Title: Official Controls Charges in Meat Premises: A Proposal for a New Discount System **IA No:** 0146 **Lead department or agency:** Food Standards Agency **Other departments or agencies:**	**Impact Assessment (IA)** **Date:** 30/11/2015 **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Other **Contact for enquiries:** richard.collier@foodstandards.gsi.gov.uk

Summary: Intervention and Options

RPC Opinion: RPC Opinion Status

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANCB on 2014 prices)	**In scope of One-In, Two-Out?**	**Measure qualifies as**
-£0.06m	£7.81m	-£0.89m	No	IN

What is the problem under consideration? Why is Government intervention necessary?

The Food Standards Agency (FSA) provides support to Food Business Operators (FBOs) of slaughterhouses, cutting plants and game handling establishments in the form of discounts given on the costs they pay for meat official controls. The current system of discounts lacks transparency, potentially distorts competition by charging significantly different amounts to similar sized slaughterhouses in the same sector and provides very little incentive to use inspection resources more efficiently (highlighted in the National Audit Office 2013 report on efficiency in meat inspection. Government intervention is necessary to address these problems by reforming the current system of discounts on meat official controls.

What are the policy objectives and the intended effects?

A revised system of discounting for official controls charges to encourage more efficient use of FSA and FBOs' resources, appropriately support SMEs, increase transparency, encourage the uptake of Plant Inspection Assistants (PIAs) and provide a more equitable discount system that will ensure a level playing field for FBOs. The proposals are for a redistribution of available and existing funding for discounts. A prerequisite for any new discount system is no adverse impact on public health.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

This Impact Assessment considers three options:

a) Option 1 "Do Nothing" – this would leave in place the current discount system.
b) Option 2 "Sector Bands" – based on a progressive income tax system in which discounts decrease as hour usage of FSA staff time increases and different industry sectors have their own set of discount bands. This is the preferred option because it would meet all the above policy objectives relative to the baseline/Option 1. It also accounts for different sized establishments within sectors leading to less of a disproportionate adverse impact, in terms of total discount received, on the Poultry sector and small to medium/large FBOs in both the Poultry and Red meat sectors.
c) Option 3 "Unified Bands" – as per Option 2 but with one unified set of bands applied to all industry sectors and a separate set of bands for England & Wales and NI. Option 3 was discounted because it leads to a less equitable distribution of discounts compared to Option 2.

These proposals do not require any changes to legislation.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** December 2018

Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro** Yes	**< 20** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:**	**Non-traded:**	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible SELECT SIGNATORY: ______________ ***Date:*** 11 March 2016

Summary: Analysis & Evidence

Policy Option 1

Description: Do nothing – this will leave in place the current system of discounts

FULL ECONOMIC ASSESSMENT

Price Base Year 2014	PV Base Year 2015	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	**High:** Optional	**Best Estimate:** 0

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate	**£0**		**£0**	£0

Description and scale of key monetised costs by 'main affected groups'

No incremental monetised costs are associated with policy Option 1: 'do nothing', as this option will look to maintain the status quo.

Other key non-monetised costs by 'main affected groups'

No incremental costs (non-monetised) are associated with this policy, as this option will look to maintain the status quo.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate	**£0**		**£0**	£0

Description and scale of key monetised benefits by 'main affected groups'

No incremental monetised benefits are associated with this policy, as this option will look to maintain the status quo.

Other key non-monetised benefits by 'main affected groups'

No incremental benefits (non-monetised) are associated with this policy, as this option will look to maintain the status quo.

Key assumptions/sensitivities/risks — **Discount rate (%)** **3.5%**

Cost and charge figures are based on 2013/14 estimates and assume the level of official controls remains constant.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**In scope of OITO?**	**Measure qualifies as**
Costs: £0	**Benefits:** £0	**Net:** £0	No	N/A

Summary: Analysis & Evidence — Policy Option 2

Description: Preferred option Sector Bands – A graduated system of discounts based on the principles of a progressive income tax system, with sector specific bands

FULL ECONOMIC ASSESSMENT

Price Base Year 2014	PV Base Year 2015	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -£0.21	High: £0.09	Best Estimate: -£0.06

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£0.2	1	£1.0	**£8.8**
High	£0.3		£1.0	**£9.0**
Best Estimate	£0.3		£1.0	**£8.9**

Description and scale of key monetised costs by 'main affected groups'

Total cost <u>industry</u> in England & Wales: i) one-off costs of familiarisation to business of £19,270 (present value, PV) (an Equivalent Annual Cost (EAC) of £2,235); ii) ongoing cost to cutting premises from removal of discount of £0.49m (Best Estimate PV) over 10 years. ***Total cost <u>FSA</u>*** England & Wales: i) one-off costs of familiarisation and dissemination of £4,960 (PV); ii) one-off cost in developing a new IT system of £0.23m (Best Estimate PV); iii) one-off IT training costs of £1,100 (PV); iii) ongoing cost in funding increase in discount pot of £8.16m (PV) over 10 years.

Other key non-monetised costs by 'main affected groups'

No non-monetised costs associated with Option 2.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0.0		£1.0	**£8.8**
High	0.0		£1.0	**£8.9**
Best Estimate	**N/A**		£1.0	**£8.8**

Description and scale of key monetised benefits by 'main affected groups'

Total benefit <u>industry</u> in England & Wales: i) ongoing benefit from increase in discount pot through ring-fencing of £8.16m (PV) over 10 years; ii) ongoing benefit from reduced admin burdens through simplification of meat charging discount system of £0.16m (PV) over 10 years. ***Total benefit <u>FSA</u>*** England & Wales: i) ongoing benefit in removal of discount to cutting premises of £0.49m (PV) over 10 years; ii) ongoing benefit from reduced admin burdens of £32,000 (PV) over 10 years.

Other key non-monetised benefits by 'main affected groups'

Industry & FSA: new meat charging discounting system could act as an incentive to industry to invest to maximise efficient use of official controls and encourage businesses to review their Statements of Resources with the FSA to reduce the resources required.

Key assumptions/sensitivities/risks — **Discount rate (%)** **3.5%**

Cost and charge figures are based on 2013/14 estimates and assume the level of official controls remains constant. An increase in the level of official controls would result in an increase in the value of discounts, which in turn would impact on cost/ benefit estimates. For familiarisation we assume: 1 hour per FBO manager; 4 – 7.5 hours per FSA staff. Simplification of discounting system: 2 hours saved per year per business processing invoices; 197 hours per year saved per FSA staff processing discounts, based on SCM approach. To account for annual variation in discount charges received by cutting premises; we calculate lower and upper bound cost estimates based on the average annual growth in discount on official control charges using the last five years of available data (financial years 2009/10 – 2013/14). On average, this yields a variation in discounted charges of approximately -/+8% year on year. We conduct analysis over 10 years as this is consistent with the Green Book approach.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: £0.1m	**Benefits: £1.0m**	**Net: £0.9**	No	NA

Summary: Analysis & Evidence — Policy Option 3

Description: Option 3 Unified Bands – A graduated system of discounts based on the principles of a progressive income tax system, with a single set of bands applied across all industry sectors.

FULL ECONOMIC ASSESSMENT

Price Base Year 2014	PV Base Year 2015	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: **-£0.21**	**High:** **£0.09**	**Best Estimate:** **-£0.06**

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	£0.2	1	£1.0	**£8.8**
High	£0.3		£1.0	**£9.0**
Best Estimate	£0.3		£1.0	**£8.9**

Description and scale of key monetised costs by 'main affected groups'

Total cost industry in England & Wales: i) one-off costs of familiarisation to business of £19,270 (present value, PV) (an EAC of £2,235); ii) ongoing cost to cutting premises from removal of discount of £0.49m (Best Estimate PV) over 10 years. ***Total cost FSA*** England & Wales: i) one-off costs of familiarisation and dissemination of £4,960 (PV); ii) one-off cost in developing a new IT system of £0.23 (Best Estimate PV); iii) one-off IT training costs of £1,110 (PV); iii) ongoing cost in funding increase in discount pot of £8.16m (PV) over 10 years.

Other key non-monetised costs by 'main affected groups'

No non-monetised costs associated with Option 3

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	0.0		£1.0	**£8.8**
High	0.0		£1.0	**£8.9**
Best Estimate	**N/A**		£1.0	**£8.8**

Description and scale of key monetised benefits by 'main affected groups'

Total benefit industry in England & Wales: i) ongoing benefit from increase in discount pot through ring-fencing of £8.16m (PV) over 10 years.; ii) ongoing benefit from reduced admin burdens through simplification of meat charging discount system of £0.16m (PV) over 10 years. ***Total benefit FSA*** England & Wales: i) ongoing benefit in removal of discount to cutting premises of £0.49m (PV) over 10 years; ii) ongoing benefit from reduced admin burdens of £32,000 (PV) over 10 years.

Other key non-monetised benefits by 'main affected groups'

Industry & FSA: new meat charging discounting system could act as an incentive to industry to invest to maximise efficient use of official controls and encourage businesses to review their Statements of Resources with the FSA to reduce the resources required.

Key assumptions/sensitivities/risks	**Discount rate (%)**	**3.5%**

As per Option 2 (see above).

BUSINESS ASSESSMENT (Option3)

Direct impact on business (Equivalent Annual) £m:			**In scope of OITO?**	**Measure qualifies as**
Costs: £0.1m	**Benefits: £1.0m**	**Net: £0.9m**	No	NA

Executive summary

1. The Food Standards Agency (FSA) is proposing a revised system of discounting its charges to the meat industry.
2. The FSA provides meat official controls[1] required under European legislation to slaughterhouses and other approved meat premises.
3. Prior to 1999 industry was charged the full cost for these controls. Charges stopped being invoiced at full cost in 1999/2000 when the Government agreed that support should be provided to the meat industry. Since then almost all slaughtering businesses have received a discount on the full cost.
4. The current system of discounts has been in place since 2009. It results in approved meat premises of similar size and type receiving widely varying levels of discount, ranging from 0% to 100%, which creates an un-level playing field and is potentially a distortion of competition in the market. The anomalies inherent in the system have intensified over time.
5. A previous attempt to reform the discount system in 2012 was unsuccessful. Members of the Reducing Regulation Committee did not think that the FSA had done enough to demonstrate it had delivered all the efficiencies achievable.
6. In 2013 an efficiency review of the FSA by the National Audit Office found that the FSA had considerably reduced costs (40% in real terms between 2005/06 and 2011/12) but the scope for further efficiencies by the FSA acting alone was limited and it was not helped by a discounting / charging system that did not incentivise efficiency within the meat industry
7. Since 2012 the FSA has adopted a strategy of much greater collaboration and engagement with the meat industry. The proposals presented in this impact assessment were developed by an industry stakeholder group and there has been extensive consultation with the relevant FBOs. The FSA Board and the Steering Group on Meat Charging have an overarching principle that none of the proposals for reform will have an adverse impact on public health.
8. The following proposals were agreed with industry for consultation:
    a. the implementation of a new discount system on charges for official controls;
    b. that discounts should be applied based on usage of FSA staff time with the level of discount reducing as more hours are utilised;
    c. that there should be a supplementary discount for slaughterhouses employing Plant Inspection Assistants[2] (PIAs) to carry out official controls; and
    d. that discounts should not be applied to cutting premises, only to meat slaughtering establishments.
9. The current proposals overcome one of industry's main concerns about the reformed discount system proposals in 2012 which was that they had a "cliff edge" effect with FBOs losing their discount.
10. The proposals now being presented here would see discounts being reduced on a marginal basis. Therefore, hours already discounted at a higher rate would retain that

[1] Regulation (EC) 882/2004 defines 'official control' as meaning "any form of control that the competent authority or the European Community performs for the verification of compliance with feed and food law, animal health and animal welfare rules." Regulation (EC) 882/2004 is available at http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32004R0882&qid=1448560862402&from=EN

[2] Plant Inspection Assistants (PIAs) are individuals employed by the FBO of an approved premise and authorised to carry out certain meat official controls under the responsibility of an FSA Official Veterinarian (OV). PIAs can only carry out certain tasks that would otherwise be carried out by of MHIs. PIAs can only operate in poultry or rabbit slaughterhouses.

level of discount and only the additional hours would be discounted at the lower marginal rate.

11. The proposed system would act as a driver for the meat industry to use FSA resources[3] efficiently because levels of discount would be linked consistency to usage of FSA resource. The greater the use of FSA staff time in meat establishments to deliver official controls; the lower the overall level of discount applied to it.

Summary of Equivalent Annual Net Cost to Business

12. The preferred policy option (Option 2) is estimated to generate an equivalent annualised net cost to business (EANCB) of -£0.97m per year. A breakdown of the EANCB is set out in Table 1 below.

Table 1 – Net Cost to Business per year (preferred option)

Cost/Benefit (£m)	EANCB	In/Out of Scope
COSTS		
Transitional Costs		
Familiarisation	£0.002	In
Ongoing Costs		
Removal Discount from CUT	£0.06	Out
Total Cost	**£0.06**	
BENEFITS		
Transitional Benefits		
N/A		
Ongoing Benefits		
Reduced Admin Burden	£0.02	In
Increased Discount Pot	£0.95	Out
Total Benefit	**£0.97**	
NET COST/BENEFIT		
Net	**£0.91**	
Net in 2014 Prices	0.89	
Net at 2015 Base Year	0.89	
Net Cost to Business per year	**-£0.89**	

Note: 2015 Deflation factor = 1.016, 2015 Discount factor = 1.

[3] FSA resources refer to the time spent by Official Veterinarians and Meat Hygiene Inspectors on official controls at approved meat premises.

Evidence Base (for summary sheets)

1. Background

1.1 EU legislation requires meat official controls to be delivered in all approved meat establishments; their aim is to protect public health, animal health and animal welfare. The FSA is the central competent authority in the UK in relation to meat hygiene. In England and Wales the official controls are delivered directly by the FSA. In Scotland, the controls were delivered by the FSA until 31 March 2015 and since 1 April 2015 they have been delivered by Food Standards Scotland. In Northern Ireland the controls are delivered by the Department of Agriculture and Rural Development through a Service Level Agreement with the FSA in Northern Ireland.

1.2 Official controls are not unique to the meat industry. Official controls are carried out in a wide range of premises and embrace a variety of functions, including inspections, approvals and certification. For example, the FSA is also directly responsible for the official controls on shellfish, wine and dairy. The local authority inspections of food and feed premises are official controls. However, in these other examples the cost of delivering controls is not directly charged for. Meat official controls are different because in addition to auditing the operators' controls they require the presence of Official Veterinarians (OVs) and Meat Hygiene Inspectors (MHIs) to carry out ante and post-mortem inspection and the verification of animal welfare controls at slaughterhouses, both required by law.

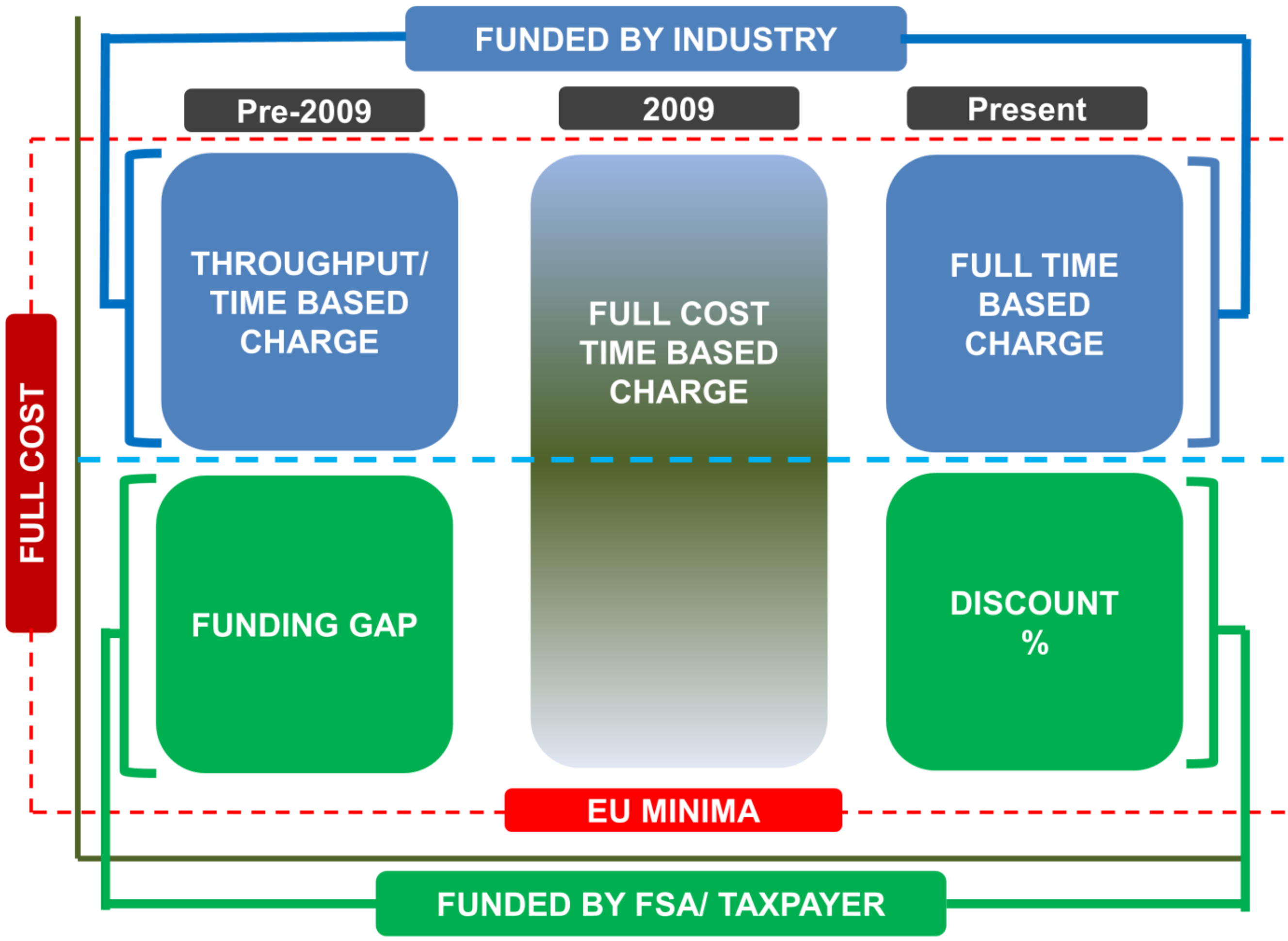
1.3 The charging system in place in the UK from 2001 to 2009 was based on a comparison between the species rates, based on the EU minima rates[4] for each animal slaughtered, and an hourly charge rate. FBOs paid either the charge based on the species rates, or the time charges based on the costs of the OVs and MHIs, whichever was lower. The industry time charge rates were set below full costs from 1999/2000 until 28 September 2009. This system, known as the Maclean formula, was introduced in order to protect abattoirs from the sharp increase in costs which arose from 1997 onwards due to increases in veterinary supervision levels required to achieve full time veterinary supervision in most plants under EU legislation, as well as increases in charge rates.

1.4 The current system of discounts on meat official controls was introduced in 2009 after some negotiations and amendments to the original proposal. The original 2009 proposal was to move to time based charging and phase out discounts (move to full cost) over time. However, the phasing out of discounts was rejected and only the time based element of the proposal was introduced. A further amendment to the proposal was a requirement that charges were to remain at 2009 levels. The current system therefore is a time-based charging system based on the historic throughput and time data from 2008/09, the last year the FSA charged on the basis of the Maclean system. See figure 1 below for an

[4] Regulation (EC) 882/2004 sets specific rates of minimum charge per species of animal slaughtered and per tonne of meat cut up. Regulation (EC) 882/2004 is available at http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32004R0882&qid=1448560862402&from=EN

overview of past & present discount systems, including the original 2009 proposal.

Figure 1 – Overview of Past & Present Discount Systems



1.5 Under the current system some poultry slaughterhouses employ PIAs. Establishments employing PIAs receive an allowance in the form of a supplementary discount against official controls charges. The discount represents the direct and indirect costs of employing those PIAs.

1.6 The system of discounts introduced in 2009 introduced much greater recognition of the costs borne by FBOs employing PIAs than did the Maclean system. The costs associated with PIAs for the time that they spend carrying out official controls, plus a supplementary amount of 25% that the FSA adds for FBO overheads, are used to calculate a second stage discount for premises with PIAs.

Food Standards Scotland - Charging and discount system

1.7 With effect from 1 April 2015 official controls in Scotland are delivered by Food Standards Scotland (FSS). The FSS charging system is based on time costs with discounts based on throughput. The system was introduced from 1 April 2015 and therefore only six months of data is available and the longer term impact is not known.

The Current Charging and Discount System in England, Wales and Northern Ireland

1.8 Competent Authorities are required by EU regulations to charge food business operators (FBOs) for meat official controls, and are permitted to charge FBOs for Transmissible Spongiform Encephalopathy (TSE) controls. However, the charges currently levied do not cover the full cost of delivering meat official controls, and do not cover any of the costs of TSE controls.

1.9 The difference between the current FBO charges and the full official control cost is the discount given to industry funded by UK taxpayers. For the year 2013/14, the estimated total cost of delivering meat and TSE official controls in Great Britain and meat and Specified Risk Material (SRM) official controls in NI is as follows:

Table 2 – 2013/14 total UK official controls cost and funding (including TSE costs)

	£m
Full cost	61.2
Income (industry & Government)	34.5
Discount	26.7

*Other Government Departments
Notes: The sums in the table above include TSE official control costs and work carried out for other Government departments.

1.10 Under the charging arrangements introduced in 2009, a single system of charging and discounts was applied across all of the UK. This was administered separately for GB (including Scotland) and Northern Ireland. For this reason the discounts for GB (including Scotland) and Northern Ireland have been ring fenced. However, the Steering Group was determined not to apply further ring fencing. It was agreed that this would hinder redistribution and be counterproductive to the overall requirements for the Steering Group to provide fairer and more balanced discounts. In light of this, a discount pot of £25.1m was allocated for the whole of the UK for reallocation, which is broken down by UK country (see table 3 below). Data are based on forecasts for the 2013/14 full year (generated in August 2013). With official controls in Scotland being delivered by Food Standards Scotland (FSS) since 1 April 2015; analysis and estimates pertaining specifically to Scotland have been removed from the Impact Assessment. It should be noted that no official figure for the value of Scotland's discount pot has yet been determined through the Machinery of Government process; hence the discount pot was reduced by £1.3m, which is the amount forecast to Scotland for the 2013/14 full year (forecast generated in August 2013) when the Steering Group on Meat Charging started its work, see Table 3 below.

Table 3 – Discount pot breakdown of industry official controls (excluding Government funded work such as TSEs), by country

£m	England and Wales	Scotland	Northern Ireland	UK	UK (Exc. Scotland)
Full Cost	46.2	4.8	6.2	57.2	52.4
Income	(24.8)	(3.5)	(3.8)	(32.1)	(28.6)
Discount	21.4	1.3	2.4	25.1	23.8

UK Meat Industry

1.11 The UK meat market (excluding game) is worth around £6.6 billion, with £3.77 billion accounted for by red meat and £2.83 billion by white meat. Tables 4 and 5 below display the UK retail sales of red meat and white meat (poultry) respectively; broken down by meat type. The figures present below include Scotland; this is due to a lack of available data on retail value at country level.

