MHI

Direct MHI costs have remained constant. A reduction in employed staff costs of £0.14m as a result of recruitment timing of MHI FTEs offsetting pay inflation. This employed staff saving is offset by increased contract MHI costs of (£0.24m). Other direct costs - laundry, equipment and travel savings of £0.1m.

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# What is not included in the costs?

The following areas are excluded:

- Food/Meat Policy and Science costs;
- FSA costs when supporting Local Authorities;
- All IT costs that do not specifically relate to meat;
- Devolved office running costs;
- Pension deficit costs;
- Ongoing work as a result of EU exit;
- Projects to modernise delivery e.g. Ops Transformation and Achieving Business Compliance;
- Some Service Delivery Partner costs;
- Sampling and testing costs;
- Legal costs;
- National Food Crime Unit.

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# Charging for enforcement

## Separating charging for enforcement from other controls

- Industry representatives asked the FSA to review its handling of charging for enforcement activity – “Why do charges to the compliant include the costs of dealing with the non-compliant?”
- From 2021/22 separate activity codes were introduced for chargeable (IENF) and non-chargeable enforcement activity (NENF).
- From 2021/22 chargeable enforcement time shown separately on invoice backing schedules.
- The hourly rates charged for enforcement in 2021/22 were the same as those for all other meat controls.

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# Industry enforcement hourly rates 2022/23

## What is changing for 2022/23 . . . .

- The time recording data for 2021/22 has been used to inform the calculation of a completely separate charge rate for enforcement for 2022/23.
- Charge rates for enforcement calculated based on a proportionate split of direct costs and indirect costs from the costs of other activity.
- Three Grade 7 managers have been recruited to work on enforcement including the review and decision-making process.
- The costs and the available hours of these new staff have been included in the calculation of the enforcement rates for 2022/23.

**What is not changing . . .** discounts continue until further notice.



# Industry enforcement rates and codes 2022/23

Grade	2021/22 Enforcement rate	2022/23 Enforcement rate	Change	% difference	2022/23 Meat controls rate for info
OV Normal	£48.00	<b>£53.30</b>	+£5.30	+11.0%	£50.70
MHI Normal	£31.90	<b>£36.20</b>	+£4.30	+13.5%	£33.10

The 2022/23 enforcement rates are higher than the prior and current year meat controls charge rate due to the proportion of enforcement work being carried out by employed staff which are at a higher cost than contractors. For enforcement work the OV split is 97% employed staff versus 2% employed staff in the standard 2022/23 rate. For MHIs the split is 96% employed staff versus 51% employed staff in the meat controls 2022/23 rate.

Total costs comparison	2022/23 Enforcement £m	2022/23 Meat controls £m
Direct costs	£0.33	£45.54
Indirect costs	£0.03	£4.16
<b>Total costs</b>	<b>£0.36</b>	<b>£49.70</b>
<b>Hours</b>	<b>6,831</b>	<b>1,287,351</b>

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# **Review and Conclusion**

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# Review of calculation

The costs that the meat industry are charged under Article 81 2017/625 are:

“The fees or charges to be collected in accordance with point (a) of Article 79(1) and with Article 79(2) shall be determined on the basis of the following costs, insofar as these result from the official controls concerned:

- (a) the salaries of the staff, including support and administrative staff, involved in the performance of official controls, their social security, pension and insurance costs;
- (b) the cost of facilities and equipment, including maintenance and insurance costs and other associated costs;
- (c) the cost of consumables and tools;
- (d) the cost of services charged to the competent authorities by delegated bodies for official controls delegated to these delegated bodies;
- (e) the cost of training of the staff referred to in point (a), with the exclusion of the training necessary to obtain the qualification necessary to be employed by the competent authorities;
- (f) the cost of travel of the staff referred to in point (a), and associated subsistence costs;
- (g) the cost of sampling and of laboratory analysis, testing and diagnosis charged by official laboratories for those tasks.”