Table 4 – UK Retail Value and Volume Sales of Unprocessed/Raw Meat 2014

Red Meat	£m
Beef	2,111
Pork	756
Lamb	563
Offal	66
Total	**3,766**

Source: Mintel

Table 5 – UK Retail Value and Volume Sales of Unprocessed/Raw Poultry 2014

Poultry	£m
Total	**2,834**

Source: Mintel

Modernising FSA controls & enforcement activities

1.12 The FSA is progressing a programme of work to review the current system of regulation of meat hygiene inspection activities and enforcement. The proposed reform to the discount system presented in this Impact Assessment is one element of the wider programme of work. The wider programme of work is aimed at improving public health protection while delivering a more risk-based, effective and proportionate system for meat official controls. As well as consumer protection, proposals for a new inspection regime will take account of animal health and welfare considerations. Official controls, including requirements for FSA controls as well as audit of FBOs' controls, are set out in European legislation so any changes must be agreed with other European member states, the European Commission and international partners. The FSA commits resources to working actively with the European Commission, the European Food Safety Authority and other member states to develop a basis for a more risk-based, modernised, set of controls.

EU review of charging provisions

1.13 The European Commission is reviewing the EU provisions for charging for official controls and published proposals in May 2013. The current European legislation governing charging is Regulation (EC) No 882/2004[5]. Negotiations are ongoing and a final agreed text for the replacement legislation is expected in June 2016 and it is anticipated that this will be published in the autumn. The implementation of any changes to the current provisions on charging is expected to take place from 2019 onwards. The FSA is working actively with the Commission on the review, and will follow the normal UK consultation procedure once the final text

[5]] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2004:165:0001:0141:EN:PDF

has been adopted. A consultation on the Commission's original proposal took place between October 2014 and January 2015.

1.14 One of the drivers for the review of the EU provisions for charging for official controls was a study by the European Commission[6] "on fees or charges" published in 2009. This presented a generally confused situation across the EU with wide variations in the way in which Member States (MS) applied the regulation. This makes comparisons between different countries extremely difficult. In the Conclusions and recommendations section of the study it is said on page 68 that:

> "Apart from the delays in transposition, a number of shortcomings have been identified in the application in practice of the current system for the financing of official controls, as laid down in the Regulation. As outlined in detail in section 2, such shortcomings include:
>
> - In some MS, despite enacting legislation being in place, fees are not collected or are only partially collected (e.g. collected below the minimum fee rates or not collected in all sectors where the collection of a fee is compulsory).
>
> - There is significant variation between MS in the interpretation of the various provisions of Article 27. Overall, there are extensive complaints, both from industry and from MS authorities, that there is excessive scope for wide and open interpretation of the rules due to the ambiguous formulation of Article 27 and Annexes and the lack of a clear understanding of these provisions."

1.15 Throughout the development of the proposals discussed in this Impact Assessment the Steering Group was aware of the pending change of EU provisions and has aimed for proposals to include as much future proofing as possible. The proposals discussed in this Impact Assessment are a flexible structure which would not conflict with the draft proposals that have been seen from the European Commission. The latest version of the text for the replacement of Regulation (EC) No 882/2004 seen by the FSA included very similar charging provisions to the existing Regulations and the FSA is not anticipating that this will change.

1.16 Charging systems in other EU Member States vary. The proposals are fully compliant with EU Regulations, which all Member States are required to follow. Our assumptions are that the proposed redistribution of discounts will not create incentives to change business models in the slaughter industry, e.g. to export animals outside the UK for slaughter or carcases for cutting.

[6] Available at http://ec.europa.eu/food/safety/official_controls/review/docs/food_safety_off_controle_review_external_study_en.pdf

1.17 The proposals have been designed to continue to provide significant support to low throughput establishments, i.e. those establishments which the Maclean formula was originally intended to support.

Public Health

1.18 The scope of official controls will not be affected in any way by these proposals to amend the charging system, and so there will be no reduction in the level of consumer protection and the health benefits afforded by meat controls.

Legislative context

1.19 The proposals do not require additional legislation, and are made on the basis of the powers provided in Regulation (EC) No. 882/2004 and the domestic implementing regulations made in 2009, i.e. the Meat (Official Controls Charges) (England) Regulations 2009 and equivalent legislation in Northern Ireland and Wales. Scotland has its own charging arrangements since 1 April 2015 but these did not result in any changes to the Meat (Official Controls Charges) (Scotland) Regulations 2009.

2. Problem under consideration

2.1 Charges for meat official controls at approved meat premises are currently discounted under a system introduced in 2009. As identified by the National Audit Office (NAO) in their 2013 report[7] on efficiency in meat inspection: the current discount system for meat official controls does not incentivise all Food Business Operators (FBOs) to use Food Standards Agency (FSA) resources efficiently and effectively. The NAO report stated:

"The Food Standards Agency has considerably reduced the costs of official controls over the last few years, mainly through reductions of both operational and back-office staff. The potential for achieving further savings through this approach is limited and there would be increasing risks to the quality of inspections provided, but there is some scope for further incremental savings through operational improvements. The wide variation in inspection efficiency across Food Business Operators (FBOs) shows a large potential for further savings, but the FSA has limited influence on this due to the strong interdependency of inspection time and costs with FBO operations and technology, and a charging system which does not incentivise efficiency. Therefore a step change in efficiency can only occur through more effective engagement between the FSA and other stakeholders, and a more integrated and strategic approach to pursuing, incentivising and measuring efficiency."

"Our comparative analysis indicates that scope remains for further cost reductions and efficiency gains, some of which would require fundamental changes to the wider model of official controls and the incentive structures created through the charging and discount system:

[7] Available at http://www.nao.org.uk/wp-content/uploads/2013/07/NAO-Efficiency-Review-Food-Standards-Agency-for-NAO-website-inc-copyright.pdf

- *The charging and discount system is complex, subsidises certain operators unfairly on the basis of historical data and can penalise operators for investments through higher charges*

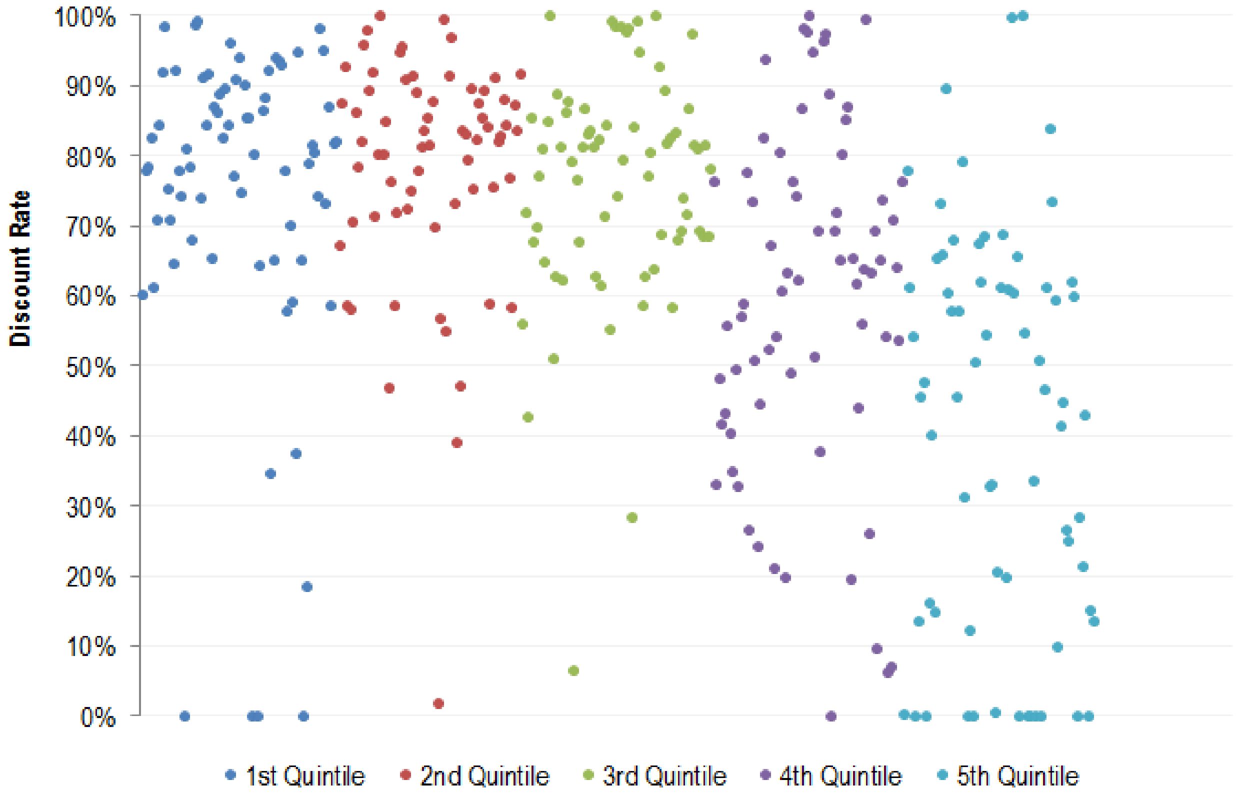
- *This not only makes it costly to administer but also does not create the right incentives for operators to become more efficient, which in turn negatively impacts the efficiency of meat hygiene inspections"*

2.2 This situation is not in the overall interests of the meat industry, the FSA and the taxpayer.

2.3 Furthermore, there are potential competition distortions created under the current system because comparable premises in the same sector can receive discounts of widely varying percentages, as illustrated in chart 1 (below). Chart 1 measures plants by number of inspection hours used, ranging from the smallest plants (employing the lowest number of inspection hours), in the 1st Quintile, to the largest plants (employing the highest number of inspection hours), in the 5th Quintile. As illustrated; plants in the same quintile, i.e. similar sized plants (as measured by inspection hours), have relatively large differences in discount rates received. The anomalies that have developed leave plants of a similar size in the same sector paying very different amounts for the same service (official controls) and this has the potential to distort competition. Under the current system the discounted charges to FBOs for an Official Veterinarian[8] range between 4 pence an hour and the full hourly cost of £36.80 (2013/14).

[8] Official Veterinarians are veterinarians qualified in accordance with Regulation (EC) 853/2004 and appointed by the Competent Authority.

Chart 1 – Discount rates in the current system, by Quintile



2.4 The FSA has a policy to encourage the uptake of Plant Inspection Assistants (PIAs). This is in line with the Government objective for FBOs to take more responsibility for compliance with official controls where appropriate and provided for under the relevant legislation. The uptake of PIAs reduces the use of Meat Hygiene Inspector[9] (MHI) numbers and hence the associated cost to the FSA (taxpayer). Under the current system there has not been the desired uptake of PIAs, which is in part due to the high discount some plants receive on MHI charges[10]. The current system of discounts results in discounted charges for MHIs at some premises which are below the cost at which FBOs could employ PIAs and this is a disincentive to switch to PIAs.

2.5 Under the current charging and discount arrangements introduced in 2009 the poultry slaughtering sector receives relatively high discounts compared with the red meat and other sectors. Current discounts are based on the proportion of the full cost that FBOs paid in 2008/09, the last full year of the previous Maclean charging system[11]. Under Maclean, FBOs were charged either the throughput based charge or the time based charge, whichever was the lower of the two. The throughput charges were based on the EU minimum charges set by the European Commission and the time based charges were calculated using the time Official Veterinarians and Meat Hygiene Inspectors spent on official controls multiplied by the hourly rates for these staff. The throughput based charges for poultry were very low compared with the red meat sector and so the proportion of the full cost

[9] Meat Hygiene Inspectors (MHIs) are official auxiliaries that can be employed by the FSA and contractors to carry out certain meat official controls, MHIs can operate in all approved premises across sectors.

[10] For example: there are cases where FSA staff are charged at rates after discount at a red meat slaughterhouse of £0.98 per hour for a MHI and £1.25 per hour for an OV. At poultry slaughterhouses there are charges as low as £0.09 per hour for a MHI and £0.11 per hour for an OV.

[11] http://tna.europarchive.org/20070305162353/http://www.food.gov.uk/multimedia/pdfs/mhschargesguide.pdf

charged to poultry FBOs was in general much lower than the red meat sector. As a result the discounts to the poultry sector since 28 September 2009 have been higher than the discounts applied to the red meat sector.

2.6 The Government decision to provide support to the meat industry in 1999/2000 was in response to an increase in official controls. The increase was driven by the European Commission advising the UK Government it was under-implementing the legislation governing meat and, if it did not increase supervision levels, infraction proceedings would be taken. The current system was introduced after Ministers did not agree to a proposal to phase out the Government subsidy to the meat industry, so as to move to full cost recovery. The discounts currently applied are based on the charges made in 2008/09 when the majority of FBOs were charged based on the number of animals being processed, and not the time required for official controls on these animals (this is illustrated in figure 1). This resulted in establishments that required a higher FSA resource to be charged the same as establishments with a lower level of resource if they processed the same number of animals, leading to the problems discussed above and illustrated in chart 1.

2.7 The current charging and discount system is complex and lacks transparency, creating a situation where many FBOs do not fully understand how the charging and discount system works. Anecdotal evidence (discussions between FSA and industry) suggests this often leads to a situation where many FBOs do not fully understand their monthly invoice. This imposes an unnecessary burden on FBOs who choose to expend resources to learn and familiarise themselves with the current discounting system. This creates an un-level playing field, where larger FBOs might be at an advantage, compared to smaller firms, to invest resources in familiarisation with the system.

3. Rationale for intervention

3.1 The current meat charging and discount system is complex and lacks transparency, imposing unnecessary burdens on industry; and potentially distorts competition by charging very different amounts to similar sized FBOs of slaughterhouses, cutting plants and game handling establishments and provides little incentive to use inspection resources more efficiently[12]. Government intervention is necessary to address these problems and to create a level playing field for FBOs by reforming the current system of discounts on meat official controls.

4. Policy objectives and intended effects

4.1. The FSA Board agreed the following strategy for meat charging at its September 2012 meeting:

- The FSA's priority in relation to charging policy is to protect the interests of consumers.
- The FSA should pursue a more collaborative approach with stakeholders interested in these issues, working in partnership to deliver shared outcomes.

[12] Highlighted in the National Audit Office 2013 report on efficiency in meat inspection – https://www.nao.org.uk/wp-content/uploads/2013/07/NAO-Efficiency-Review-Food-Standards-Agency-for-NAO-website-inc-copyright.pdf

- Priority should be given to building a more consensual approach to progressing three issues:
    1. A review of the current discount system making recommendations on how to reform the system to address anomalies.
    2. Joint working to identify further ways to reduce costs while continuing to deliver effective consumer protection, building on the outcomes of an efficiency review[13].
    3. Exploring with stakeholders the options for alternative delivery models, including the use of a control body.

- An external efficiency review of the delivery of UK meat official controls and support functions should be carried out.
- Discussions should continue with other Government departments on their appetite for taking on responsibility for allocating any ongoing subsidy through a discount system.

4.2. One of the first points addressed in the strategy has been a review of the current discount system. This has been an industry led project to review current arrangements and propose a reformed system to tackle the problems inherent in the current methodology.

Intended Effects

4.3. A primary objective of the reforms proposed here has been to ensure any changes in the discount system have no adverse impact on public health. The proposals also seek to deliver a more effective, transparent and efficient system for industry, the FSA and the taxpayer.

5. Industry Engagement - Steering Group on Meat Charging

5.1 The Steering Group on Meat Charging is an industry stakeholder group that, since August 2013, has proposed and assessed options for reform of the current discounts on charges for meat official controls. The Steering Group on Meat Charging has an independent Chair, Bill Stow, who was formerly a Board member of the Department for Environment, Food and Rural Affairs and its Director General for Strategy, Evidence and Finance. The Steering Group has been supported and facilitated by FSA staff.

5.2 In the initial stages of the project to reform discounts the Chair of the Steering Group held bilateral meetings with all the main industry stakeholders. From this process a number of options for discount reform were suggested.[14] Based on initial analysis[15] the Steering Group narrowed the options it was considering until there was a preferred option with which all stakeholders agreed upon and could recommend to the FSA Board for consultation. The preferred option was chosen based largely on the distributional analysis (analysis of the impact of the proposals between sectors and by size of plant) presented in this Impact Assessment (see Annex A).

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[13] The efficiency review was subsequently carried out in 2013 by NAO after this strategy was agreed

[14] High level details are available using this link http://www.food.gov.uk/sites/default/files/sgmc-options-assess.pdf

[15] The analysis is available using this link http://www.food.gov.uk/sites/default/files/sgmc-options-assess.pdf

6. Consultation Summary

6.1 A 14 week consultation period was held in GB between 9 March 2015 and 12 June 2015, during which 32 consultation responses were received, made up of 30 direct responses to the questionnaire and an additional 2 letters. FSA Northern Ireland consulted on the same proposals but the consultation was managed separately. No additional evidence that affects the analysis conducted in this Impact Assessment was presented and as a result no amendments were made.

6.2 At an industry level there was a low response rate, with only 5% of FBOs in England and 1% in Wales responding to the consultation. There were also responses from industry representatives (5 from England and 3 from Wales). See table 6 below:

Table 6 – Responses by size of business (as indicated on consultation response)

Size of FBO Respondents (No. Staff)	No.
England	
Individual	-
Micro (0-10 Staff)	4
Small (11-49 Staff)	7
Medium (50-250)	6
Large (over 250)	2
Total	**19**
Response Rate (% of industry)	***5%***
Wales	
Respondent	
Individual	-
Micro (0-10 Staff)	-
Small (11-49 Staff)	1
Medium (50-250)	-
Large (over 250)	-
Total	**1**
Response Rate (% of industry)	***1%***
Industry Rep Respondents	**No.**
England	
Industry Rep	5
Wales	
Industry Rep	3
Total	**8**
No size indicated on response	4
TOTAL RESPONDENTS	**32**

6.3 Table 7 below shows a breakdown of respondents according to size, sector and country split, as indicated by the respondent[16]. It was not possible to show response rate by size of FBO because the FSA does not have the required data on size of plant. For those respondents that indicated they covered more than one sector, e.g. Poultry and Cutting establishments, their response was counted towards all relevant sectors. Due to double counting, the total number of respondents in table 7 does not equate to the total number of actual responses (32). In England, small and medium FBOs had the highest representation in terms of number of relevant responses, while the converse is true for large FBOs. In the case of Wales there was a single response from a small FBO covering three sectors.

Table 7 – Detailed responses by size of business, sector and country (as indicated on consultation response)

Respondent	Red Meat Slaughter	Poultry Slaughter (non-PIA)	Poultry Slaughter (with PIA)	Game Handling	Cutting Plant	Total
England						
Individual	-	-	-	-	-	**0**
Micro (0-10 Staff)	1	1	-	-	3	**5**
Small (11-49 Staff)	5	3	1	3	3	**15**
Medium (50-250)	2	4	-	-	3	**9**
Large (over 250)	-	2	-	-	-	**2**
TOTAL	8	10	1	3	9	**31**
Total Sector FBOs	208	42	33	38	50	**371**
Response Rate	4%	24%	3%	8%	18%	**8%**
Wales						
Individual	-	-	-	-	-	**-**
Micro (0-10 Staff)	-	-	-	-	-	**-**
Small (11-49 Staff)	1	1	-	-	1	**3**
Medium (50-250)	-	-	-		-	**-**
Large (over 250)	-	-	-	-	-	**-**
TOTAL	1	1	0	0	1	**3**
Total Sector FBOs	24	2	2	0	57	**85**
Response Rate	4%	50%	0%	N/A	2%	**4%**

Total response figures in the table above do not total 32 (the total number of actual responses, as per table 6) because some of the respondents cover more than one sector, in which case responses have been counted more than once.

6.4 The consultation included three information gathering questions relating to:

- 'Are the Impact Assessment estimates for familiarisation costs appropriate' (question 14);
- 'Are the Impact Assessment estimates accurate in reflecting where costs/benefits will fall' (question 15);
- and the size of the respondent's business (unnumbered question).

6.5 Question 14 was answered by 19 (out of 32) respondents. 4 respondents 'agreed', 13 'neither agreed nor disagreed' and 2 'strongly disagreed', but no supporting evidence

[16] Size, sector and country were indicated by the respondent on their consultation response, the figures reported are not based on FSA data.

or comment was given from those that ‘strongly disagreed’. The FSA sent follow up correspondence to those that ‘Strongly Disagree’ but received no reply or supporting evidence for their response. Therefore, the estimates used in the consultation stage Impact Assessment are considered reasonable and remain unchanged in this final stage Impact Assessment.

6.6 Question 15 was answered by 19 (out of 32) respondents. 5 respondents ‘agreed’, 12 ‘neither agreed nor disagreed’ and 2 ‘strongly disagreed’. Again no supporting evidence or comment was given from those that ‘strongly disagreed’. The FSA sent follow up correspondence to those that ‘Strongly Disagree’ but received no reply or supporting evidence for their response. Since no supporting evidence was supplied no amendments were made to the estimates in this final stage Impact Assessment.

6.7 The request for the size of business was answered by 31 (out of 32) respondents; respondent indicated the size of their business from Micro to Large and this question was intended to provide information to be used in the Small and Micro Business Assessment (SAMBA). However, the level of response is considered too low (31 total responses) to be used as a representative sample of the industry. Therefore, due to lack of alternative data, the SAMBA has been carried out using number of inspection hours to measure size of plant (see SAMBA; 15.1 - 15.11).

6.8 A number of responses were received from individuals and industry representatives regarding perceived issues with the inspection service operating in the UK, such as the employment of PIAs, the role and presence of Official Veterinarians, the legality of EU “underpayments” and alternative inspection systems in poultry. However, these matters are out of scope of this proposal and as such have not resulted in any amendments being made to this Impact Assessment.

6.9 The removal of discounts from the Cutting sector[17] (question 7[18] in the questionnaire) was the only area of contention among respondents. In summary 10 respondents ‘Strongly Agree’ or ‘Agree’, 6 respondents ‘Neither Agree nor Disagree’ and 9 respondents ‘Strongly Disagree’ or ‘Disagree’ with the proposal to cease discounts to cutting premises. However, no further evidence was given that necessitates any amendments being made to the proposal or Impact Assessment. A number of respondents who disagreed followed by commenting that it was acceptable to cease discount for audits but not for other inspection controls. These other inspection controls relate to unannounced visits that are only charged for when an FBO is found not to be compliant. The FSA acknowledges the comments of these respondents but these inspection charges are only incurred when an FBO is non-compliant and are therefore, under the control of the FBO. Furthermore, under the current system the majority of cutting premises (68%) receive no discount and so by removing discounts from the whole sector it would produce a level playing field for all cutting premises.

6.10 One respondent (industry representative) objected to any change being made to the current system and opted for the ‘Do Nothing’ option. The response also suggested an alternative PIA support framework to the PIA support framework in the proposal. However, this alternative PIA framework is the view solely of the respondent

[17] Cutting plants are establishments that are used for boning and/or cutting up fresh meat for placing on the market. The cutting sector is very different to the slaughtering sector of the industry with FSA presence being limited to periodic risk based audit and unannounced inspections. The level of these controls is determined by the standards of the premises which is within the control of the FBO.