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# Review of calculation (continued)

“On the basis of our review of the 2022/23 ABC, HCR and ER models, we are satisfied that the charge rates for OVs and MHIs have been calculated correctly in each model, based on our assessment of the mechanics and validation of the source data to the reports provided.”

*Mazars (Audit Report 1 March 2022)*

ABC – Activity Based Costing

HCR – Hourly Charge Rates

ER – Enforcement Rates

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# Operational change

- The Operational Transformation Programme is modernising the way the FSA directly delivers Official Controls in the meat, dairy and wine sectors, with an initial focus on meat. The programme's approach to modernisation has been described within the framework of the Future Delivery Model.
- The Future Delivery Model will introduce a new operating model over the next 3-5 years to achieve a flexible, outcome focused and risk-based approach to delivery of official controls to maximise industry compliance.
- The high-level Future Delivery Model was approved by the FSA Board in September 2021 following a period of public consultation to ensure that the model was supported by and broadly in alignment with stakeholder requirements/expectations.
- The programme continues to make significant progress against the agreed deliverables for the next 12 months.

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# Operational change (continued)

- The segmentation model continues to be developed as the data “engine” behind the future of Official Controls delivery that will be used to better target our interventions and our resources, acknowledging highly compliant businesses by taking a lighter touch approach. Initial use will be to determine audit frequency with a later phase being underpinned by new legislation to inform the wider delivery of official controls, including levels of presence and inspection activity.
- The programme continues to explore advances in technology to modernise the delivery of Official Controls. Work is progressing to introduce new software to support remote audit activity, to introduce a digital solution for the Meat Plant Approvals process and to start to look at the use of Artificial Intelligence (AI) camera project in conjunction with external consultants and industry.
- Work is commencing to consider the extent to which a dual regime could be introduced to provide additional flexibilities in the delivery of official controls for domestic production.
- Work is underway to identify which parts of the Future Delivery Model will require legislative change and the programme continues to actively engage stakeholder groups to identify further opportunities for modernisation.

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# Field Operations

- **The Official Controls Regulation 2017/625 (OCR)** – Within Field Operations, we will continue to work with colleagues across the Agency to implement necessary changes in order to comply with the OCR requirements, whilst also looking at areas of opportunity that are already provided for, and yet to be utilised, under the OCR framework to optimise efficiency and capacity. We will also consider assessment of opportunities, including risks and UK/FSA appetite, to introduce divergence to current legislative requirements.
- **Veterinary capacity** – Linked with the above, the FSA will work with the Service Delivery Partner to ensure that there are the right number of Official Veterinarians with the right skills delivering the FSA Official Controls. We will also continue to work with other government departments to consider the veterinary resources and capacity within the wider system.
- **Export certification** – The FSA will evaluate the support that has been provided to deliver export certification following the end of the EU Exit transition period, standing down from completion of EHCs from April 2022 and work with Defra officials in respect of the strategic way forward in response to SHAs.
- **Covid response** – Field Operations will continue to focus on delivery of the Official Controls as we move through the restrictions of the pandemic. We have recently spoken with Industry and Partnership Working Group about how both FSA and Industry works together as Legal restrictions move to guidance.

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# Conclusion

- FSA faces significant cost pressures in a challenging labour market post EU exit. This is particularly evident in the availability of veterinary services.
- Despite this year's increase the total cost of meat controls remains well below 2016/17 levels in real terms.
- Industry continues to benefit from a substantial discount against these charges.