[18] Question 7: “It is proposed that official controls at cutting premises should be charged on a full cost basis. This would mean cutting premises would cease to receive a discount from 28 March 2016. Do you agree?”

and was not discussed or developed in conjunction with industry on a wider scale. Although this response objects to the proposal, the proposal being objected to is entirely industry led, in conjunction with the steering group (see paragraphs 5.1 - 5.2), and the respondent played a pivotal role in the development of the preferred proposal as well as agreeing it to be the preferred option. See hyperlinks[19] to minutes in which the proposal, along with additional PIA support, was discussed and agreed upon as the preferred proposal by industry.

6.11 One respondent (FBO) indicated that the proposal will have a “serious impact on the viability of the business” as a result of a reduction in the discount currently applied to meat inspection charges. Yet the respondent did not provide any supporting evidence to justify this claim. Under the proposal the respondent’s discount is estimated to fall. However, the overall level of discount would remain relatively high and leave the FBO to pay a modest contribution to the full cost of official controls. The proposal is designed to make discounts more consistent and equitable. Under the current system the levels of charge for official controls at the respective FBO premises are not reflective of the deployment and use of FSA resources, and while under the proposed system the level of discount remain high, charges would be more reflective of the costs. No other respondent expressed a concern that the proposals would impact on the viability of their business.

[19] http://www.food.gov.uk/business-industry/meat/steering-group-on-meat-charging

7. Description of Options Considered (including do nothing)

Option 1 – Do Nothing

7.1 The 'do nothing' option would leave in place the current discount system, which would continue to provide FBOs with little incentive to use inspection resources more efficiently.

Option 2 – Sector Bands

This is the preferred option. Under Option 2 discounts will be applied based on the usage by FBOs of FSA staff resources. There will be six discount bands with separate bandings for the game, poultry and red meat sectors.

7.2 The discount bands operate in a similar way to a progressive income tax, in that the level of discount reduces with each band as more hours of FSA resource are used. FBOs benefit from the hours available in each discount band until those hours are used. The use of graduated bandings, with only the marginal hours charged at a lower discount rate avoids a "cliff-edge" effect and ensures establishments that require a similar level of official controls receive equitable levels of discounts.

7.3 In each sector, the thresholds have been set so that the smallest 10% of plants (as measured by their use of inspector hours) receive the highest marginal discount rate (band 1), and the largest 10% of plants receive the lowest marginal discount rate (band 6). Each of the bandings in between (bands 2 – 5) contains 20% of the plants in each sector.

7.4 Under the proposal all FBOs receive discounted hours, subject to compliance with EU minimum charging legislation. The FSA bears a portion of the cost of inspections and so there is an incentive for both the FSA and FBOs to make efficient use of resources. Discount bands will be recalculated annually or when the hourly charge rates change, whichever is sooner. Discount bands will be set at the start of each FSA financial year using data from the 12 month period November to October of the previous year, e.g. November 2014 to October 2015 for the 2016/17 discount bands. Discount bands are recalculated annually in an endeavour to ensure band thresholds best reflect the structure of the industry, which may change over time.

7.5 Establishments comparable in type and volume of throughput should require similar levels of official controls and under the proposed system would therefore have similar levels of discount.

7.6 The essential elements of Option 2 are detailed below and schematically represented in figure 2:

Figure 2 – Proposed discount system using hypothetical discount rates

Cutting Plants

7.7 Under this proposal cutting premises will cease to receive a discount from 28 March 2016. The cutting sector is very different to the slaughtering sector of the industry because FSA presence is limited to periodic risk based audit and unannounced inspections that the FSA charges for only if the FBO is found to be non-compliant. To this extent FBOs have far greater control over the level of charges to cutting premises as these are determined by the FBO's degree of compliance.

7.8 Under the current system the majority of cutting plants (68%) do not receive discount and by removing discounts from all cutting premises the proposal would create a level playing field in the cutting sector. Steering Group members have all agreed with the proposal that the cutting sector should be treated differently to the slaughtering sector under the proposed new discount arrangements and that there should be no discount applied to them.

Plant Inspection Assistants (PIAs)

7.9 There would be a supplementary discount for poultry slaughterhouses employing their own staff as PIAs to carry out official controls under the supervision of the FSA Official Veterinarian (OV). Only poultry and rabbit slaughterhouses can use PIAs in line with the provisions of Chapter III A (a) of Regulation (EC) 854/2004.[20] For premises directly employing their own PIAs this supplementary discount would ensure their PIA costs were no higher than the cost of a discounted Meat Hygiene Inspectors (MHI). This would ensure the FBOs were no worse off, from a financial perspective, as a result of utilising PIAs as opposed to if the official controls had been provided by FSA MHIs. This would remove any financial disincentive to use PIAs and support the FSA's policy to increase PIA uptake.

7.10 Under this proposal there is a condition that all FBOs pay at least 10% of the cost of inspection, meaning the highest discount rate will be set at 90%. However, the supplementary PIA discount has the potential to reduce charges below 10% of the FSA cost of inspection, subject to compliance with EU minimum charging legislation. The FSA bears a portion of the cost of inspections and so there is an incentive for both the FSA and FBOs to make efficient use of resources.

[20] Link to Regulation (EC) 854/2004: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32004R0854&rid=1

Classification of Sector Bands

7.11 The structure of each sector, in terms of plant size, is different. For example the red meat sector has a relatively high proportion of small plants compared to the Poultry sector, which is mostly made up of large plants. Sector specific bands ensure there is a level playing field within sectors, where discount band thresholds are set and determined by the composition of plant size of that sector, leading to an equitable outcome for plants of all sizes (see Annex B for detailed distributional analysis).

7.12 Indicative rounded discount bands and discount rates are shown in Table 8 below with separate bandings for the game, poultry and red meat sectors.

Table 8 – England and Wales discount bands and rates by sector, based on 2013/14 data for FSA resources used (Option 2)

Discount Band	Game Handling (hours in band)	Poultry Slaughter (hours in band)	Red Meat Slaughter (hours in band)	Discount Rate
1	Less than 10	Less than 260	Less than 120	90%
2	11 - 20	260 - 890	120 – 640	80%
3	21 - 50	890 – 2,680	640 – 2,090	70%
4	51 - 130	2,680 – 7,350	2,090 – 5,770	60%
5	131 - 860	7,350 – 22,070	5,770 – 14,520	50%
6	More than 861	More than 22,070	More than 14,520	40%

Plant Inspection Assistant (PIA) Supplementary Discount

7.13 Industry stakeholders who are members of the Steering Group have indicated that for any proposals for discount reform to be acceptable a prerequisite would be an additional provision for premises operating PIA systems. Therefore, the following arrangements have been developed.

7.14 Under Option 2 it is proposed that once the standard discount on OV hours and MHI hours (if applicable) has been applied to an FBO's charges, an additional element would be factored into the discount calculation for premises operating PIA systems. This supplementary PIA discount would apply to FBOs using both former FSA staff on TUPE transfer[21] and Non-TUPE PIAs, details of which are given below.

7.15 Key elements of the proposed supplementary PIA discount are detailed below:

- PIA discounts would be linked to FBOs' existing levels of discount to ensure that if FBOs adopted PIA systems, all factors being equal, their charges would not increase.

[21] Where a service in the public sector is transferred to the private sector the Transfer of Undertakings Protection of Employment (TUPE) legislation applies. If a Poultry slaughter house decided to operate a PIA system TUPE would apply. Any MHIs that transferred under TUPE to carry out PIA duties are referred to in this impact assessment as TUPE PIAs.

- The supplementary PIA discount would equalise the hourly rate of a PIA to the discounted hourly rate of an MHI.

- The amount of discount would never exceed the FSA direct costs (salaries, National Insurance and employer's pension contributions) of employing MHIs so that the FSA would not make a financial loss as a result of the adoption of PIA systems by FBOs.

7.16 A 7 stage calculation, separate to the calculations for OV and MHI invoices, will be undertaken to work out the supplementary PIA discount for those FBOs that are due one. Details of this calculation are given below and presented graphically in figure 3 below.

7.17 As discussed in paragraph 2.5 the Poultry sector benefited more than other sectors under the current system introduced in 2009. As a consequence of this the proposals for discount reform result in proportionately more poultry premises being negatively impacted, compared with Red meat premises. If the current system of discounts is to be reformed, and the bias in the current system is to be addressed but the Government / taxpayer are not to put more funding into the system, an adverse impact on the poultry sector cannot be avoided. The fact that PIAs are specific to the Poultry sector (including rabbits) offers a means of addressing the impact on this sector, without disadvantaging the red meat sector, through the supplementary PIA support offered in this proposal. This offers the poultry industry a means within their choice to counter the proposed headline reduction in discount to this sector. The supplementary PIA discount equalises the costs for FBOs employing PIAs when compared with discounted MHI charges subject to a cap at the maximum of the full direct cost of MHIs.

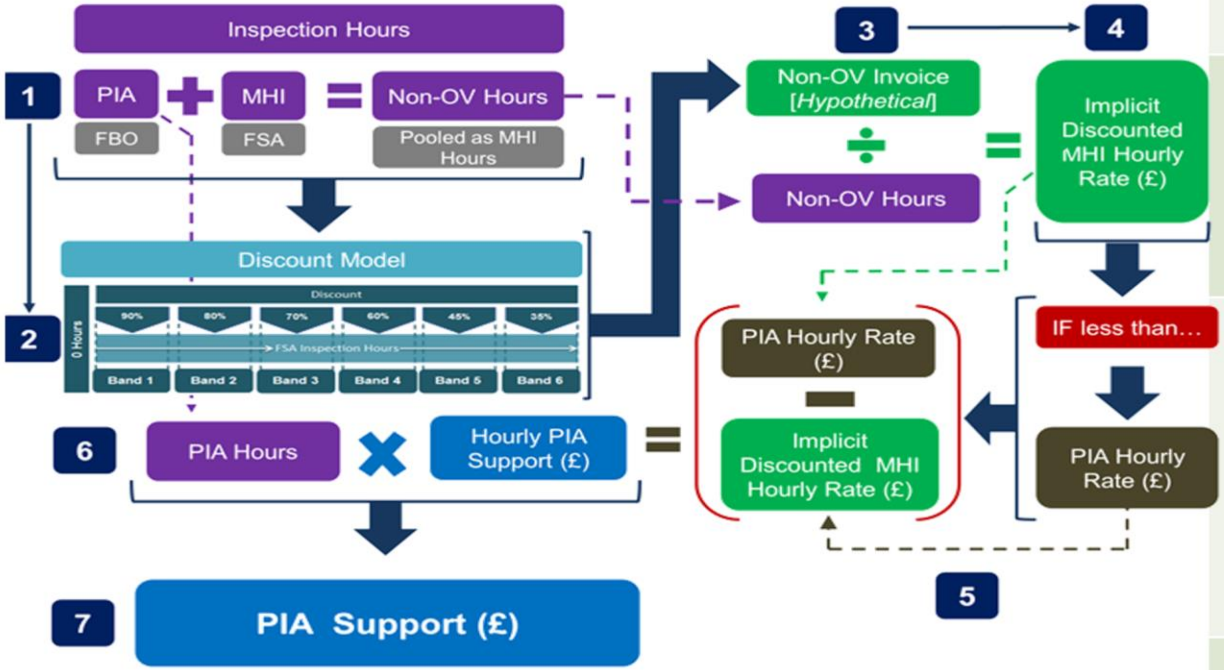
Rationale for Preferred Option: Option 2

Option 2 is the preferred option because it:

- Delivers a more equitable discount system (relative to Option 1);
- Deals with plants of different sizes within sectors more equitably than Option 3, leading to less plants negatively affected overall, in terms of total discount received;
- Has less of a disproportionate adverse impact, in terms of total discount received, on the poultry sector (compared with Option 3);
- Has less of a disproportionate adverse impact on small to medium/large FBOs in both the poultry and red meat sector (compared to Option 3);
- Encourages the uptake of PIAs (relative to Option 1); and
- Will drive efficiency in the usage of FSA resource for official controls (relative to Option 1)

7.18 See Annex A for a comparative distributional analysis of Options 2 and 3. The analysis compares the relative distributional impact on FBOs as a result of the proposed changes under each of the proposed options.

Figure 3 – Overview of Supplementary PIA Support

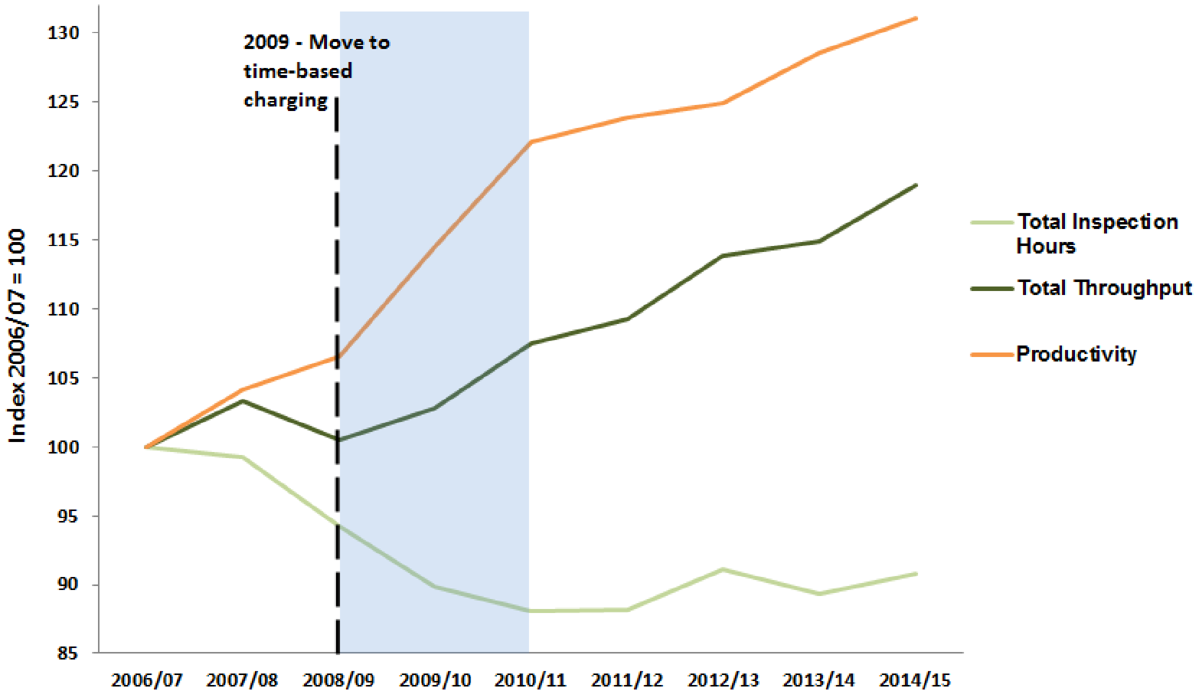


Stage	Process
1	*'PIA hours'* are added to *'MHI hours'* to calculate total *'Non-OV hours'*
2	Total *'Non-OV hours'* are discounted through the proposed system as if they were all MHI hours
3	This produces the *'Non-OV Invoice [Hypothetical]'* (hypothetical because we have assumed PIA hours are MHI hours and this invoice is NOT charged, it is only used to calculate PIA support). The *'Non-OV Invoice [Hypothetical]'* is divided by total *'Non-OV Hours'* to calculate the *'Implicit Discounted MHI Hourly Rate (£)'*
4	The *'Implicit Discounted MHI Hourly Rate (£)'* is then compared to the *'PIA Hourly Rate (£)'* and if the *'Implicit Discounted MHI Hourly Rate (£)'* is lower: the FBO is due a supplementary PIA discount. Note: If the *'Implicit Discounted MHI Hourly Rate (£)'* is higher than the *'PIA Hourly Rate (£)'* the FBO is **not** due any supplementary PIA discount. This is because it is already paying a lower hourly rate for PIAs than it would do if it were employing MHIs.
5	Assuming the FBO is due a supplementary PIA discount: the *'Implicit Discounted MHI Hourly Rate (£)'* is subtracted from the *'PIA Hourly Rate (£)'* to calculate the *'Hourly PIA Support (£)'*
6	The *'Hourly PIA Support (£)'* is multiplied by the total number of *'PIA Hours'* to calculate total *'PIA Support (£)'*
7	Total *'PIA support (£)'*

Evidence on efficiency

7.19 Data on official controls productivity suggests that the move to time-based charging under the current system, introduced in 2009, led to an increase in productivity. Productivity under this measure is calculated as total throughput (the output of official controls), divided by total inspection hours (the input of official controls). This measure of productivity is the best method available to analyse efficiency in meat official controls. Chart 2 below illustrates that in the two years following the move to time-based charging in 2009, highlighted by the blue shaded box, productivity growth significantly accelerated above the period average. Productivity growth was just below 8% in both of these years, compared to a period average of around 4%. Although time-based charging was introduced in 2009, the current system is a time-based charging and discount system based on the historic throughput and time data from 2008/09 (as discussed in paragraph 1.4). Under the proposals laid out in Option 2; discounts given on official controls will be entirely time-based and therefore, further drive the efficiency gains prompted by the 2009 reform.

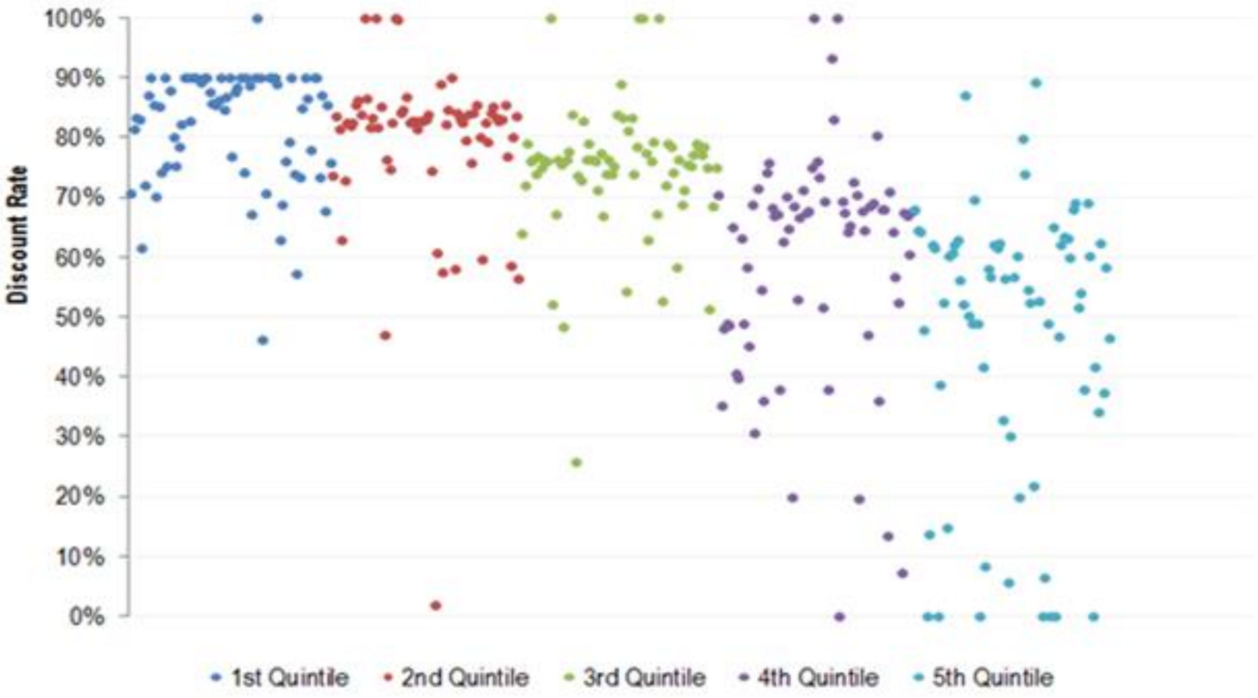
Chart 2 – England & Wales Growth in Total Inspection Hours, Total Throughput and Official Controls Productivity, 2006/07 – 2014/15 (excluding Cutting sector Inspection Hours and Throughput)



Proposed new discount system

7.20 Chart 3 below shows estimated discount rates for each site (operational in 2013/14) under Option 2, split by Quintiles. If this is compared to the current system (Chart 1) there is a much clearer trend line and variation in discount is more clearly linked to size of premises, with larger premises (upper Quintiles) generally receiving lower levels of discount and small and micro premises (lower Quintiles) receiving higher levels of discount. The variations above the trend line are accounted for by the supplementary PIA support offered to poultry FBOs employing PIAs. This supplementary support can result in poultry FBOs receiving higher levels of discount than would be the norm. Significant variations below the trend line are accounted for by supplementary charges being invoiced (effective reduction in discount) to ensure that minimum charging requirement are met.

Chart 3 – Discount rates under the Option 2, by Quintile



Option 3 – Unified Bands

7.21 Option 3 is similar to Option 2 in terms of discount system mechanics and the calculation formula (including PIA support). However, the differences between the two options lie in the discount bands and discount rates. Option 2 has three sets of sector specific discount bands[22] applied across all countries (England, Wales and Northern Island).

Option 3 has two sets of unified sector bands[23], with one set applied to all sectors in England and Wales, and the other applied to all sectors in Northern Ireland. Because the discount bands (i.e. hours in each discount band) differ between the two options, each option has different discount rates applied to each discount band. This is due to the requirement of the proposal that the entirety of the discount pot be paid out as discounts. See table 9 below for estimated band thresholds and discounts under Option 3. This can be compared to table 8 (pp. 23) to see how band thresholds and discount rates differ between Option 3 and Option 2, as estimated using 2013/14 data.

[22] Separate set of bands for each sector: poultry, red meat and game

[23] Single set of bands applied across all sectors (poultry, red meat and game)

Table 9 – England and Wales discount bands and rates by sector, based on 2013/14 data for FSA resources used (Option 3)

Discount Band	Unified (hours in band)	Discount Rate
1	Less than 60	90%
2	60 – 470	80%
3	470 – 1,420	75%
4	1,420 – 4,930	65%
5	4,930 – 11,870	55%
6	More than 11,870	50%

7.22 Option 3 was not selected as the preferred option because it:

- Deals with plants of different sizes within sectors less equitably than Option 2, leading to more plants negatively affected overall, in terms of total discount received;
- Has more of a disproportionate adverse impact, in terms of total discount received, on the poultry sector (compared with Option 2); and
- Has more of a disproportionate adverse impact on small to medium/large FBOs in both the poultry and red meat sector (compared to Option 2).

8. Analysis of Costs and Benefits

Sectors and groups affected

Business - Approved Sites

8.1 The number of establishments in operation at any time is variable. We have therefore based this impact assessment on the number of fully-approved sites in each country that were in operation in 2013/14 and for which an assessment of eligibility for discount under the present system could be made. This allows us to assess the impact of the reforms on the basis of a comparison with discounts given to industry under the current system. The number of approved sites directly affected by the proposal is set out in Table 10. In summary, there are 1156 sites subject to the current discount system in England & Wales; of these 595 (51%) currently receive a discount (see Table 11).

Table 10 – Number of approved sites (currently receiving/ not receiving discount) in 2013/14

	Total Number of Establishments						No. of Establishments NOT Receiving Discount						No. of Establishments Receiving Discount					
	GHE	PSL (Non-PIA)	PSL (PIA)	RSL	CUT	Total	GHE	PSL (Non-PIA)	PSL (PIA)	RSL	CUT	Total	GHE	PSL (Non-PIA)	PSL (PIA)	RSL	CUT	Total
England	38	42	33	208	750	1071	4	0	1	10	511	526	34	42	32	198	239	545
Wales	0	2	2	24	57	85	0	0	0	0	35	35	0	2	2	24	22	50
Total	**38**	**44**	**35**	**232**	**807**	**1156**	**4**	**0**	**1**	**10**	**546**	**561**	**34**	**44**	**34**	**222**	**261**	**595**

Notes: GHE – Game Handling Establishments; PSL (Non-PIA) Poultry Slaughterhouse with no poultry inspection assistants (PIA); PSL (PIA) Poultry Slaughterhouse with PIA; RSL – Red Meat Slaughterhouse; CUT – Cutting Plant.

Table 11 – Percentage of approved sites currently receiving discount

	% of Establishments Receiving Discount					
	GHE	PSL (Non-PIA)	PSL (PIA)	RSL	CUT	Total
England	89%	100%	97%	95%	32%	51%
Wales	0%	100%	100%	100%	39%	59%
Total	**89%**	**100%**	**97%**	**96%**	**32%**	**51%**

Consumers

8.2 It is envisaged there will be no direct impact on consumers.

Competent Authority (FSA):

8.3 It is envisaged that there will be an on-going benefit to FSA England & Wales as a result of proposed changes to the current Meat Charging discount system with a view to developing a simpler system that is relatively easier to administer than the current discounting system. This will equate to savings in administrative time for the FSA. A second on-going benefit is anticipated for FSA England & Wales as a result of the removal of cutting plants from the discount system, removing cutting plants means FSA England & Wales does not have to pay discounts to the cutting sector and realises cost saving benefits. Alongside these two benefits there will be an on-going cost to the competent authority as a result of increasing the value of the discount pot relative to the baseline year of 2013/14.

Assumptions

Discount Rate

8.4 This impact assessment considers costs and benefits that extend into the future. Consequently, it is important for any monetised impacts to be expressed in present values to enable comparison between policy options. The discount rate used to generate these present values is defined in the Green Book[24] as 3.5% per annum for any appraisal period of less than 30 years.

Appraisal Period

8.5 Guidance issued by the Department for Business, Innovation and Skills[25] states that where a policy has costs and benefits that extend into the future and the policy has no identifiable end point, the impacts of the policy should be appraised over ten years. As this is the case for this policy, an appraisal period of ten years is used when considering the impact of costs and benefits in the future.

8.6 It is possible for the outcome of the EU Modernising official controls negotiations, which are due to be implemented in 2019, to lead to further reforms to the meat charging discount system. However, the EU negotiations are still ongoing and the final outcome remains unknown. The latest version of the text for the replacement of Regulation (EC) No 882/2004, which governs charging for meat official controls, seen by the FSA included very similar charging provisions to the existing Regulations and the FSA is not anticipating that this will change as a result of the negotiations. Therefore, a 10 year appraisal period has been applied to the analysis of costs and benefits presented in this impact assessment because there is no viable reason for using an alternative appraisal period.

[24] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf

[25] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/211981/bis-13-1038-better-regulation-framework-manual-guidance-for-officials.pdf

Data – Financial Years

8.7 FSA calculates and invoices its charges to industry on an annual basis using financial years and not calendar years. Therefore charging and discount data is only available by financial year and the estimates in this cost benefit analysis are presented by financial year. The cost benefit estimates used in the Steering Group on Meat Charging during the development of these proposals and in the consultation were also in financial years.

Costs and Benefits Expressed in Real Terms

8.8 All costs and benefits forecast for longer than 1 year are expressed in real terms. As per Green Book guidance on adjusting for constant prices over a long-term period; the measure of prices used as a deflator is the Bank of England's current annual inflation target of 2%.

Opportunity Cost - Wage Rates and Gross Hourly Salary Costs

8.9 Where an individual or company is required to spend time doing something additional as a result of the proposals identified in this impact assessment, the value of their time (referred to as the opportunity cost of time) is approximated by using wage data from the Annual Survey of Hours and Earnings (ASHE)[26]. The wage data extracted from ASHE is then uprated by 30% to reflect nonwage costs such as employer pension or National Insurance contributions, in line with guidance from the Green Book and UK Standard Cost Model (SCM) Manual as published by the Department for Business Innovation and Skills (BIS)[27]. The exception is where time spent by FSA England & Wales is valued, in which case an internal source of data is used. The rates used from this source are "Gross Hourly Salary Cost" and is not uprated by 30% as it already contains all non-wage costs.

Industry Use of FSA Resource

8.10 Cost and charge figures are based on 2013/14 estimates and assume the level of official controls remains constant and are delivered through the existing field structure i.e. constant number of FBO establishments, number of FSA staff etc. for the duration of the policy cycle. In the long run (assuming a 10 year policy cycle) it is difficult to predict the volume of FSA resources used for carrying out official controls. This is due to fluctuations in the volume of resources used, largely driven by a range of supply and demand side factors such as changes in commercial decisions by FBOs, consumer tastes and preferences, exchange rates and its knock on effect on export markets etc. We therefore use a static model approach because attempting to predict future changes in the volume of FSA resources use will most likely result in an unacceptable margin for error.

Size of Business

8.11 At present the FSA does not have access to relevant data to measure size of business pertaining to slaughterhouses, cutting plants and game handling establishments. An attempt was made to use the Inter-departmental Business Register (IDBR) to obtain data on the size of business based either on the number of employees or size turnover. However, it has not been possible to align these businesses using IDBR because the corporate structure of many businesses in the meat industry is complicated with the separation of different functions into separate business entities. This would make any FSA analysis speculative and unreliable.

8.12 Further to this, during the consultation process, FBOs were asked to provide data on the number of people employed by their business. However, the response rate from FBOs was too low (see tables 6 and 7) to construct a representative data set with which to estimate and classify size of business by sector broken down by devolved country. Therefore for the purpose of this Impact Assessment, due to lack of relevant data, size of business has been measured using the best available data - volume of official controls inspection hours - underpinning the cost and benefit analysis and the Small and Micro Business Assessment (SAMBA).

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[26] http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/index.html

[27] SCM Methodology: http://webarchive.nationalarchives.gov.uk/20121212135622/http://www.bis.gov.uk/files/file44505.pdf

8.13 Throughout the development of the proposals, the Steering Group on Meat Charging, including industry stakeholders (see paragraphs 5.1- 5.2), have been heavily involved in developing this approach i.e. using inspection hours to measure size of plant or FBO. Furthermore, during the consultation exercise, this method was not contested by FBOs when asked to validate the assumptions used to determine size of plant or FBO.

Costs and Benefits for Each Option

Option 1 – Do Nothing

Cost of Option 1

8.14 There are no incremental costs associated with this option; this is the baseline against which the other options will be assessed.

Benefits of Option 1

8.15 There are no incremental benefits associated with this option; this is the baseline against which the other options will be assessed.

Option 2 Sector Bands – *A graduated system of discounts based on the principles of a progressive income tax system, with sector specific bands*.

Costs of Option 2

Costs to industry

One-Off Familiarisation Costs

8.16 Under preferred option 2 it is envisaged that there will be a small one-off cost to industry due to a need to familiarise themselves with the revised system of charging and discounts[28].

8.17 It is estimated that it will take approximately a total of one hour of managers' time per business to read and familiarise themselves with the new arrangements. This estimate is based on consultation with industry representatives (via the Steering Group on Meat Charging). During the consultation it was also asked if respondents agree that the figures presented in this Impact Assessment appropriately reflect the industry familiarisation costs, for which no respondents provided supplementary evidence or reason to contest the figures.

8.18 There are currently 1156 approved sites operating in England and Wales subject to the current discounting system that would be directly affected by the proposal. Table 11 displays the number of businesses affected, including the number of businesses receiving discount, broken down by location and sector.

8.19 To quantify one-off familiarisation costs to industry we calculate the familiarisation cost per business by multiplying the hourly wage rate of a "manager of a farm"[29] of £12.82, which is uprated by 30% to account for overheads in line with SCM methodology (£16.67 inclusive)[30], by the one hour taken to understand the new charging arrangements, resulting in a familiarisation cost per business of £16.67[31]. To quantify the total one-off familiarisation cost to industry we multiply the familiarisation cost per business by the number of businesses affected by the proposal. This results in an approximate one-off familiarisation cost to businesses in England and Wales of approximately £19,270[32], which per country equates to £17,850 in England and £1,420 in Wales. Table 12 displays the familiarisation cost to industry broken down by country.

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[28] Familiarisation costs are calculated using an established and consistent methodology based on the UK Standard Cost Model (SCM) Manual; while wage rates are based on average hourly pay rates taken from the Annual Survey of Hours and Earnings (ASHE) where we always use the median rate of pay (see paragraph 8.9~~8.7~~ for details on methodology).

[29] The staff expected to be involved in the familiarisation process are classed as the equivalent of "Managers and proprietors in agriculture and horticulture" and this is why this hourly wage rate is considered appropriate.

[30] Wage rate obtained from The Annual Survey of Household Earnings (revised 2013) http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-337429 – table 14.6a. Median hourly wage of a "Managers and proprietors in agriculture and horticulture" (£12.82 which has been up-rated by 30% to cover overheads: £12.82 * (1 + 0.3)) = £16.67.

[31] £16.67 = £16.67 (hourly wage) * 1 (hours needed to familiarise)

[32] £19,266 (£19,270 rounded) = £16.67 (gross hourly salary; including 30% mark-up)*1156 (number of approved sites) * 1 (hour needed to familiarise)

Table 12 - Familiarisation cost to industry in England & Wales

Country	Affected Approved Sites	Total Familiarisation Cost
England	1071	£17,850
Wales	85	£1,420
Total	**1156**	**£19,270**

Note: Totals may not sum due to rounding. Costs are estimated by multiplying wage rates uplifted by 30% to account for overheads. This means that the wage rates reported in the text are approximate to two decimal places and when grossed may result in a rounding error.

Equivalent Annual Net Costs (EANC)

8.20 In order for "one-off" transition costs to be compared on an equivalent basis across policies spanning different time periods, it is necessary to "equivalently annualise" costs using a standard formula[33]. Under Standard HMT Green book guidance a discount rate of 3.5% is used.

8.21 A total one-off cost to industry in England & Wales is an estimated £19,270 (see table 12 above). This yields an Equivalent Annual Net Costs (EANC) of approximately £2,235 in England & Wales over 10 years, which per country equates approximately to £2,070 in England and £165 in Wales. Table 13 displays the breakdown of the EANC per country.

Table 13 – Equivalent Annual Net Cost (EANC) for Industry by country

Country	EANC
England	£2,070
Wales	£165
Total	**£2,235**

Note: Totals may not sum due to rounding.

On-going Costs: Discount Reform

8.22 There would be no on-going cost to the slaughtering industry as a result of reforms to revise the current system of discounting apart from transfers (redistribution) of discounts between sectors (poultry, red meat and game handling). This essentially amounts to a zero-sum game for industry, i.e. the gains (or losses) of each establishment is exactly balanced by the losses (or gains) of other establishments with a zero net impact at industry level. The distributional impact of transfers between sectors by country (England & Wales) and size of establishment is assessed in Annex A of the Impact Assessment.

Cutting Plants

8.23 Under preferred Option 2 cutting premises would be charged on a full cost basis as they cease to receive a discount on meat official control charges. There are 807 cutting establishments currently operating in England & Wales (see table 10) and as discussed

[33] The annuity factor (***a***) is essentially the sum of the discount factors across the time period over which the policy is appraised. The equivalent annual cost formula is as follows:

$$a_{t,r} = \sum_{j=0}^{t-1} \prod_{i=0}^{j} \left(\frac{1}{1+r_i} \right).$$

PVNCB is the present value of costs, ***r*** is the social discount rate and ***t*** is the time period over which the policy is being appraised above (see paragraph 7.7 - 7.8) the majority of cutting plants (68%) do not currently receive a discount.

8.24 To account for annual variation in discount charges received by cutting premises; we calculate lower and upper bound cost estimates based on the average annual growth in discount on official control charges using the last five years of available data (financial years 2009/10 – 2013/14). The analysis shows that on average, discounted charges vary by approximately -/+8% year on year.

8.25 We estimate that removing the current discount would cost the cutting sector in England & Wales between approximately £56,380 (lower bound) and £66,190 (upper bound) with a best estimate of £61,280 per annum[34] (nominal values). In 2013/14, discounts received by cutting plants ranged from around £1 to £1,660 with an average annual discount of £235 per plant. Table 14 shows the breakdown of the estimated annual total cost to the cutting sector, by country.

Table 14 – Estimated Annual Full Cost Charge to Cutting Premises by Country

Country	Annual Full Cost Charge		
	Lower Bound	Upper Bound	Best Estimate
England	£50,450	£59,230	£54,840
Wales	£5,930	£6,960	£6,440
Total	**£56,380**	**£66,190**	**£61,280**

Note: Totals may not sum due to rounding.

8.26 Over 10 years we estimate a real total cost to the sector ranging from approximately £516,600 to £606,400 in England & Wales with a best estimate of £561,500. Applying a discount rate of 3.5% as per HMT Green Book guidance yields a present value (PV) best estimate cost of approximately £486,000 (see table 15).

8.27 Although we know that the cutting sector is further down the supply chain where there are greater opportunities to add value, relative to the slaughtering sector, we have not been able to estimate the relative full impact on the sector. This is because we do not have access to the relevant data, e.g. gross value added or revenue of the cutting sector, for which we could use to assess the relative impact of the estimated costs of the proposal. During consultation no supplementary evidence was provided by industry to indicate any adverse impact from the proposals.

[34] Lower bound: £61,283 (Best estimate, rounded to £61,280) * 0.92 (Reduced by 8%) = £56,380
Upper bound: £61,283 (Best estimate, rounded to £61,280) * 1.08 (Increased by 8%) = £66,186

Table 15 – GB Cutting Premises: Full Inspections Costs (Rounded)

	Cost (£000)	Yr 0	Yr1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Total	PV	Annual Average
Full Inspection Cost	Lower Bound	£56	£55	£54	£53	£52	£51	£50	£49	£48	£47	£517	£447	£52
	Best Estimate	£61	£60	£59	£58	£57	£56	£54	£53	£52	£51	£561	£486	£56
	Upper Bound	£66	£65	£64	£62	£61	£60	£59	£58	£56	£55	£606	£525	£61

Note: Totals may not sum due to rounding.

Costs to Competent Authority (FSA)

<u>*One-Off Familiarisation and Dissemination Costs to FSA England & Wales*</u>

8.28 We envisage there will be a small one-off cost to FSA England & Wales for familiarisation and dissemination of information associated with the new meat charging discount system.

FSA England

8.29 It is expected that various grades of staff within the finance team will need to read and familiarise themselves with the new Meat Charging discount framework and disseminate the information to relevant colleagues. Table 16 below shows a breakdown of the familiarisation and dissemination costs by grade in England.

8.30 The total familiarisation cost per grade is quantified by multiplying the number of FSA staff required to familiarise/disseminate (column A) by the estimated familiarisation/ dissemination time per staff (column B), to arrive at total familiarisation/dissemination time (hours) (column C). This is then multiplied by the respective gross hourly salary[35] for each grade (column D), resulting in the total familiarisation/dissemination cost per grade reported in column E[36]. The total familiarisation cost for FSA England is approximately £4,030 and total dissemination cost is approximately £445. However, it is assumed that the latter (total dissemination cost) will be equally apportioned between FSA England and FSA Wales.

[35] Gross hourly salary obtained from FSA Accounting Management Accounts – The reported figure is the average gross hourly salary cost and includes National Insurance and Pension.
36 Number of FSA Staff Required to Familiarise/ Disseminate * Familiarisation/ Dissemination Time per Staff = Total Familiarisation/ Dissemination Time

Table 16 – Familiarisation and Dissemination Costs to FSA England

Grade	No. of FSA Staff Required to Familiarise / Disseminate	Familiarisation/ Dissemination Time per Staff	Total Familiarisation/ Dissemination Time	Gross Hourly Salary (£)	Total Familiarisation/ Dissemination Cost
Familiarisation	**A**	**B**	**C = A*B**	**D**	**E = C*D**
Senior Executive Officer (SEO)	27	4	108	£26	£2,850
Grade 7 (G7)	4	4	16	£33	£525
Grade 6 (G6)	4	4	16	£41	£655
Total Familiarisation Cost	**-**	**-**	**-**	**-**	**£4,030**
Dissemination					
SEO	1	7.5	7.5	£26	£200
G7	1	7.5	7.5	£33	£245
Total Dissemination Cost*	**-**	**-**	**-**	**-**	**£445**
Total Familiarisation and Dissemination * Costs	**-**	**-**	**-**	**-**	**£4,480**

* It is assumed that dissemination costs will be equally apportioned between FSA England and FSA Wales.
Note: Totals may not sum due to rounding. Costs are estimated by multiplying gross hourly salary costs (including pension and National Insurance). This means that the gross hourly salary costs reported in the text are approximate to two decimal places and when grossed may result in a rounding error.

FSA Wales

8.31 It is anticipated that two grades of staff within the finance team will need to read and familiarise themselves with the new Meat Charging discount framework. Table 17 below shows the breakdown of familiarisation cost for each grade of staff in Wales.

8.32 As with familiarisation costs in England (paragraph 8.30), we multiply the number of FSA staff required to familiarise by the estimated familiarisation time per staff. This is then multiplied by the respective gross hourly salary[37] for each grade resulting in a total familiarisation cost per grade (reported in column E, Table 17), which totals approximately £480 for FSA Wales.

Table 17 – Familiarisation costs to FSA Wales

Grade	No. of FSA Staff Required to Familiarise	Familiarisation Time per Staff	Total Familiarisation Time	Gross Hourly Salary (£)	Total Familiarisation Cost
Familiarisation	**A**	**B**	**C = A*B**	**D**	**E = C*D**
SEO	3	4	12	£26	£315
G6	1	4	4	£41	£165
Total Familiarisation Cost	**-**	**-**	**-**	**-**	**£480**

[37] Gross hourly salary obtained from FSA Accounting Management Accounts – The reported figure is the average gross hourly salary cost and includes National Insurance and Pension.

Note: Totals may not sum due to rounding. This means that the gross hourly salary costs reported in the text are approximate to two decimal places and when grossed may result in a rounding error.

One-Off Cost in Developing a New IT System to FSA England & Wales

8.33 FSA England & Wales has estimated an initial one-off cost of approximately £150,000 to develop and build a new IT platform that will administer the new Meat Charging discounting system. It is envisaged that a single IT system will be developed for FSA England & Wales by FSA staff and contractors.

8.34 In accordance with HMT Green Book guidance[38], this figure must be adjusted for "optimism bias". This is because most IT projects are affected by optimism with a systematic tendency to understate costs due to uncertainty surrounding procurement, duration and specification. The Green Book advises using available project specific data based on recent IT development spend to make appropriate adjustments for optimism bias. However, at this stage there is no project specific data available; as the project is still in its early developmental phase. On this basis an "optimism bias" adjustment of 100%[39] has been applied. This gives an upper bound estimate for total IT system build costs of approximately £300,000, with a lower bound estimate of £150,000 and a best estimate of approximately £225,000[40] (see table 18 below).

Table 18 – Upper and Lower Bound IT Costs

	One-Off IT Costs to FSA GB		
	Lower Bound	Upper Bound	Best Estimate
GB	£150,000	£300,000	**£225,000**

One-Off Cost in IT System Training

8.35 The FSA will need to provide training for FSA staff in order for them to be able to use the new IT system, which we envisage will be a one-off cost to the Agency.

England & Wales

8.36 It is predicted that a number of different grades of staff within the finance team will need to be trained on the new IT system that will administer the proposed reformed Meat Charging discount system. The total IT system training cost per grade is presented in Table 19 below.

8.37 Total IT system training cost is quantified by multiplying the number of staff requiring training per grade (column A) by the time needed per staff for training (column B), resulting in a total training time for each grade (column C). This is then multiplied by the

[38] HM Treasury The Green Book - Appraisal and Evaluation in Central Government (see: http://www.hm-treasury.gov.uk/d/green_book_complete.pdf).

[39] Consistent with Green Book Guidance - Review of Large Public Procurement in the UK, Mott MacDonald (2002) http://www.parliament.vic.gov.au/images/stories/committees/paec/2010-11_Budget_Estimates/Extra_bits/Mott_McDonald_Flyvberg_Blake_Dawson_Waldron_studies.pdf

[40] Calculated by taking the midpoint of the range: (£300,000 + £150,000)/2 = £225,000

respective gross hourly salary[41] of each grade (column C * D) to arrive at the total training cost per grade (column E). One-off total IT system training costs for FSA England & FSA Wales is approximately £1,100.

Table 19 – IT System training cost for FSA in England & Wales

Grade	Number of FSA Staff Requiring Training	Time Needed per Staff for Training	Total Training Time	Gross Hourly Salary (£)	Total Training Cost
	A	B	C = A*B	D	E = C*D
SEO (Prepare and deliver training)	1	19	19	£26	£495
SEO (Receive training)	1	4	4	£26	£105
Executive Officer (EO)(Receive training)	4	2	8	£15	£120
G7 (Prepare and deliver training)	1	11.5	11.5	£33	£380
Total Training Cost	-	-	-	-	**£1,100**

Note: Totals may not sum due to rounding. This means that the gross hourly salary cost reported in the text are approximate to two decimal places and when grossed may result in a rounding error.

<u>On-going Cost to FSA England & Wales in Funding Increase in Discount Pot</u>

8.38 The discount pot allocated to the new meat charging system has been ring-fenced at a value of approximately £21.4m for England & Wales. This represents an incremental increase compared to the 2013/14 baseline (valued at approximately £20.4m) with which Option 2 is compared. There will be an on-going cost to FSA England & Wales of approximately £1.03m[42] per year (nominal) to fund this incremental increase. Over 10 years we estimate a total real cost of approximately £9.43m. Applying a discount rate of 3.5% as per HMT Green Book guidance yields a present value (PV) cost of approximately £8.16m (see table 20).

Table 20 – Funding Increase in Value of Discount Pot

Cost (£m's)	Yr 0	Yr1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Total	PV	Annual Average
Increase in Value of Discount Pot	£1.03	£1.01	£0.99	£0.97	£0.95	£0.93	£0.91	£0.90	£0.88	£0.86	£9.43	£8.16	£0.95

Costs to Taxpayer

8.39 Increasing the value of the discount pot paid to industry would transfer some of the cost of official controls from industry to the taxpayer. This cost has already been quantified under on-going costs to FSA England & Wales (see paragraph 8.38).

Non-Monetised Costs

8.40 There are no non-monetised costs associated with Option 2.

41 Gross hourly salary cost obtained from FSA Accounting Management Accounts – The reported figure is the average gross hourly salary cost and includes National Insurance and Pension.