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# Chargeable Allowances

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# Standard allowances

Allowance code	Allowance narrative	2022/23 charge before discount	2022/23 discount	2021/22 charge before discount
CASL	Casualty slaughter call-out	<b>£28.95</b>	50%	£27.65
COVA	Weekend working as part of a normal week	<b>£108.50</b>	50%	£96.75
HTIM	Weekend working as part of a normal week	<b>£108.50</b>	50%	£96.75
NGHT	Night shift	<b>£44.65</b>	50%	£39.35
SHFT/UNSO	Shift working	<b>£29.95</b>	50%	£28.65
UNSH/UNSP	Unsocial hours	<b>£16.20</b>	50%	£15.85

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# Explanation of movement in allowance rates

- The allowances are calculated based on the 'MHI direct' cost per hour and the trend in actual occurrences.
- Allowances represent less than 1% of the cost of industry controls.
- Since the introduction of Stow charging in 2016/17 the calculation of allowance rates has been further reviewed and improved.
- From 2016/17 nationally calculated allowance rates replaced charges based on the payments to the specific individuals in particular plants to match the way the hourly rates are calculated.
- Whilst the individual rates have increased the total charge to industry is expected to remain constant (£0.4m full cost before applying the 50% discount).

# Emergency call-out allowance charges

Allowance code	Allowance Narrative	2022/23 charge before discount	2022/23 discount	2021/22 charge before discount
EMGH	Emergency call-out not in SOR	<b>£290.00</b>	50%	£180.00
EMGL	Emergency call-out in SOR	<b>£160.00</b>	50%	£100.00

- The overall cost for this service charged to the FSA by the Service Delivery Partner will fall for 2022/23 but the unit price will increase.
- The forecast number of call outs for 2022/23 has fallen by approximately 80% compared with 2021/22.

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# Emergency call out charges

- Regulation (EU) 2019/627 requires post mortem inspection (PMI) to be carried out without delay after slaughter. In cases of emergency slaughter the maximum delay permitted for PMI is 24 hours from arrival of the carcass at the slaughterhouse.
- Making the necessary provisions results in additional costs for the FSA which the call out charges will recover from FBOs at the rate of 50% of the actual cost.
- Time charges will be invoiced in addition to the call out charges.
- FBOs wishing to ensure this call out provision must discuss it with their FSA operational management and document it in their Statement of Resources.
- In addition, all operational requirements must be in place for emergency slaughter, including the necessary standard operating procedure.

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# **2022/23 Indirect Cost Detail**

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# Indirect cost outputs

Operations Support covers

- Regulatory Delivery – meat premises approvals, business and tactical support for frontline operations (instructions, guidance, reporting), SLA and contract management
- Field Support – providing essential support to frontline meat staff
- Health & Safety of staff in meat establishments

Finance & Performance covers

- Finance – billing and collection for meat FBOs, payroll processing for meat staff and accounting for meat related services
- Procurement – purchases of meat related goods and services
- Office accommodation of all meat related support staff

People & Organisational Change (HR) covers

- Human Resources support

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# Indirect cost outputs (2)

Regulatory (Audit) support covers

- Internal Audit – audit of FSA processes used in the meat establishments and support systems

Corporate Support Unit covers

- Ordering supplies for operational staff
- Processing Certificates of Competence
- Organising meetings and events with meat industry stakeholders, etc.

Operations IT

- IT – technological support/infrastructure for field staff

Private Office & Secretariat support covers

- Chief Executive's Office – dealing with complaints, PQs and Freedom of Information requests on meat premises



# Indirect costs apportionment between Industry and Government

Budgeted indirect costs	Industry charges	Government	FSA	Total
Million (£)	91.53%	2.89%	5.58%	100%
Operations support	£2.40	£0.08	£0.15	£2.63
Sub total	£2.40	£0.08	£0.15	£2.63
Finance and performance	£0.38	£0.01	£0.02	£0.41
Human resources	£0.07	£0.00	£0.00	£0.07
Depreciation/amortisation	£0.10	£0.00	£0.01	£0.11
Regulatory (audit)	£0.17	£0.01	£0.01	£0.19
Operations IT	£0.72	£0.02	£0.04	£0.78
Private Offices and Secretariats	£0.09	£0.00	£0.01	£0.10
Corporate Support Unit	£0.23	£0.01	£0.01	£0.25
Total indirect costs	£4.16	£0.13	£0.25	£4.54