42 £21,400,000 (Ring-fenced Discount Pot) - £20,371,000 (2013/14 Discount Pot) = £1,029,000

Total Cost of Option 2

8.41 The total cost for Industry associated with policy Option 2 is estimated at between £0.54m and £0.63m over 10 years with a best estimate of £0.58m; an annual average cost of £0.06 (best estimate). Once these costs are discounted at a rate of 3.5% over 10 years we obtain a present value total cost of £0.51m (best estimate).

8.42 The overall cost to FSA is estimated at between £9.59m and £9.74m over 10 years with a best estimate of £9.66m; an annual average cost (best estimate) of £0.98m and a present value of £8.39m (best estimate).

8.43 The overall cost to society is estimated at between £10.12m and £10.36m over 10 years with a best estimate of £10.24m; an annual average cost of £1.03m (best estimate) and present value total cost of £8.90m (best estimate). Summary of one-off and on-going costs associated with Option 2 are presented in table 21.

Table 21 – Option 2: Total Cost

Cost (£000's)	Yr 0	Yr1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Total	PV	Annual Average/ EAC
INDUSTRY													
One-off Costs													
Familiarisation	£19	£0	£0	£0	£0	£0	£0	£0	£0	£0	£19	£19	£2
On-going Costs													
Cutting Sector (Removal of discount)													
Lower Bound Estimate	£56	£55	£54	£53	£52	£51	£50	£49	£48	£47	£517	£447	£52
Best Estimate	£61	£60	£59	£58	£57	£56	£54	£53	£52	£51	£562	£486	£57
Upper Bound Estimate	£66	£65	£64	£62	£61	£60	£59	£58	£57	£55	£606	£525	£61
Total Cost to Industry													
Lower Bound Estimate	£76	£55	£54	£53	£52	£51	£50	£49	£48	£47	£536	£467	£54
Best Estimate	£81	£60	£59	£58	£57	£56	£54	£53	£52	£51	£581	£505	£59
Upper Bound Estimate	£86	£65	£64	£62	£61	£60	£59	£58	£57	£55	£626	£544	£63
COMPETENT AUTHORITY: FSA GB													
One-off Costs													
Familiarisation and Dissemination	£5	£0	£0	£0	£0	£0	£0	£0	£0	£0	£5	£5	£1
IT Training	£1	£0	£0	£0	£0	£0	£0	£0	£0	£0	£1	£1	£0
IT System Build													
Lower Bound Estimate	£150	£0	£0	£0	£0	£0	£0	£0	£0	£0	£150	£150	£17
Best Estimate	£225	£0	£0	£0	£0	£0	£0	£0	£0	£0	£225	£225	£26
Upper Bound Estimate	£300	£0	£0	£0	£0	£0	£0	£0	£0	£0	£300	£300	£35
On-going Costs													
Increase in Discount Pot	£1,029	£1,009	£989	£970	£951	£932	£914	£896	£878	£861	£9,429	£8,162	£948
Total Cost to Competent Authority: FSA GB													
Lower Bound Estimate	£1,185	£1,009	£989	£970	£951	£932	£914	£896	£878	£861	£9,585	£8,318	£966
Best Estimate	£1,260	£1,009	£989	£970	£951	£932	£914	£896	£878	£861	£9,660	£8,393	£975
Upper Bound Estimate	£1,335	£1,009	£989	£970	£951	£932	£914	£896	£878	£861	£9,735	£8,468	£984

Cost (£000's)	Yr 0	Yr1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Total	PV	Annual Average/ EAC
Total Cost to E&W													
Total Cost (Lower Bound) to E&W	£1,261	£1,064	£1,043	£1,023	£1,003	£983	£964	£945	£926	£908	£10,121	£8,785	£1,021
Total Cost (Best Estimate) to E&W	**£1,341**	**£1,069**	**£1,048**	**£1,028**	**£1,008**	**£988**	**£968**	**£949**	**£930**	**£912**	**£10,241**	**£8,898**	**£1,034**
Total Cost (Upper Bound) to E&W	£1,421	£1,074	£1,053	£1,032	£1,012	£992	£973	£954	£935	£916	£10,361	£9,012	£1,047

Benefits of Option 2

Benefits to Industry

On-going Benefit to Industry from an Increase in the Value of the Discount Pot

8.44 It is envisaged that there would be an on-going benefit to industry. The discount pot allocated to the new meat charging system has been ring-fenced at a value of approximately £21.4m in England and Wales. This represents an incremental increase compared to the 2013/14 baseline (valued at approximately £20.4m) with which Option 2 is compared. We estimate an on-going benefit to industry of approximately £1.03m[43] (nominal) per year, as a result of this increased funding. Over 10 years we estimate a total real benefit of approximately £9.43m. Applying a discount rate of 3.5% as per HMT Green Book guidance yields a present value (PV) benefit of approximately £8.16m (see table 22). There would also be transfers (redistribution) between sectors (poultry, red meat and game handling) as result of the new charging system. The distributional impact of transfers between sectors by country (England & Wales) and size of establishment is assessed in Annex A of the Impact Assessment. On-going benefit to industry from an increased discount pot is set out in table 22 below.

Table 22 – Ongoing Benefit to Industry: Increase in Value of Discount Pot

Benefit (£m's)	Yr 0	Yr1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Total	PV	Annual Average
Increase in Value of Discount Pot	£1.03	£1.01	£0.99	£0.97	£0.95	£0.93	£0.91	£0.90	£0.88	£0.86	£9.43	£8.16	£0.95

Reduced Administrative Burdens to Industry: Simplification of Discounting System

8.45 The new meat charging discounting system is intended to be more transparent than the current system, and for this reason we expect there to be some time savings for FBOs when reconciling monthly invoices for official controls.

8.46 It is estimated that managers will save approximately 10 minutes per invoice reconciled and invoices are sent out on a monthly basis (12 invoices per year), giving an annual time saving of approximately 2[44] hours. This estimate is based on consultation with industry representatives (via the Steering Group on Meat Charging). There are currently 595 approved sites operating in England and Wales that are currently receiving a discount and would therefore be affected by the proposal. To quantify this benefit to industry, we calculate the time saving per business by multiplying the hourly wage rate of "Managers and proprietors in agriculture and horticulture" of £16.67[45] by the two hours saved when reading new invoices, resulting in a time saving benefit per

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[43] £21,400,000 (Ring-fenced Discount Pot) - £20,371,000 (2013/14 Discount Pot) = £1,029,000

[44] 10 (number of minutes saved per invoice) * 12 (number of invoices received per year) = 2 hours

[45] Wage rate obtained from The Annual Survey of Household Earnings (revised 2013) http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-337429 – table 14.6a. Median hourly wage of a "Managers and proprietors in agriculture and horticulture" (£12.82 which has been up-rated by 30% to cover overheads: £12.82 * (1 + 0.3)) = £16.67.

business of £33.34[46]. To quantify the overall time saving benefit to industry we multiply the time saving per firm by the number of businesses affected by the proposal. This results in an approximate (nominal) annual time saving benefit in England & Wales of £19,800[47]. Table 23 shows the breakdown of the estimated annual time saving per country.

Table 23 – Estimated Annual Time Saving by Country (England & Wales)

Country	Annual Time Saving
England	£18,150
Wales	£1,650
Total	**£19,800**

Note: Totals may not sum due to rounding. This means that the hourly wage rates reported in the text are approximate to two decimal places and when grossed may result in a rounding error.

8.47 Over 10 years we estimate a real total time saving to business of approximately £182,000 in England & Wales. Applying a discount rate of 3.5% as per HMT Green Book guidance yields a present value (PV) cost of approximately £157,000 (see table 24).

Table 24 – Estimated Annual Time Saving

Benefit: Annual Time Saving to E&W (£000's)												
Yr 0	Yr1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Total	PV	Annual Average
£20	£19	£19	£19	£18	£18	£18	£17	£17	£17	£182	£157	£18

8.48 No other monetised benefits were identified by the Steering Group on Meat Charging, which consists of meat industry stakeholders, during development of the proposal or via consultation with the wider Industry.

Benefits to Competent Authority (FSA)

On-going benefits: Reduced Administrative Burdens

England & Wales

8.49 It is anticipated that various grades of staff within the finance team will save time on an annual basis by no longer having to complete administrative tasks such as the annual discount calculation, printing and collating discount sheets and the quarterly calculation of the EU minimum. A summary of these cost savings is presented in table 25, broken down by grade. These estimates are based on the expert advice of the FSA finance team that oversee the current discount process.

8.50 To quantify the annual cost savings from reduced admin time in FSA England & Wales, we multiply the number of FSA staff with reduced duties (column A) by the amount of time each grade of staff will save per year (column B), which calculates the total annual time saving per grade (column C). The total annual cost saving/benefit is then calculated by multiplying the total time saving per grade (column C) by the respective

[46] £33.34 = £16.67 (hourly wage rate) * 2 (hours saved per year)

[47] £19,837 (Rounded to £19,800) = £33.34 (Time saving per firm) * 595 (Number of approved sites)

gross hourly salary[48] of each grade, resulting in a total annual benefit to FSA England and Wales for each grade reported in column E. Total cost savings for FSA England and Wales is estimated at approximately £4,040 per annum (nominal).

Table 25 – Reduced Administrative Burdens for FSA in England & Wales

Grade	No. of FSA Staff Effected	Time Saving per Staff (hours)	Total Time Saving (hours)	Gross Hourly Salary (£)	Total Annual Cost Saving/ Benefit (£)
	A	B	C = A*B	D	E = C*D
EO	1	119	119	£15	£1,815
SEO	1	56.5	56.5	£26	£1,490
G7	1	16	16	£33	£530
Senior Civil Servant (SCS)	1	5	5	£41	£205
Total Benefit	**-**	**-**	**-**	**-**	**£4,040**

Note: Totals may not sum due to rounding. This means that the gross hourly salary costs reported in the text are approximate to two decimal places and when grossed may result in a rounding error.

8.51 Over 10 years we estimate a real total time saving of approximately £37,000 in England & Wales. Applying a discount rate of 3.5% as per HMT Green Book guidance yields a present value (PV) cost of approximately £32,000 (see table 26).

Table 26 – Reduced Administrative Burdens for FSA England & Wales

Benefit: Total Reduced Administrative Burdens for FSA E&W (£000s)												
Yr 0	**Yr1**	**Yr 2**	**Yr 3**	**Yr 4**	**Yr 5**	**Yr 6**	**Yr 7**	**Yr 8**	**Yr 9**	**Total**	**PV**	**Annual Average**
£4	£4	£4	£4	£4	£4	£4	£4	£3	£3	£37	£32	£4

<u>On-going benefits: Discount Reform</u>

Cutting Plants

8.52 We envisage that removing the current discount received by cutting premises in England & Wales would generate an on-going benefit for FSA England & Wales in the form of annual cost savings. There are 807 cutting establishments currently operating in England & Wales (see table 10) of which 261 currently receive a discount. The value of discounts removed from the cutting sector will be removed from the overall discount pot, i.e. will not be redistributed to other sectors, and in doing so generate a saving to the FSA.

8.53 To account for annual variation in discount charges received by cutting premises we calculate lower and upper bound cost estimates based on the average annual growth in discount on official control charges using the last five years of available data (2009/10 – 2013/14). The analysis shows on average that discounted charges vary by approximately -/+8% year on year. Applying this fluctuation to the best estimate gives the upper and lower bound.

[48] Gross hourly salary cost obtained from FSA Accounting Management Accounts – The reported figure is the average gross hourly salary cost and includes National Insurance and Pension.

8.54 We estimate that removing the current discount received by the cutting sector would yield a nominal benefit to FSA England & Wales of approximately £56,380 (lower bound) and £66,190 (upper bound) with a best estimate of £61,280 per annum. Table 27 shows the breakdown of the annual benefits to the FSA per country.

Table 27 – Estimated Annual Savings to FSA England & Wales: Removal of Discount (Cutting Premises) by Country

Country	Annual Full Cost Charge		
	Lower Bound	Upper Bound	Best Estimate
England	£50,450	£59,230	£54,840
Wales	£5,930	£6,960	£6,440
Total	**£56,380**	**£66,190**	**£61,280**

Note: Totals may not sum due to rounding.

8.55 Over 10 years we estimate a real total benefit to FSA England & Wales ranging from approximately £516,600 and £606,400 with a best estimate of £561,500. Applying a discount rate of 3.5% as per HMT Green Book guidance yields a best estimate present value (PV) benefit of approximately £486,000 (see table 28).

Table 28 – Benefit to FSA England & Wales: Removal of Discount (Cutting Premises)

	Benefit (£000)	Yr 0	Yr1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Total	PV	Annual Average
Removal of Discount	Lower Bound	£56	£55	£54	£53	£52	£51	£50	£49	£48	£47	£517	£447	£52
	Best Estimate	£66	£65	£64	£62	£61	£60	£59	£58	£56	£55	£606	£525	£61
	Upper Bound	£61	£60	£59	£58	£57	£56	£54	£53	£52	£51	£561	£486	£56

Note: Totals may not sum due to rounding.

Benefits to consumer

8.56 We do not envisage there will be any direct benefit to consumers.

Benefits to Taxpayer

8.57 Removing the discount currently received by cutting premises would transfer the cost from the taxpayer directly to the cutting sector. Savings would also be realised to the taxpayer through reductions in administrative burdens associated with administering a new and simplified meat charging system. These benefits have already been quantified under benefits to Competent Authority (FSA) (see paragraphs 8.52 - 8.55)

Non-monetised Benefits

On-going Efficiency Benefit to Industry

8.58 The proposed discount system puts much greater emphasis on the level of official controls used by FBOs than the current system, which ensures charges for official controls accurately reflect the level of resource used on said controls. It achieves this by ensuring levels of discounts are consistently linked to usage of FSA resource in official controls. For this reason the proposed discount system could act as an incentive for some plants to invest to improve the efficiency of their use of FSA resources, which would be facilitated by a change to their Statement of Resources[49]. The objective of such investment would be to maximise efficient use of FSA resources and ultimately reduce FSA resource used to reduce the costs of inspection. It could also act as an incentive for all plants to increase the efficiency in which FSA resources are used, without investing. These incentives could arise for plants that experience a fall in the level of discount they receive, which could be due to the proposals requirement that all plants pay at least 10% of the cost of inspection (unless supplementary PIA discount reduces charges below 10%), or to the proposed progressive discount bandings that reduce the level of discount as number of inspection hours increases. For discussion and evidence of the predicted efficiency benefit see paragraph 7.19. As it is not possible to quantify this reduction, the benefit remains non-monetised.

Total Benefits of Option 2

8.59 The total benefit to Industry associated with policy Option 2 is estimated at £9.61m over 10 years; an annual average benefit of approximately £0.97m. Once these benefits are discounted at a rate of 3.5% over 10 years we obtain a present value total benefit of £8.32m.

8.60 For FSA total benefits of Option 2 are estimated at between £0.55m and £0.64m over 10 years with a best estimate of £0.60m; an annual average benefit of approximately £0.06m (best estimate) and a present value total benefit of £0.52m (best estimate).

8.61 The overall benefit to society is estimated at between £10.169m and £10.25m over 10 years with a best estimate of £10.21m; an annual average benefit of approximately £1.03m and a present value best estimate total benefit of £8.84m. Summary of on-going benefits associated with Option 2 are presented in Table 29.

[49] The Statement of Resources is a document agreed between an FBO and the FSA setting out the FSA resources required to deliver the official controls required by the FBO for their hours and methods of operation.

Table 29 – Total Benefits of Option 2

Benefit (£000's)	Yr 0	Yr1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Total	PV	Annual Average/ EAC
INDUSTRY													
On-going Benefits													
Reduced Administrative Burdens	£20	£19	£19	£19	£18	£18	£18	£17	£17	£17	£182	£158	£18
Increase in Value of Discount Pot	£1,029	£1,009	£989	£970	£951	£932	£914	£896	£878	£861	£9,429	£8,162	£948
Total Benefit to Industry													
Best Estimate	£1,049	£1,028	£1,008	£989	£969	£950	£932	£913	£895	£878	£9,611	£8,319	£967
COMPETENT AUTHORITY: FSA GB													
On-going Benefits													
Reduced Administrative Burdens	£4	£4	£4	£4	£4	£4	£4	£4	£3	£3	£37	£32	£4
Removal of Cutting Plants from Discount System													
Lower Bound Estimate	£56	£55	£54	£53	£52	£51	£50	£49	£48	£47	£517	£447	£52
Best Estimate	£61	£60	£59	£58	£57	£56	£54	£53	£52	£51	£562	£486	£57
Upper Bound Estimate	£66	£65	£64	£62	£61	£60	£59	£58	£57	£55	£606	£525	£61
Total Benefit to Competent Authority: FSA GB													
Lower Bound Estimate	£60	£59	£58	£57	£56	£55	£54	£53	£52	£51	£554	£479	£56
Best Estimate	£65	£64	£63	£62	£60	£59	£58	£57	£56	£55	£599	£518	£60
Upper Bound Estimate	£70	£69	£68	£66	£65	£64	£62	£61	£60	£59	£643	£557	£65
Total Benefit to GB													
Total Benefit (Lower Bound) to GB	£1,109	£1,087	£1,066	£1,046	£1,025	£1,005	£986	£966	£947	£929	£10,165	£8,799	£1,022
Total Benefit (Best Estimate) to GB	**£1,114**	**£1,092**	**£1,071**	**£1,051**	**£1,029**	**£1,009**	**£990**	**£970**	**£951**	**£933**	**£10,210**	**£8,837**	**£1,027**
Total Benefit (Upper Bound) to GB	£1,119	£1,097	£1,076	£1,055	£1,034	£1,014	£994	£974	£955	£937	£10,254	£8,876	£1,031

Note: Totals may not sum due to rounding.

Net Benefits of Option 2

8.62 Preferred policy Option 2 generates a net benefit ranging from -£196,100 to £133,300 with a best estimate of -£31,400. Once discounted at a rate of 3.5% this gives a net present value range of -£213,500 to £91,700; with a negative best estimate of -£60,900. Table 30 below displays the net benefit of the preferred option.

Table 30 – Net Benefits of Option 2

Net Benefit (£000's)	Yr 0	Yr1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Total	PV	Annual Average/ EAC
Total Cost to GB													
Total Cost (Lower Bound) to GB	£1,261	£1,064	£1,043	£1,023	£1,003	£983	£964	£945	£926	£908	£10,121	£8,785	£1,021
Total Cost (Best Estimate) to GB	£1,341	£1,069	£1,048	£1,028	£1,008	£988	£968	£949	£930	£912	£10,241	£8,898	£1,034
Total Cost (Upper Bound) to GB	£1,421	£1,074	£1,053	£1,032	£1,012	£992	£973	£954	£935	£916	£10,361	£9,012	£1,047
Total Benefit to GB													
Total Benefit (Lower Bound) to GB	£1,109	£1,087	£1,066	£1,046	£1,025	£1,005	£986	£966	£947	£929	£10,165	£8,799	£1,022
Total Benefit (Best Estimate) to GB	£1,114	£1,092	£1,071	£1,051	£1,029	£1,009	£990	£970	£951	£933	£10,210	£8,837	£1,027
Total Benefit (Upper Bound) to GB	£1,119	£1,097	£1,076	£1,055	£1,034	£1,014	£994	£974	£955	£937	£10,254	£8,876	£1,031
Net Benefit to GB													
Net Benefit (Lower Bound) to GB	**-£311**	**£13**	**£14**	**£14**	**£13**	**£13**	**£13**	**£12**	**£12**	**£12**	**-£196**	**-£214**	**-£25**
Net Benefit (Best Estimate) to GB	**-£226**	**£23**	**£23**	**£23**	**£22**	**£22**	**£22**	**£21**	**£20**	**£20**	**-£31**	**-£61**	**-£7**
Net Benefit (Upper Bound) to GB	**-£142**	**£33**	**£32**	**£32**	**£31**	**£31**	**£30**	**£29**	**£29**	**£29**	**£133**	**£92**	**£11**

Note: Totals may not sum due to rounding.

Equivalent Annual Net Cost to Business per year – Option 2

8.63 Preferred policy Option 2 generates an equivalent annualised net cost to business of -£0.97m per year. See Table 31 below for details.

Table 31 – Net Cost to Business per year of Option 2

Cost/Benefit (£m)	EANCB	In/Out of Scope
COSTS		
Transitional Costs		
Familiarisation	£0.002	In
Ongoing Costs		
Removal Discount from CUT	£0.06	Out
Total Cost	£0.06	
BENEFITS		
Transitional Benefits		
N/A		
Ongoing Benefits		
Reduced Admin Burden	£0.02	In
Increased Discount Pot	£0.95	Out
Total Benefit	£0.97	
NET COST/BENEFIT		
Net	**£0.91**	
Net in 2014 Prices	0.89	
Net at 2015 Base Year	0.89	
Net Cost to Business per year	-£0.89	

Note: 2015 Deflation factor = 1.016, 2015 Discount factor = 1.

Distributional Analysis of Option 2 – Distribution of Impact between Approved Sites by Sector and Size

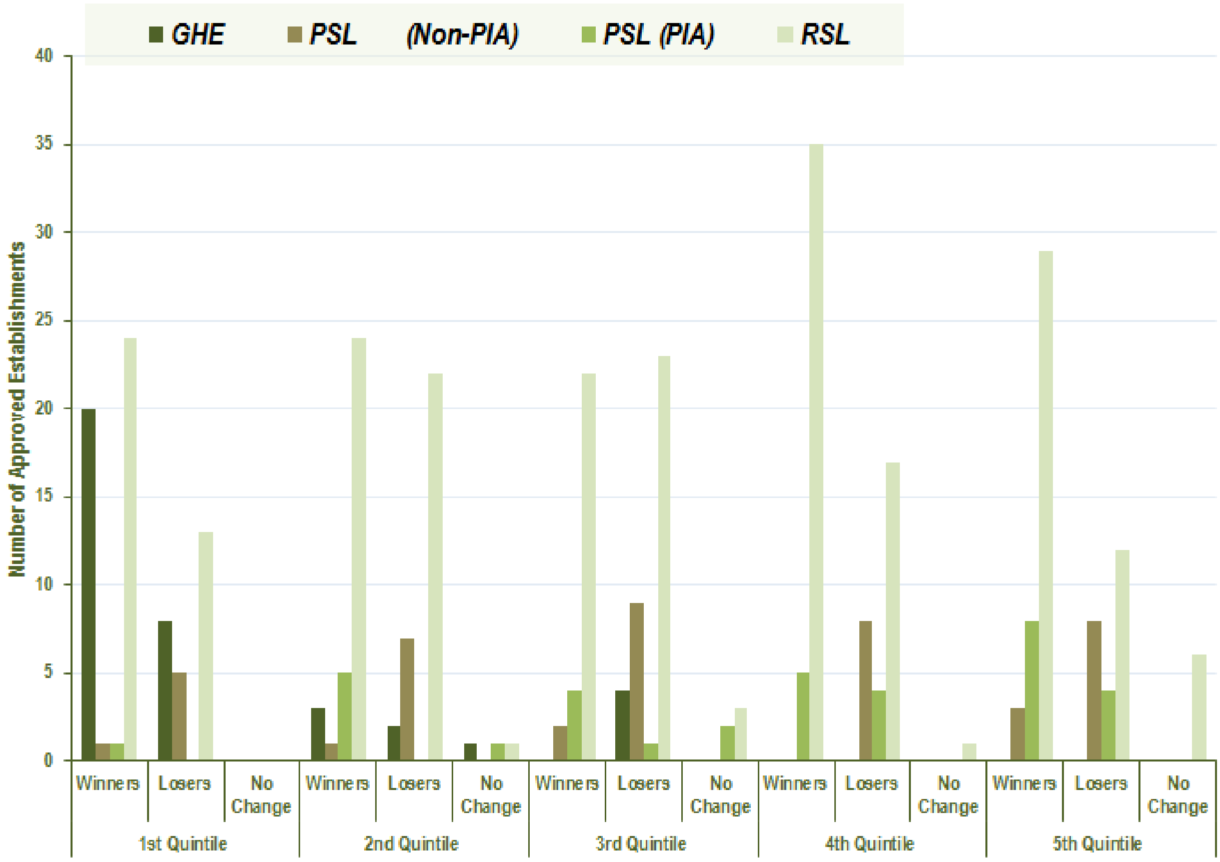
8.64 The distributional impact of the proposals for reform of the discount system can be assessed in terms of transfers between sectors, based on the number of approved sites that stand to either gain or lose from the reforms set out in Option 2; including nominal/ monetary impacts and changes in the share of discount pot allocations. Under the proposal cutting premises will cease to receive discounts. For this reason they have been excluded from the distributional analysis section of the proposal.

8.65 The current charging and discount system does not differentiate slaughter establishments by size. For the purpose of this distributional analysis site size is measured using inspection hours, which has been used to group sites into quintiles across all affected sectors: Red Meat Slaughter (RSL), Non-PIA Poultry Slaughter (PSL (Non-PIA)), PIA Poultry Slaughter (PSL (PIA)) and Game Handling Establishments (GHE).

8.66 Quintiles divide a given range of data into five equal parts. Sites were ranked based on the number of inspector hours used, and divided into fifths, which were ordered from the lowest 20% in terms of inspector hours used (1st quintile (smallest plants)) to the top 20% (5th quintile (largest plants)).

8.67 For this analysis winners are defined as those establishments that receive a change in discount greater than 0 percentage points and losers are defined as those establishments that receive a change in discount less than 0 percentage points, under Option 2. The largest number of winners falls within the 1st quintile (micro/small sites). At sector level, Red Meat (RSL) sites have the largest number of winners (see Chart 4 below), which also have the largest number of approved sites. Summary numbers of winners and losers are presented in Annex A.

Chart 4 – E&W Number of Winners, Losers, No Change by Site, Sector and Size/ Quintile (Option 2)



8.68 A nominal/monetary assessment of the distributional impact shows the Poultry sector without PIA (PSL (Non-PIA)) as the largest loser compared to other meat sectors. Gains from the reforms appear heavily skewed towards the Red Meat and Poultry with PIA sectors (see Table 32 below). A plus donates an estimated increase in discount compared to the baseline (2013/14), the converse holds for a minus.

8.69 An assessment of the relative impact shows that compared to the other sectors, Game Handling establishments are impacted the most with respect to 1st and 3rd Quintiles. For the Poultry sector without PIA (PSL (Non-PIA)) the largest impact falls on medium sized establishments in the middle Quintiles (2nd and 3rd), whilst the lowest impact falls on small sized establishments in the 1st Quintile. For the Poultry with PIA (PSL (PIA)) sector the biggest impact falls on large sized establishments in the 5th Quintile, followed by a slightly lower impact on small establishments in the 1st and 2nd Quintile. In the RSL sector there is very little impact on small to medium sized plants (1st – 4th Quintiles) and most of the impact falls on large sized establishments in the 5th Quintile.

Table 32 – E&W Estimated Change in Absolute Value of Discount and Percentage Change in Discount (Monetary Impact) compared to Baseline (i.e. if proposal introduced in 2013/14), by Sector and Size/Quintile (Option 2).

	England & Wales			
	GHE	**PSL (Non-PIA)**	**PSL (PIA)**	**RSL**
1st Quintile	+£7,500 *(+34%)*	-£700 *(-3%)*	+£400 *(+13%)*	+£4,000 *(+3%)*
2nd Quintile	-£5,200 *(-15%)*	-£9,300 *(-7%)*	+£5,200 *(+10%)*	+£9,400 *(+1%)*
3rd Quintile	-£36,200 *(-33%)*	-£67,800 *(-13%)*	+£7,300 *(+6%)*	+£37,800 *(+2%)*
4th Quintile	N/P*	-£165,100 *(-17%)*	-£7,800 *(-2%)*	+£172,000 *(+4%)*
5th Quintile	N/P*	-£505,900 *(-11%)*	+£236,100 *(+18%)*	+£1,347,600 *(+26%)*

* Note N/P denotes there are no plants in the respective sector/Quintile.

8.70 As discussed in paragraph 2.5; the poultry sector benefited relatively more than other sectors under the charging and discount arrangements introduced in 2009. As a consequence of this, the proposal under Option 2 to move to a more equitable discount system would have a disproportionate negative impact on the poultry sector (see Table 32). If the current system of discounts is to be reformed with the aim of creating a level playing field for FBOs and without additional funding from the Government/taxpayer; it is inevitable that some sectors, in particular the poultry sector, would be adversely affected by the reforms.

Option 3 Unified Bands – *A graduated system of discounts based on the principles of a progressive income tax system, with one single set of discount bands applied across sectors and different discount bands for England & Wales and Northern Island*.

8.71 Option 3 is almost identical to Option 2 in terms of discount system mechanics and discount calculation formula, however, the discount bands and rates differ between the two Options. Option 3 has two sets of discount bands; one set is applied to all sectors in England & Wales, the other set is applied to all sectors in Northern Island. Whereas Option 2 has three sets of discount bands; one set for each of the three sectors (poultry, red meat and game) that each apply across England, Wales and Northern Island.

8.72 The knock on impact of the above difference between Option 3 and 2 is that there will be a different number of hours in each discount band (because the discount bands are set under different parameters). Furthermore, because of the requirement of the system that the entirety of the discount pot be paid out as discounts, the discount rates applied to each discount band will differ between Option 3 and 2. See both table 8 (pp. 22) and table 9 (pp. 27) for a comparison of discount bands and rates under Option 2 and 3, as estimated based on 2013/14 data.

8.73 Due to there being only a minor difference in the discount calculation method between the two options, the aggregate impact on industry and FSA is identical, i.e. the costs and benefits presented in this impact assessment are identical for Option 2 and Option 3. However, the distributional impacts of transfers (redistribution) between sectors (poultry, red meat and game handling) under Option 3 will be different from that of Option 2, which is assessed in the summary of distributional impacts below (see paragraph 8.79 - 8.82). More detailed distributional analysis is presented in Annex A.

Costs of Option 3

8.74 It is not expected that costs to Industry and FSA England & Wales under Option 3 will be different from the costs estimated under Option 2, which are discussed in paragraphs 8.16 - 8.43. However, the distributional impact of transfers (redistribution) between sectors (poultry, red meat and game handling) under Option 3 will be different from that of Option 2, which is assessed in the summary of distributional impacts below (see paragraph 8.79 - 8.82). More detailed analysis is presented in Annex A.

Total Cost of Option 3

8.75 In summary, as per Option 2 (see paragraph 8.43), the total cost associated with policy Option 3 is estimated to be between £10.12m and £10.36m over 10 years with a best estimate of £10.24m (£8.90m (PV)) , summarised in table 21.

Benefits of Option 3

8.76 It is not expected that benefits to Industry and FSA England & Wales under Option 3 will be different from the benefits assumed under Option 2, which are discussed in paragraphs 8.44 - 8.61. However, as discussed above, the distributional impact of transfers (redistribution) between sectors (poultry, red meat and game handling) under Option 3 will be different from that of Option 2. The distributional impact of transfers between sectors by country and size of site for Option 3 is assessed in the summary of distributional impacts below (see paragraph 8.79 - 8.82). More detailed analysis is also presented in Annex A.

Total Benefits of Option 3

8.77 In summary, the total benefit associated with policy Option 3 is expected to be unchanged from Option 2, as discussed in paragraph 8.61, summarised in table 29. Total benefits are expected to be between £10.16m and £10.25m over 10 years with a best estimate of £10.21m (£8.84m (PV)).

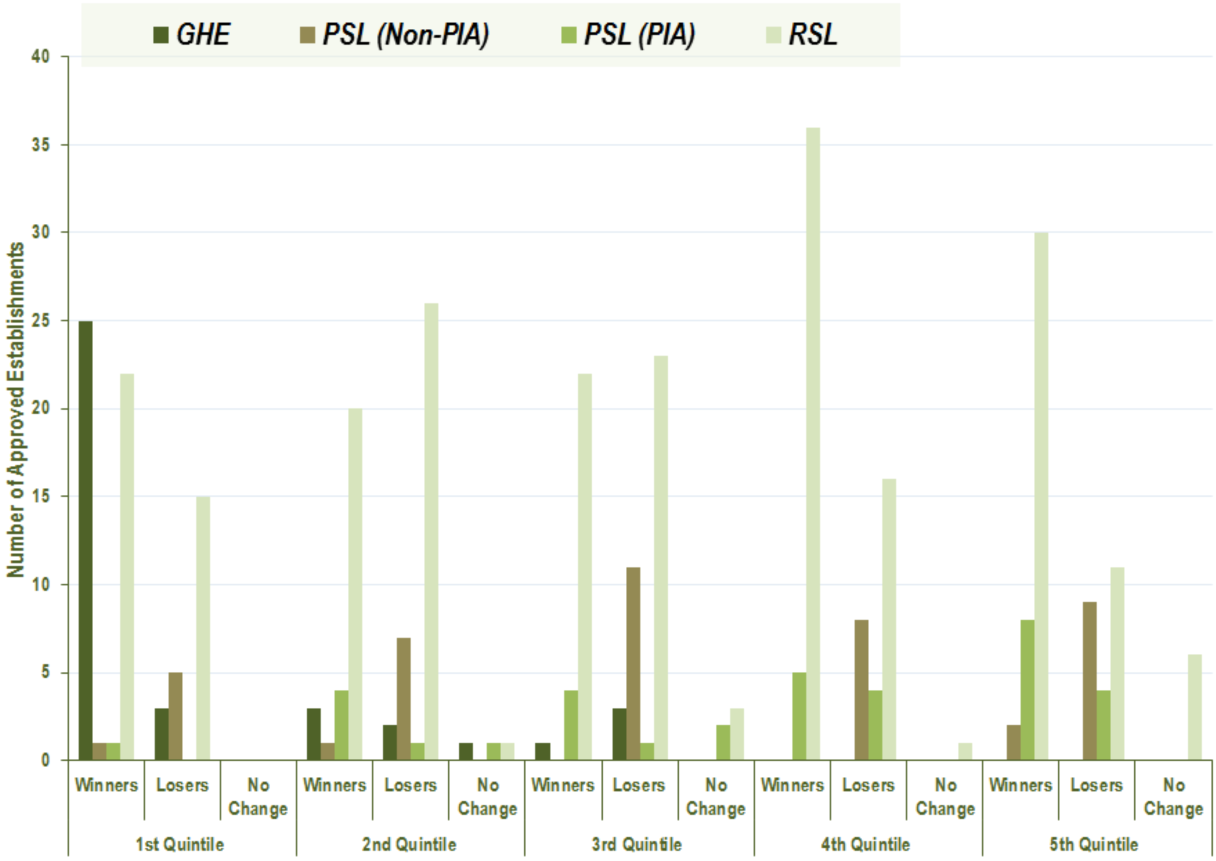
Net Benefits of Option 3

8.78 The total net benefits associated with policy Option 3 is expected to be unchanged from Option 2, as discussed in paragraph 8.62, summarised in table 30. Total net benefits are expected to be between -£196,100 and £133,300 with a best estimate of -£31,400 (-£60,900 PV).

Summary of Distributional Analysis of Option 3 – Distribution of Impact Between Approved Sites by Sector and Size of Site

8.79 Using the same definition of winners and losers as per distributional analysis for Option 2 (paragraph 8.67); under Option 3 the largest number of winners falls within the 1st quintile (micro/small sites). At sector level, Red Meat (RSL) sites have the largest number of winners, which also has the largest number of approved sites (see Chart 5 below). Summary numbers of winners and losers presented in Annex A.

Chart 5 – E&W Number of Winners, Losers, No Change by Site, Sector and Size/ Quintile (Option 3)



8.80 A nominal/monetary assessment of the distributional impact shows the Poultry without PIA (PSL (Non-PIA)) sector as the largest loser compared to other meat sectors. Gains from the reforms are more heavily skewed towards the Red Meat and Poultry with PIA sectors (see Table 33 below). However, under Option 3 a marginally larger number of approved sites stand to lose from the reforms compared to Option 2. Option 3 losers: 149 vs Option 2 losers: 147.

8.81 An assessment of the relative impact shows that the largest impact within the Game Handling sector falls on establishments in the 1st Quintile. For the Poultry sector without PIA (PSL (Non-PIA)) the largest impact falls on medium sized establishments in the upper-middle Quintiles (3rd and 4th). For the Poultry with PIA (PSL (PIA)) sector the biggest impact is on large sized establishments in the 5th Quintile with the lowest impact on establishments in the 3rd Quintile. In the RSL sector there is very little impact on small and medium sized plants (Quintiles 1 to 4) and most of the impact falls on large sized establishments in the 5th Quintile.

Table 33 – E&W Estimated Change in Absolute Value of Discounts (Monetary Impact) compared to Baseline (i.e. if proposal introduced in 2013/14), by Sector and Size/Quintile (Option 3)

	England & Wales			
	GHE	**PSL (Non-PIA)**	**PSL (PIA)**	**RSL**
1st Quintile	+£9,900 *(+45%)*	-£2,100 *(-8%)*	+£300 *(+10%)*	£2,200 *(+1)*
2nd Quintile	+£2,700 *(+8%)*	-£16,200 *(-11%)*	£3,600 *(+7%)*	£1,500 *(0%)*
3rd Quintile	-£500 *(-0%)*	-£89,900 *(-18%)*	£4,100 *(+3%)*	£21,700 *(+1%)*
4th Quintile	N/P*	-£193,600 *(-21%)*	-£20,400 *(-5%)*	£178,600 *(+4%)*
5th Quintile	N/P*	-£499,300 *(-10%)*	£203,700 *(+16%)*	£1,422,600 *(+27%)*

* Note N/P denotes there are no plants in the respective sector/Quintile

8.82 For the same reasons discussed in paragraph 8.70, moving to the proposals laid out under Option 3 will have a disproportionate negative impact on the poultry sector.

9. Sensitivity Analysis

9.1 The Meat Charging discount model was subject to in house quality assurance testing, which involved model sensitivity analysis on the key result drivers (KRDs) of the model. Four KRDs were identified and analysed. The method of testing and results are discussed in the table below:

Table 34 – Sensitivity Analysis KRD

KRD	Description of KRD	Sensitivity Analysis	Results
Value of Ring-fenced Discount Pot	The proposed system has a ring-fenced discount pot of £21.4m for the whole of England and Wales. One of the underlying assumptions of the proposal is that 100% of the discount pot must be allocated. Because of this assumption the value of the ring-fenced discount pot will play a significant deterministic role on the discount rates for each band of the proposed discount system. Any changes to the value of the discount pot will have knock on effects to the discount rates in each band, which must change to ensure 100% of the discount pot is allocated.	The value of the England & Wales pot was adjusted by: -20%, -10%, -5%, 5%, 10% and 20%. The model was tested to ensure it was still able to set discount rates that meet the conditions of the discount system; i.e. 100% of the discount pot is allocated as discounts.	Modelled successfully solved for adjustments - 20%, -10%, -5%, 5% and 10%. However, an error was produced for the +20% adjustment to the discount pot -. See paragraph 9.4 - 9.6 for discussion on error.
EU Minimum Requirement	Each approved establishment is set an EU Minimum charge that corresponds to the level of throughput of the plant. If the invoice generated by the FSA is less than the EU Minimum, the plant will be automatically charged the EU Minimum. Therefore, the EU Minimum can have a significant impact on the output of the model i.e. final invoices and final discounts.	Ensure model updates EU Minimum requirements correctly from data source and applies the condition to the output of the model.	EU Minimum Throughput, EU Requirement data and EU Requirement updated accordingly (the latter is the minimum of the first two).
Plant Hour Data	Each approved establishment uses a specific number of inspection hours to complete official controls. Since the invoice they are charged depends on the number of inspection hours used, this is the main driver of the model (final invoices) in terms of output. The total number of hours in the industry, across sectors, is also the main determinant of the band thresholds and number of hours in each band. Therefore, any fluctuation in hours will have significant knock on effects to final invoices, final discounts and band thresholds. Sensitivity analysis on hours also captures changes in the structure of industry; consolidation within industry would equate to a reduction in hours and new entrants to industry would equate to an increase in hours.	Hours were changed by various percentages and final invoices were checked to see if change in direction and percentage change are correct.	Direction change was correct for all tests. Percentage change in final invoice does not directly correlate with percentage change in KRD so this is n/a.
Hourly Inspector Wage Rates	The value of the final invoice each approved establishment receives will depend on the number of inspection hours utilised and the wage rate of each type of inspector (OV and MHI wage rates are different). Therefore, any changes to wage rates will have significant impact on final charges.	Hourly inspector rates for Official Veterinarians and Meat Hygiene Inspectors were adjusted by 100%, 20% and -20% and invoices were checked to see if the direction and percentage change corresponds to these adjustments.	Direction and percentage change as expected.

Option 2 Sensitivity Analysis Results

9.2 Tables 35 and 36 below show the results of sensitivity analysis carried out for both Industry and FSA England & Wales respectively on the ring-fenced discount pot. Column E ("New Best Estimate NPV") shows the impact of adjusting the ring-fenced discount pot on NPV.

Table 35 – Sensitivity Analysis Results for Industry

E&W Discount Pot	Percentage Change in Discount Pot	New Discount Pot	Original Best Estimate NPV for Industry	New Best Estimate NPV for Industry
(A)	(B)	(C)	(D)	(E)
£21,400,000	-20%	£17,120,000	£8,481,872	-£28,359,058
£21,400,000	-10%	£19,260,000	£8,481,872	-£9,938,590
£21,400,000	-5%	£20,330,000	£8,481,872	-£728,543
£21,400,000	5%	£22,470,000	£8,481,872	£17,691,971
£21,400,000	10%	£23,540,000	£8,481,872	£26,902,223
£21,400,000	20%	£25,680,000	£8,481,872	

Table 36 – Sensitivity Analysis Results for FSA E&W

E&W Discount Pot	Percentage Change in Discount Pot	New Discount Pot	Original Best Estimate NPV for FSA	New Best Estimate NPV for FSA
(A)	(B)	(C)	(D)	(E)
£21,400,000	-20%	£17,120,000	-£8,526,727	£28,314,202
£21,400,000	-10%	£19,260,000	-£8,526,727	£9,893,734
£21,400,000	-5%	£20,330,000	-£8,526,727	£683,688
£21,400,000	5%	£22,470,000	-£8,526,727	-£17,736,827
£21,400,000	10%	£23,540,000	-£8,526,727	-£26,947,079
£21,400,000	20%	£25,680,000	-£8,526,727	

9.3 Reducing the value of the ring-fenced discount pot results in a fall in NPV for industry while the converse holds for FSA England & Wales, which sees a corresponding increase in NPV. This is because a decrease in the value of the discount pot equates to a reduction in overall discounts received by industry. At the other end of the spectrum, increasing the ring-fenced discount pot will have the opposite effect, where higher discounts are paid out to industry resulting in an increased NPV; at a greater cost to FSA England & Wales (lower NPV).

Option 3 Sensitivity Analysis Results

Table 37 – Sensitivity Analysis Results for Industry

E&W Discount Pot	Percentage Change in Discount Pot	New Discount Pot	Original Best Estimate NPV for Industry	New Best Estimate NPV for Industry
(A)	(B)	(C)	(D)	(E)
£21,400,000	-20%	£17,120,000	£8,481,806	-£28,359,064
£21,400,000	-10%	£19,260,000	£8,481,806	-£9,938,883
£21,400,000	-5%	£20,330,000	£8,481,806	-£728,576
£21,400,000	5%	£22,470,000	£8,481,806	£17,692,021
£21,400,000	10%	£23,540,000	£8,481,806	£26,902,188
£21,400,000	20%	£25,680,000	£8,481,806	

Table 38 – Sensitivity Analysis Results for FSA E&W

E&W Discount Pot	Percentage Change in Discount Pot	New Discount Pot	Original Best Estimate NPV for FSA	New Best Estimate NPV for FSA
(A)	(B)	(C)	(D)	(E)
£21,400,000	-20%	£17,120,000	-£8,526,662	£28,314,209
£21,400,000	-10%	£19,260,000	-£8,526,662	£9,894,027
£21,400,000	-5%	£20,330,000	-£8,526,662	£683,721
£21,400,000	5%	£22,470,000	-£8,526,662	-£17,736,876
£21,400,000	10%	£23,540,000	-£8,526,662	-£26,947,043
£21,400,000	20%	£25,680,000	-£8,526,662	

Unsolvable NPV for +20% adjustments to Discount Pot in Sensitivity Analysis

9.4 Under both options there is an unsolvable scenario when the ring-fenced discount pot increases by 20% or more due to a conflict between the following two underlying conditions of the proposal: 1) everyone must pay at least 10% of inspection cost, which means the highest discount rate that can exist for any band is 90% (although charges can fall below 10% of the cost of inspection because of the supplementary PIA discount), 2) The entirety of the ring-fenced discount pot must be allocated as discounts. The scenario is unsolvable when the pot increases by 20% because it is impossible for the model to uphold both of these conditions, i.e. the entirety of the discount pot cannot be allocated without having a discount rate greater than 90% in one or more bands.

9.5 Therefore, if the ring-fenced discount pot were increased by 20% (to a value of £25,680,000) or more, it would not be possible for the model to calculate discount rates for each band that allocates the entirety of the discount pot without introducing a discount rate of over 90%. Essentially, the ring-fenced discount pot is too large to be entirely distributed without giving a discount rate of over 90% in one or more bands, which means the model cannot function correctly. The unsolvable scenario only occurs when it is necessary for the discount rate to be greater than 90% for one or more of the six bands.

9.6 In administering the proposed system, it is not envisaged that the discount pot would increase anywhere near the order of this magnitude. Such a scenario is only likely to occur if we are to see significant growth in the number of firms entering the sector. However, in the last 30 years the meat industry has observed significant structural change where consolidation and rationalisation of large-scale establishments has taken place as the number of small-scale operators has diminished (i.e. the trend is for a decline in the number of firms).