Note: the table above contains minor rounding

# 2022/23 Staff related indirect costs – Meat

Group	FTE	Meat %	Meat FTE	Indirect cost £m	Industry cost 2022/23 £m	Industry cost 2021/22 £m	Variance £m	Variance %
Regulatory Delivery (Operations Assurance)	29.4	82%	24.0	£1.48	£1.36	£1.16	−£0.20	−17%
Field Delivery (Support)	31.6	47%	15.0	£0.89	£0.82	£0.70	−£0.12	−17%
Finance	21.5	23%	5.0	£0.18	£0.16	£0.11	−£0.05	−48%
Procurement	15.3	10%	1.5	£0.09	£0.08	£0.06	−£0.02	−36%
IT Service Delivery	75.5	6%	4.8	£0.31	£0.29	£0.25	−£0.04	−14%
HR Org Development	45.2	2%	1.0	£0.06	£0.05	£0.06	£0.01	12%
Legal	27.0	0%	0.0	£0.00	£0.00	£0.00	£0.00	0%
Internal Audit	14.8	19%	2.8	£0.18	£0.17	£0.16	−£0.01	−5%
Communications	35.9	0%	0.0	£0.00	£0.00	£0.00	£0.00	0%
CEO's Office	25.2	5%	1.2	£0.10	£0.09	£0.08	−£0.01	−16%
Chair and Deputy's Office	12.0	0%	0.0	£0.00	£0.00	£0.00	£0.00	0%
Corporate Support Unit	32.0	19%	6.0	£0.25	£0.23	£0.22	−£0.01	−3%
Subtotal	365.3	-	61.3	£3.55	£3.25	£2.80	−£0.45	−16%

## 2022/23 Other Indirect Costs over £100,000 – Meat

Associated cost	Full cost £m	Meat%	Indirect cost £m	Industry cost 2022/23 £m	Industry cost 2021/22 £m	Variance £m	Variance %
Field Management and Regulatory Delivery travel	£0.34	12%	£0.04	<b>£0.04</b>	£0.03	-£0.01	-33%
Sampling and testing costs	£0.79	0%	£0.00	£0.00	£0.00	£0.00	0%
Financial and HR IT systems costs	£0.50	6%	£0.03	£0.03	£0.01	-£0.02	-200%
Legal debt recovery costs	£0.13	0%	£0.00	£0.00	£0.00	£0.00	0%
IT support costs	£1.06	24%	£0.25	£0.23	£0.37	£0.14	38%
Software licenses and network	£0.88	20%	£0.18	£0.16	£0.12	-£0.04	-33%
Phone costs	£1.13	14%	£0.16	£0.15	£0.18	£0.03	17%
Office accommodation	£3.39	4%	£0.14	£0.13	£0.13	£0.00	0%
Training	£0.68	12%	£0.08	£0.07	£0.04	-£0.03	-75%
IT support costs for Board meetings	£0.09	0%	£0.00	£0.00	£0.00	£0.00	0%
Depreciation/Amortisation	£2.59	5%	£0.12	£0.10	£0.18	£0.08	44%
Subtotal	£11.57	-	£1.01	35 £0.91	£1.06	£0.15	14%
Grand total	-	-	-	£4.16	£4.13	-	-

# Mapping to Article 85

## Article 85 presentation of 2022/23 Industry cost

Category	Description	£ millions
A	The salaries of the staff, including support and administrative staff involved in the performance of official controls their social security, pension and insurance costs	£43.88
B	The cost of facilities and equipment, including maintenance and insurance costs and other associated costs.	£1.80
C	The cost of consumables and tools.	£0.74
D	The cost of services charged to the competent authorities by delegated bodies for official controls delegated to these delegated bodies.	£0.00
E	The cost of training of the staff referred to in point (A) with the exclusion of the training necessary to obtain the qualification necessary to be employed by the competent authorities.	£0.29
F	The cost of travel of the staff referred to in point (A) and associated subsistence costs.	£2.99
G	The cost of sampling and of laboratory analysis, testing and diagnosis charged by official laboratories for those tasks.	£0.00
Total	-	£49.70