10. Risks and assumptions

10.1 Table 39 below outlines the risks identified with the proposed change in the system of discounts on meat official controls charges:

Table 39 – Risk of Proposed Discounts

Risk	Outline description of risk	Response / mitigation of risk
1. Adverse impact on public health	• The remit of the Steering Group included a requirement that any proposals should not have any adverse impact on current levels of compliance with the relevant legislation.	• The proposals meet this requirement.
2. More expensive meat for the consumer	• Changing the current system of discounts on meat official control charges will lead to an increase in the price of meat.	• The Steering Group has worked with a set discount pot for distribution • The proposal will lead to a redistribution of the discount within the meat industry with no direct increase in overall cost to the meat industry • The charges for official controls represent a relatively small proportion of the overall costs of production, therefore any increase or decrease in the amount of discount will have minimal impact on the consumer.
3. Greater expense for the meat industry	• Changes to the current discounting arrangements could have adverse impact on the meat industry with the level of discount reducing and the charges increasing.	• The Steering Group has worked with a set discount pot for distribution • The proposal will lead to a redistribution of the discount within the meat industry with

Risk	Outline description of risk	Response / mitigation of risk
		no increase in overall cost • The charges for official controls represent a relatively small proportion of the overall costs of production.
4. Greater expense for the FSA / taxpayer	• Changes to the current discounting arrangements could have an adverse impact on the FSA / taxpayer with the level of discount to the meat industry increasing.	• The proposal will lead to a redistribution of the discount within the meat industry • The proposal will lead to a redistribution of the discount within the meat industry with no proposed increase in overall cost. Fluctuations in the level of discount in any one year will be within the current margins.
5. The level of discount could vary significantly	• Under the proposals discount bands will have to be set for the year in advance based on historical data. If demand for FSA resources is more or less than the period for which data is used to set the discount bands the FSA could under or over recover on forecast revenues.	• The Steering Group has been working with a discount pot of £25.1m: £22.7m for England, Wales and Scotland and £2.4m for Northern Ireland. However, since FSS decided to follow a separate proposal the discount pot used in this analysis was reduced by £1.3m to take account of Scotland which gave a residual discount of £21.4m for England and Wales and £2.4m for Northern Ireland. • The Steering Group had to work within a set remit • The level of discount is largely a function of the level of activity and if the activity increases so would the amount of the discount so the estimated costs and benefits tied to this would change as well.
6. Restructuring in the industry	• Significant restructuring in the industry (through mergers	• The available discount pot could be re-evaluated to

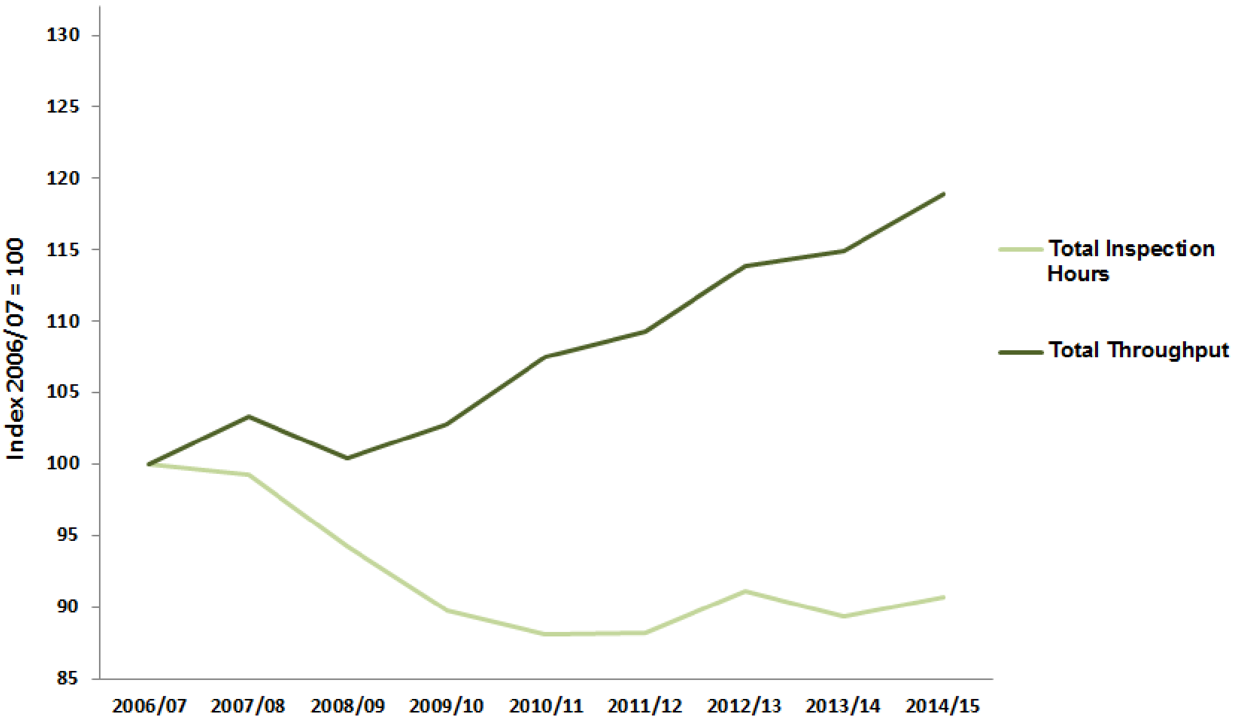
Risk	Outline description of risk	Response / mitigation of risk
	and acquisitions) could lead to further consolidation in the industry and more efficient use of FSA resources. This could make the current level of discount disproportionately high.	bring it back into line with the split between the proportion of costs discounted when the proposals were developed.
7. Significant development in European Legislation governing official (including (EC) 882/2004 governing charges), which is currently under review and may impact the levy of official controls.	• The European legislation governing charges for meat official controls ((EC) 882/2004) is currently subject to review which is likely to have some impact on the way charges are levied for meat official controls.	• The review of (EC) 882/2004 is not due to be completed until late 2016, with new legislation introduced in 2016 and the aim of implementation by 2019. • The Steering Group was aware of this pending change to the legislation and aimed in the development of proposals to include as much future proofing as possible. • The system proposed of discount bands applied to full cost charges is a flexible structure which would not conflict with the draft proposals that have been seen from the European Commission.
8. Increase in take up of the option to use Plant Inspection Assistants (PIAs) in poultry slaughterhouses	• A significant increase in the take up of PIAs would result in a transfer of responsibility for carrying out official controls to FBOs. This would reduce number of Meat Hygiene Inspector chargeable hours. It is unlikely that FSA overheads would fall proportionately, as a result of loss of economies of scale, and so the overall hourly charge rate would increase.	• Although the hourly rate may increase, fewer hours would be being charged and overall industry would be charged less.

Risk	Outline description of risk	Response / mitigation of risk
9. The proposals are a distortion of the current market situation	• The proposals for discount reform would be an intervention in the market and as such they represent a distortion of the current situation.	• The current discounts are inequitable and treat comparable premises very differently. • While an intervention in the market to introduce new discounts will distort the current situation it seeks to correct the current inequitable system with something providing a more consistent and level playing field.
10. The proposals use historical data	• The analysis and the development of discount proposals has been based on data from 2013/14.	• The Steering Group agreed to the methodology used for the economic analysis that informed its work • The use of historical data is valid approach to the economic modelling.

10.2 In developing the proposals for discount reform it has been assumed that throughput of animals slaughtered and the demand for FSA resources to carry out official controls will remain constant. In addition it has been assumed that the overall level of discount and the charges for official controls will remain at current levels. These assumptions were necessary because estimating future annual change in these variables is impossible, the change would depend on a multitude of factors that the FSA cannot form robust predictions for. It is however acknowledged that throughput and industry structure and size may change over time (this is why the band thresholds in the proposal will be recalculated on an annual basis). Growth in throughput and industry size may also have a knock on impact on the total number of inspection hours needed to carry out official controls and this may have a knock on impact to the value of discount pot needed to maintain the proposed system of discounts. However, growth in throughput, which relates to industry size, does not correspond directly to a necessitated increase in inspection hours or discount funding.

10.3 Chart 6 below illustrates the growth in throughput volume (excluding cutting plants) and growth in inspection hours (excluding cutting plants) over the last 8 years. Throughput volume is the annual total number of animals slaughtered in the meat industry. Inspection hours are simply the annual total number of hours spent conducting inspections by the FSA. As shown, throughput volume has grown by around 19% over the last 8 years whereas inspection hours have fallen since the start of the period and remained relatively flat over the last 5 years. If an individual plant increases throughput the corresponding change, if any, in inspection hours will depend largely on other factors, such as layout of plant, speed of the line, working practices of the FBO staff and hours of operation. Therefore, total industry throughput can increase significantly whilst the volume of inspection remains relatively stable. In which case the risks associated with the aforementioned assumptions are not substantial.

Chart 6 – England & Wales Growth in Throughput and Inspection Hours, 2006/07 – 2014/15



11. Monitoring

11.1 The FSA will monitor the delivery of the proposal in UK in accordance with their usual procedures. The policy will be reviewed within one year of completion of implementation to establish its actual costs and benefits and the achievement of its desired objectives.

12. Enforcement

12.1 These proposals will be implemented under the existing Meat (Official Controls Charges) (England) Regulations and equivalent legislation in Northern Ireland and Wales.

13. Sanctions

13.1 Sanctions are contained in the current Regulations, which are considered to be proportionate and the minimum needed to enable charging policy to be implemented effectively.

14. Competition Assessment

14.1 In the last 25-30 years a significant structural change has taken place in the meat industry with the consolidation and rationalisation of large scale establishments as the number of smaller scale operations diminish. The industry appears to have become a two tier market where only large scale slaughterhouses can service the needs of large retailers and have integrated their facilities and operations to benefit from economies of scale and take advantage of the increasingly value added processes along the supply chain, while the majority of the smaller establishments do not have the scale and resources to do so. Instead some smaller establishments have opted for niche markets increasingly providing a local slaughter facility service to farmers who sell their meat directly to the consumer, through farm shops, market stalls and farmers markets, while medium sized establishments may combine a mixture of work where in some cases the slaughter charge is paid by the producer or purchaser of the livestock. In the latter cases, the slaughtering business may be their only business and not part of a larger processing facility.

14.2 The current charging system tends to allocate higher discounts to businesses with lower throughput than larger scale operators. However, this is a tendency rather than a rule. Under the current system an unintended result of the out of date formula based on historical data is that some large scale operators receive a relatively high discount, and some low throughput establishments = receive no discount, since the EU minimum charge exceeds the full cost of delivery of official controls at their establishment and they therefore pay the full cost charge. The proposals set out in this Impact Assessment require all establishments pay at least 10% of the full cost of delivery of meat official controls (costs include the cost of PIAs supplied by FBOs), apart from in those cases where the supplementary PIA discount reduces charges below 10%. The proposals set out under Option 2aim to ensure that the largest subsidies are directed to smaller establishments, and as the size of the establishment increases the level of discount received on the marginal hours decreases. Moving to a more equitable charging and discount system, as proposed under Option 2, would create a more level playing field in the meat industry compared to the current system.

14.3 The distribution on financial impact of the proposals across the sectors is analysed in Annex B1. In summary, the analysis shows that the distributional impact of the proposals has a disproportionate effect in some sectors for small and medium scale establishments. The analysis also shows that on average Poultry without PIA establishments face a reduction in discounts received, while the Red Meat sector appears to gain from the proposal. This is because under the current system the Poultry sector benefited proportionately more than the red meat sector compared with the system in place prior to 28 September 2009. This was an unintended consequence that has only become apparent through the economic modelling carried out for the Steering Group. Therefore, this redistribution from the Poultry without PIA sector to the Red Meat sector is a result of a relatively more equitable proposal.

14.4 The proposal may have a greater impact on smaller slaughterhouses due to the element of the proposal that requires all establishments to pay a minimum of 10% of the full cost of delivery of inspection, which does not exist in the current system. Currently establishments can receive discounts rates up to 100% at PIA establishment or 99% at non-PIA establishments. Smaller establishments may not be able to offset additional costs on a scale comparable with larger slaughterhouses. However, most small establishments currently receiving a discount of greater than 90% would likely move to the maximum discount rate of 90% under the proposal, amounting to only a small reduction in discount rate and correspondingly small increase in charges that we do not expect to significantly impact their operations. Analysis of plants falling in the 1st Quintile shows that: under the preferred Option 2 the maximum estimated increase in charge would be £557, the maximum estimate reduction in charge would be £2,820 and the average change in charge would be a reduction of £155. The Steering Group on Meat Charging contained members from industry who represent small slaughterhouses. The National Federation of Meat and Food Traders is focused on the representation of smaller businesses and the National Farmers Union and the Association of Independent Meat Suppliers both have many members who operate small slaughterhouses.

14.5 Overall, we recognise that the impact of the proposals will vary between individual establishments, and that some small and medium sized establishments are likely to experience a disproportionate effect. This impact is concentrated in the Poultry without PIA sector, which on average is negatively affected across size and country, this is due to the fact they receive disproportionately high levels of discount under the current system and would face a reduction in discount rates and corresponding increase in charges under the proposals. However, the relative increase in size of discount pot in the proposal results in an overall increase in discounts received by establishments across size, sector and country. We consider that, based on prior knowledge and the responses to the consultation, the proposals are unlikely to affect significantly the ability of businesses to compete or affect their incentives to do so.

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15. Small and Micro Business Assessment (SAMBA)

15.1 The Green Book advises each cost and benefit should be weighted according to relative prosperity of those receiving the benefit or bearing the cost. This analysis is usually applied to household but for the purpose of this IA we are only considering impact on business, which makes this analysis difficult. However, the following analysis considers the impacts of the proposal on Small and Micro sized businesses. For the purpose of this analysis business size is measured by meat hygiene inspection hours used, the total hours for the industry are split into 5 quintiles, identical to the distributional analysis (for explanation of quintiles see Annex A). Those businesses falling into the 1st hours quintile are defined as Micro-sized businesses and businesses falling into the 2nd hours quintile are defined as Small-sized businesses. As discussed in paragraph 8.11, the definitions of business size used in this Impact Assessment are not those used as standard. This is because the FSA does not have the relevant data to measure business size in the slaughter industry under the standard methods, despite multiple attempts to source the data openly and request the relevant information from industry (see paragraph 8.11 for full discussion on measurement of size method). Therefore, due to lack of necessary data to measure plant size using traditional measurements, this SAMBA has been carried out using the above measurement and definition of business size.

15.2 Under Option 2 (preferred proposal) 98% of Small and Micro-sized businesses would be affected, of these 57% would be positively affected and 41% negatively affected, with the remaining 2% unaffected. Under this measure the average change in discount for Micro and Small-sized businesses is estimated to be +£155 and -£0.30 per annum, respectively. The net impact on the 1st and 2nd Quintile, in terms of absolute change in discount, is +£2,505. If we factor in sensitivity analysis so businesses considered “affected” by the proposal are only those businesses that experience a change in discount of greater than or less than 1%, the total percentage of businesses affected is 83%, of which 48% would be positively affected and 35% negatively affected. Once this sensitivity is widened to only consider businesses that experience a change in discount of greater than or less than 5% as “affected” by the proposal, the percentage of total businesses affected falls to 53%, of which 32% experience and increase in discount and 20% experience a decrease in discount. See Table 40 for a summary.

15.3 Under Option 2 the majority of Small and Micro sized businesses are positively impacted by the proposals across all sensitivity measures.

Table 40 – Number of Small and Micro-sized Businesses Affected by Proposal Option 2

		Affected by an Increase in Discount	Affected by a Decrease in Discount	Total Affected	Total Small and Micro-sized Businesses
Absolute	Number of Businesses Affected	79	57	**136**	139
	Percentage	57%	41%	**98%**	
1% Sensitivity	Number of Businesses Affected	67	49	**116**	139
	Percentage	48%	35%	**83%**	
5%	Number of Businesses Affected	45	28	**73**	139

Sensitivity	*Percentage*	32%	20%	**53%**	

15.4 Under Option 3 98% of Small and Micro-sized businesses will be affected, with 55% realising an increase in discount received and 42% a decrease in discount received. Under this measure the average change in discount for Micro and Small-sized businesses is +£145 and -£124, respectively. The net impact on the 1st and 2nd Quintile, in terms of absolute change in discount, is -£6,097. Under the 1% sensitivity analysis 81% of Small and Micro-sized businesses will be affected, of which 45% would experience an increase in discount received and 36% a decrease. If this sensitivity analysis is broadened to the 5% level 59% of Small and Micro-sized businesses are affected, of these 35% experience an increase in discount received and 24% a decrease.

15.5 Under Option 3 the majority of Small and Micro sized businesses are positively impacted by the proposals across all sensitivity measures.

Table 41 – Number of Small and Micro-sized Businesses Affected by Proposal Option 3

		Affected by an Increase in Discount	Affected by a Decrease in Discount	Total Affected	Total Small and Micro-sized Businesses
Absolute	Number of Businesses Affected	77	59	**136**	139
	Percentage	55%	42%	**98%**	
1% Sensitivity	Number of Businesses Affected	62	50	**112**	139
	Percentage	45%	36%	**81%**	
5% Sensitivity	Number of Businesses Affected	48	34	**82**	139
	Percentage	35%	24%	**59%**	

15.6 It is considered that the proposals protect Small and Micro-sized businesses by allocating the highest discount rates to inspection hours that fall into the lowest bands, which will benefit, under this measure of size, the smallest businesses.

15.7 Some cutting premises are small businesses; however, cutting premises have not been included in the above analysis because the nature of the official controls does not readily translate to this type of analysis. The cutting sector is very different to the slaughtering sector of the industry because FSA presence is limited to periodic risk based audit and unannounced inspections that the FSA charges for only if the FBO is found to be non-compliant. To this extent the size of the business does not necessarily provide a proportionate link between the controls delivered and the charges invoiced, and the SAMBA cannot be readily applied to the sector. Furthermore, FBOs in the cutting sector have far greater control over the level of charges to cutting premises as these are determined by the FBO's degree of compliance.

15.8 The absence of full time FSA presence, which applies in most slaughterhouses, results in charges to cutting premises which are much lower than in slaughterhouses. In 2013/14 FSA charges to the 951 cutting plants in the UK totalled £0.6m, whereas charges to the 423 slaughtering premises totalled £30.8m. For the same year, 5% of slaughterhouses were charged full cost compared with 67% of cutting premises. It is impossible to calculate how much of the discounts in 2013/14 were allocated to Small and Micro Businesses and which of these will be worse off under the proposed system of discounts. This is because the hour measurement method applied to slaughter houses is not-applicable here due to the different way official controls are carried out at cutting plants and data on number of full time employees (FTEs) at cutting plants is unavailable.

15.9 Due to the requirement in the proposals that all establishments must pay at least 10% of the full cost of inspection (unless PIA support reduces below 10%) there will be a negative impact on all FBOs currently receiving a discount greater than 90%.. In the 1st and 2nd quintiles there are 32 establishments, out of a possible 139, which are currently receiving a discount rate above 90% and will therefore be negatively impacted by the proposals. As discussed above the overall impact, in terms of absolute change in discount, varies between Options; with Option 2 resulting in a net benefit and Option 3 a net cost.

15.10 EU charging provisions require the competent authority, in setting fees, to take into consideration the interests of low throughput/small businesses. The proposed system of discount bands, with levels of discount that reduce as more hours of FSA time are used, would result in a high proportion of the time charges being discounted at a relatively high rate for small and micro businesses. By applying discounts in this way the proposals aim to meet the EU charging provision on low throughput/small businesses.

15.11 The proposed discount system provides the highest levels of discount to those premises which use FSA resources at a low level. While this is seen as a driver to promote the efficient use of those resources, it is also an inherent benefit to operators of small premises. However, some smaller FBOs use a proportionately high level of resources for a number of reasons. As a consequence, some Small and Micro businesses would see their charges increase under the proposal. For example, in a hypothetical situation where a small slaughterhouse with official controls currently costing £20k has a discount of 90% under the current system and so is charged £2k. If the overall level of discount were to change to 85% under the proposed system the charge to such a plant would increase to £3k.

16. Sustainable development

16.1 We have not identified any impacts resulting from the proposed option.

17. Race/disability/gender equality

17.1 We have not identified any impacts resulting from the proposed option.

18. Rural proofing

18.1 Many larger slaughterhouses are located on the outskirts of towns, and many cutting premises are in urban locations. Smaller slaughterhouses may be more likely to be rural, as are game handling establishments. The lack of consistency in the allocation of the current discounts would not result in a consistent impact on premises located in rural locations. Some rural premises would be ‘winners’ under the proposed new system of discounts just as some would be ‘losers’. An inherent feature of the proposals discussed in this Impact Assessment is that smaller premises would consistently receive more equitable levels of discount.

18.2 The proposed system of discounts would deliver consistency and predictability for rural businesses. Therefore, businesses planning to expand would have greater certainty about the impact of changes in their demand for FSA staff time to provide official controls. The proposed system of banded discount rates, with only the marginal hours being discounted at the lower rate, means there is no “cliff edge” effect as FBOs increase their use of FSA staff time.

18.3 The FSA does not charge directly for travel time. The costs of travel are included in the calculation of the hourly rates and by this means the costs of travel are spread across the whole industry and do not fall disproportionately on rural premises, which may otherwise be the case. The proposals for new discount arrangements would not make any changes to this.

19. Summary and preferred option with description of implementation plan

19.1 Option 2 is the Food Standards Agency's preferred option for a new system of discounting charges for meat official controls. This decision is supported by industry; the Steering Group on Meat Charging selected Option 2 as their preferred option. Although the differences between Option 2 and Option 3 are marginal, Option 2 was selected as the preferred option because it:

- Delivers a more equitable discount system (relative to Option 1);
- Deals with plants of different sizes within sectors more equitably than Option 3, leading to less plants negatively affected overall, in terms of total discount received;
- Has less of a disproportionate adverse impact, in terms of total discount received, on the poultry sector (compared with Option 3);
- Has less of a disproportionate adverse impact on small to medium/large FBOs in both the poultry and red meat sector (compared to Option 3);
- Encourages the uptake of PIAs (relative to Option 1); and
- Will drive efficiency in the usage of FSA resource for official controls (relative to Option 1)

19.2 It is proposed that the new discounting arrangements would be implemented with effect from the start of the 2016/17 financial year. This would provide time for FBOs to work with the FSA to explore ways to mitigate an estimated adverse financial impact as a result of the proposed new discounting arrangements. In addition, the time after the consultation leading up to 2016/17 would be used to develop the required new discounting and charging IT system.

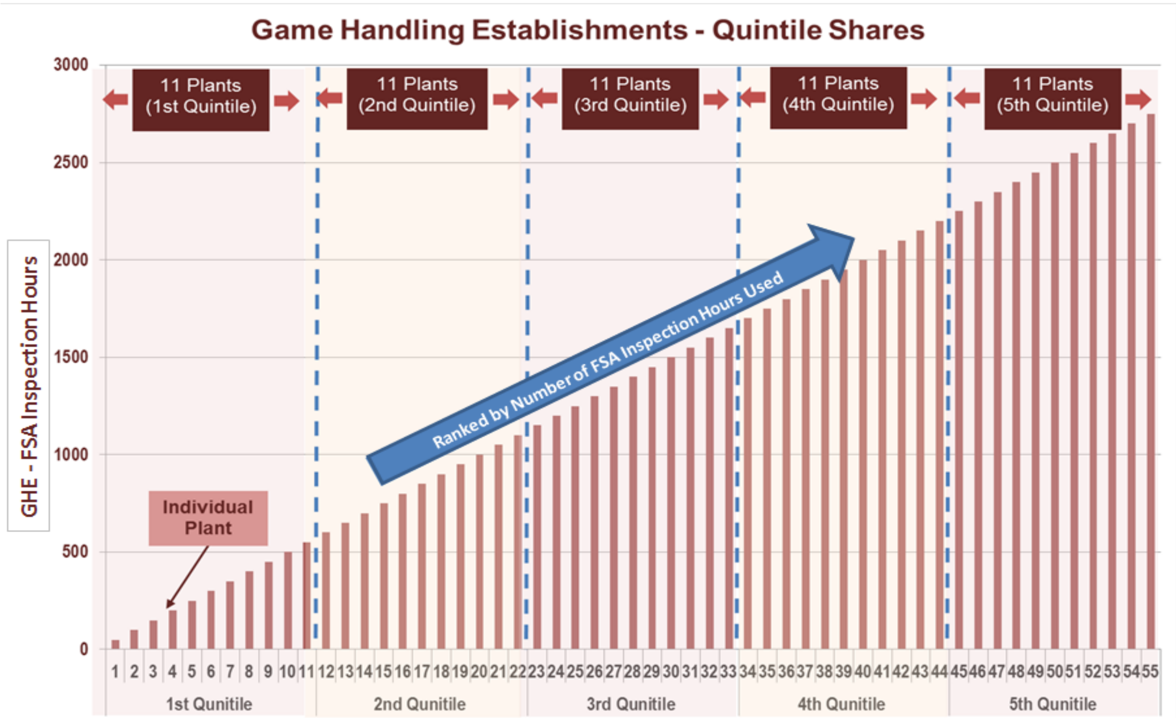
ANNEX A

DISTRIBUTION OF IMPACT BETWEEN APPROVED SITES – ANALYSIS BY MEAT SECTOR AND SIZE OF SITE

1. The distributional impact of proposals for reform of the discount system can be assessed in terms of transfers between sectors, based on the number of approved sites that stand to either gain or lose from the reforms; including nominal/ monetary impacts and changes in the share of discount pot allocations.

2. At present there is no formal definition for size of a site and data to measure the company's size using traditional methods, such as number of employees or turnover, is not available. For the purpose of this analysis establishment size is measured using inspection hours, which has been used to group sites into quintiles across all affected sectors: Red Meat Slaughter (RSL), Non-PIA Poultry Slaughter (PSL (Non-PIA)), PIA Poultry Slaughter (PSL (PIA)) and Game Handling Establishments (GHE). Quintiles divide a given range of data into five equal parts. Sites were ranked based on the number of inspector hours used, and divided into fifths, which were ordered from the lowest 20% in terms of inspector hours used (1st quintile) to the top 20% (5th quintile). An illustrative example, using the GHE sector, of how sites are assigned to their relative quintile groups is exhibited below in figure 1.

Figure 1 – Example: GHEs ranked by inspection hours and grouped by quintiles



Option 2: Sector Bands – A graduated system of discounts based on the principles of a progressive income tax system

3. Table 1.A shows (illustrated graphically in respective graphs 1.A and 2.A.) the number of sites that stand to gain or lose from the reforms as per Option 2. Distributional impacts are shown by plant size, sector, quintile and country (England and Wales). Winners are defined as those plants that would realise an increase in discount rate under the reforms while the converse holds for losers.

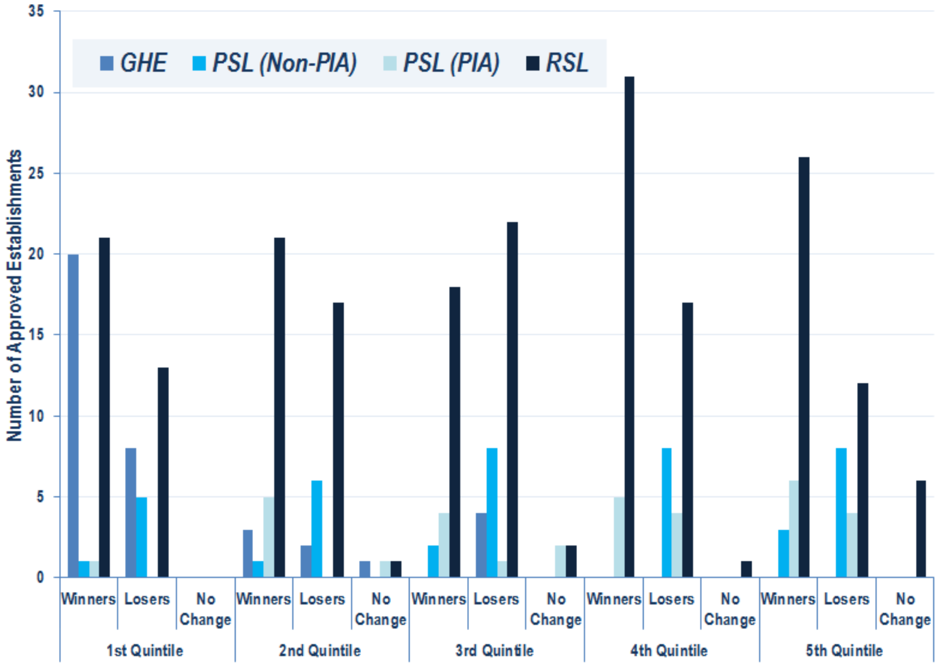
Table 1.A: England & Wales – Number of Winners, Losers, No Change by Site, Sector and Size/ Quintile (Option 2)

		England					Wales				
		GHE	PSL (Non-PIA)	PSL (PIA)	RSL	Total	GHE	PSL (Non-PIA)	PSL (PIA)	RSL	Total
1st Quintile	Winners	20	1	1	21	43	0	0	0	3	3
	Losers	8	5	0	13	26	0	0	0	0	0
	No Change	0	0	0	0	0	0	0	0	0	0
	Total	**28**	**6**	**1**	**34**	**69**	**0**	**0**	**0**	**3**	**3**
2nd Quintile	Winners	3	1	5	21	30	0	0	0	3	3
	Losers	2	6	0	17	25	0	1	0	5	6
	No Change	1	0	1	1	3	0	0	0	0	0
	Total	**6**	**7**	**6**	**39**	**58**	**0**	**1**	**0**	**8**	**9**
3rd Quintile	Winners	0	2	4	18	24	0	0	0	4	4
	Losers	4	8	1	22	35	0	1	0	1	2
	No Change	0	0	2	2	4	0	0	0	1	1
	Total	**4**	**10**	**7**	**42**	**63**	**0**	**1**	**0**	**6**	**7**
4th Quintile	Winners	0	0	5	31	36	0	0	0	4	4
	Losers	0	8	4	17	29	0	0	0	0	0
	No Change	0	0	0	1	1	0	0	0	0	0
	Total	**0**	**8**	**9**	**49**	**66**	**0**	**0**	**0**	**4**	**4**
5th Quintile	Winners	0	3	6	26	35	0	0	2	3	5
	Losers	0	8	4	12	24	0	0	0	0	0
	No Change	0	0	0	6	6	0	0	0	0	0
	Total	**0**	**11**	**10**	**44**	**65**	**0**	**0**	**2**	**3**	**5**
Total	Winners	23	7	21	117	168	0	0	2	17	19
	Losers	14	35	9	81	139	0	2	0	6	8
	No Change	1	0	3	10	14	0	0	0	1	1
	Total	**38**	**42**	**33**	**208**	**321**	**0**	**2**	**2**	**24**	**28**

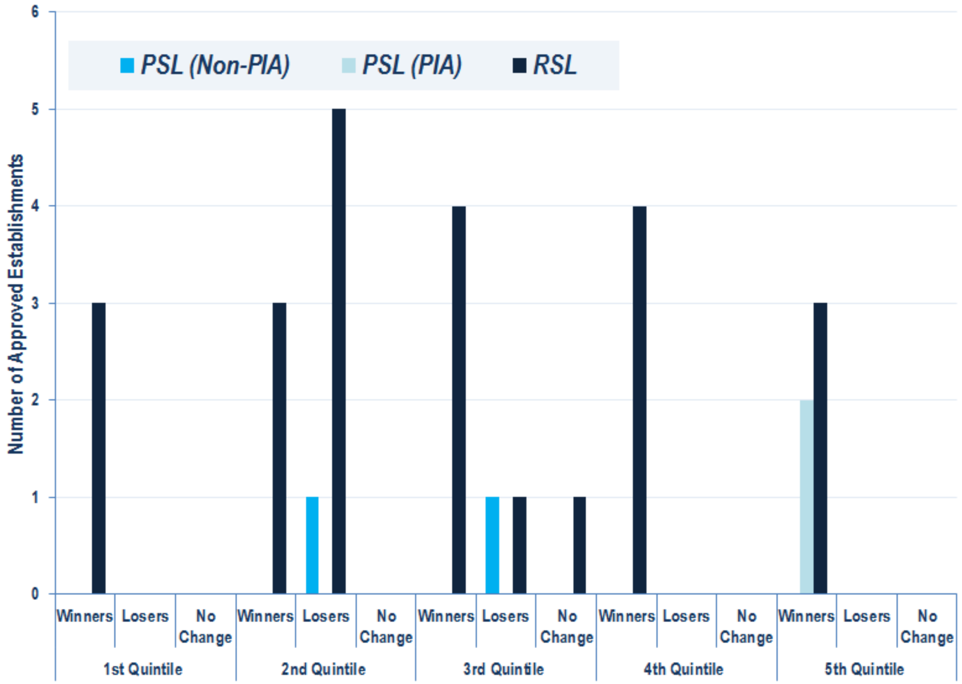
Acronyms: 'GHE': Game Handling Establishments, 'PSL (Non-PIA)': Poultry establishments without Plant Inspection Assistants, 'PSL (PIA)': Poultry establishment with Plant Inspection Assistants, 'RSL': Red Meat establishment.

Number of Winners, Losers, No Change by Site, Sector and Size/ Quintile (Option 2)

Graph 1.A – England: Graph 1.A – England



Graph 2.A – Wales*



* There are no Game Handling establishments (GHE) in Wales so they are not represented in Graph 2.A.

Nominal/ Monetary Impact – Redistribution of the Discount Pot (Option 2)

4. Table 2.A shows the nominal/ monetary impact on discounts as a result of reforms as per Option 2. The values illustrate the nominal/ monetary and distributional impact of the change in discount received by each sector, split by size/quintile. However, the analysis only accounts for the absolute impact of the change, which ignores the relative financial position of a site.

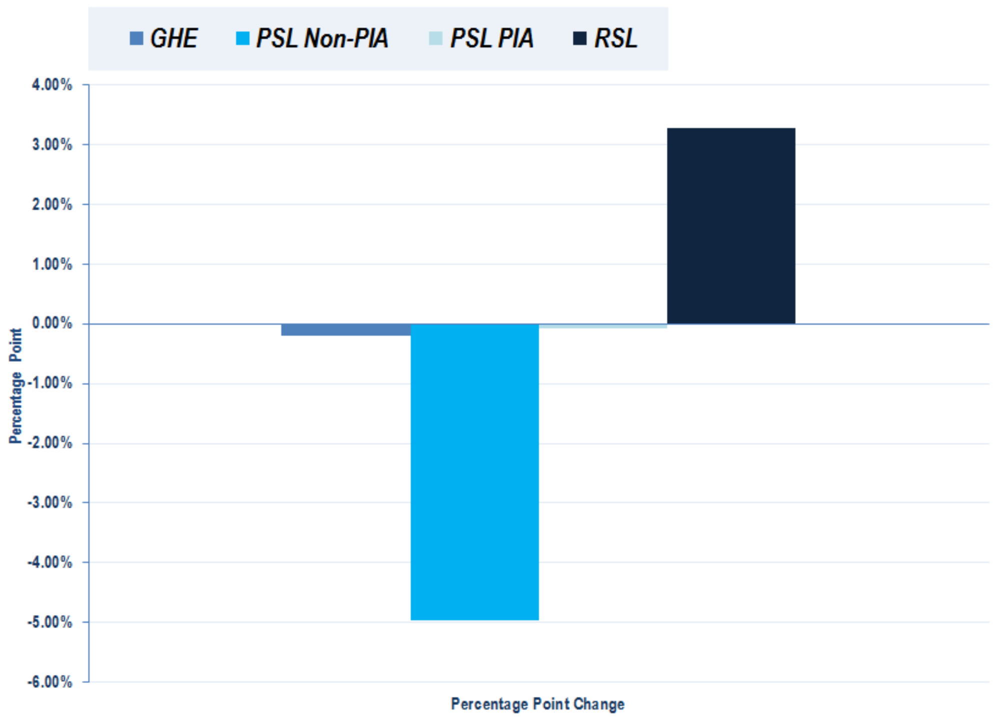
Table 2.A: E&W – Absolute Change (Monetary Impact) in Discount by Sector and Size/Quintile (Option 2)

	England				Wales			
	GHE	PSL (Non-PIA)	PSL (PIA)	RSL	GHE	PSL (Non-PIA)	PSL (PIA)	RSL
1st Quintile	£7,460	-£710	£430	£3,530	-	£0	£0	£450
2nd Quintile	-£5,230	-£8,980	£5,170	£8,040	-	-£350	£0	£1,330
3rd Quintile	-£36,180	-£62,640	£7,310	£37,260	-	-£5,170	£0	£520
4th Quintile	£0	-£165,130	-£7,850	£137,200	-	£0	£0	£34,760
5th Quintile	£0	-£505,880	£70,260	£1,051,630	-	£0	£165,870	£295,960

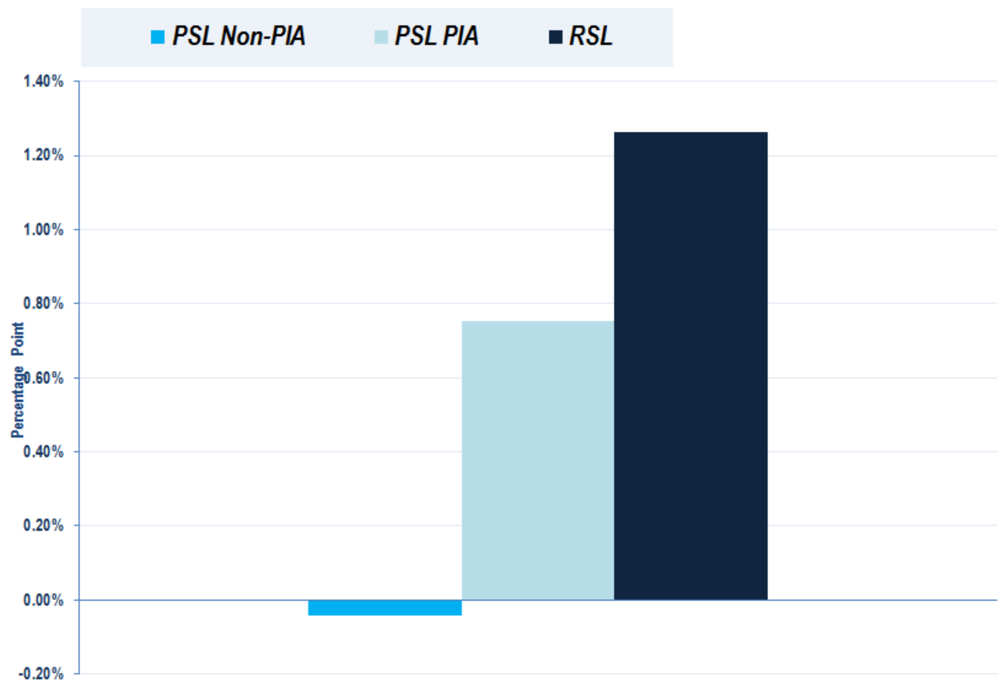
Percentage Point Change (Option 2) as a Share of Total E&W Discount Pot

5. Graphs 3.A and 4.A show the percentage point change in share of total England & Wales discount pot as a result of the reforms as per Option 2 for respective countries England and Wales. Impacts are shown by sector.

Graph 3.A – England



Graph 4.A – Wales*

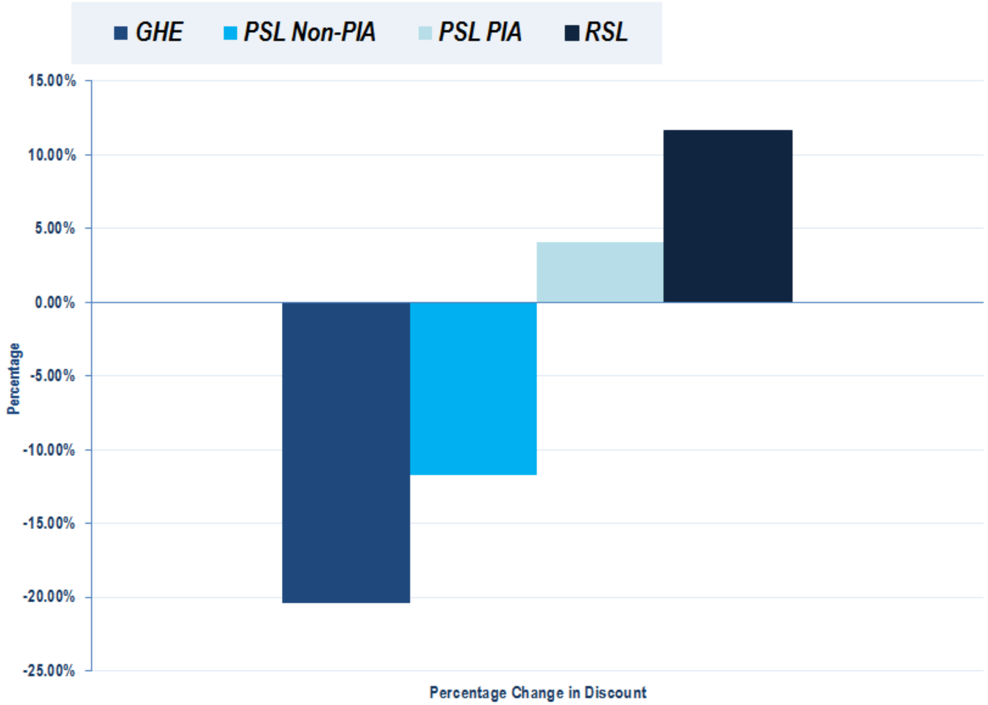


* There are no Game Handling establishments (GHE) in Wales so they are not represented in Graph 4.A.

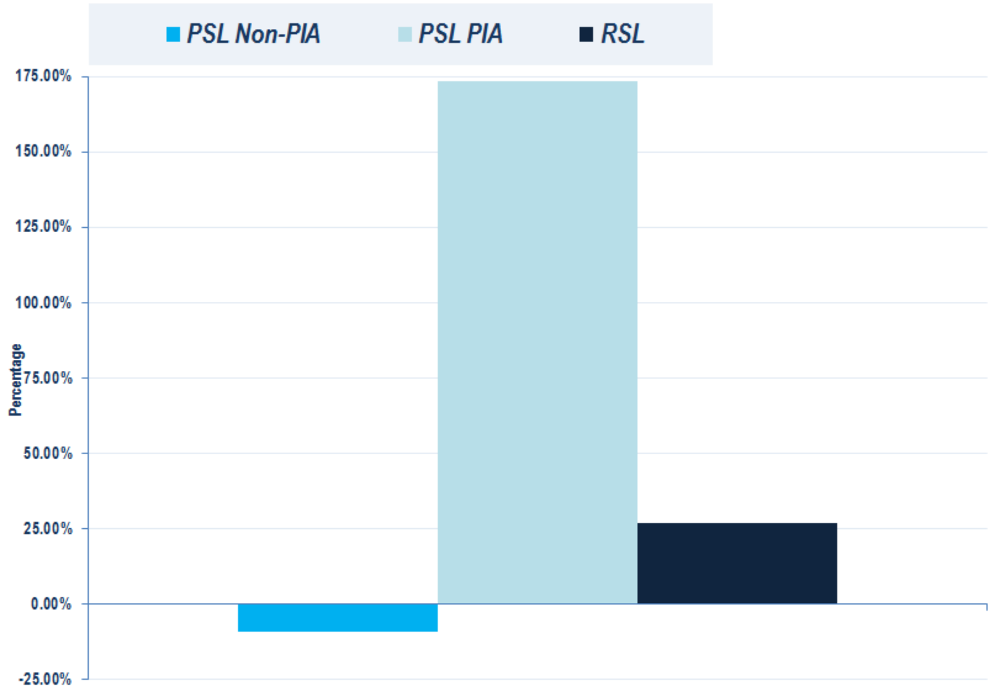
Estimated Percentage Change in Discount Received (Option 2)

6. Graphs 5.A and 6.A show the estimated percentage change in discounts received relative to 2013/14 as a result of the reforms as per Option 2 for respective countries England and Wales. Impacts are shown by sector.

Graph 5.A – England



Graph 6.A – Wales*



* There are no Game Handling establishments (GHE) in Wales so they are not represented in Graph 6.A.

Option 3: Unified Bands – A graduated system of discounts based on the principles of a progressive income tax system.

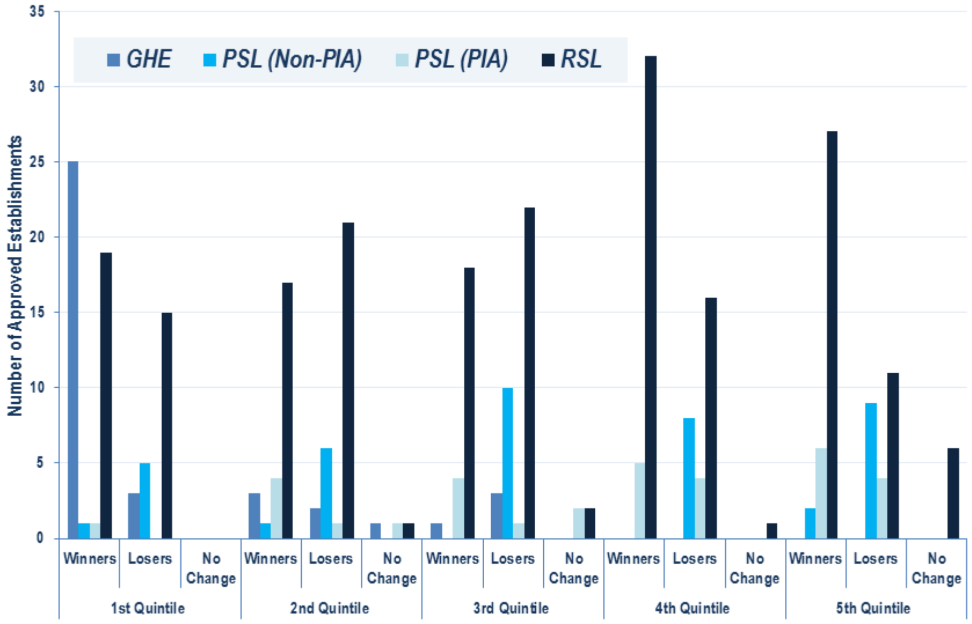
7. Table 3.A shows (illustrated graphically in respective graphs 7.A and 8.A) the number of sites that stand to gain or lose from the reforms as per Option 3. Distributional impacts are shown by plant size, sector, quintile and country (England and Wales). Winners are defined as those plants that would realise an increase in discount rate under the reforms while the converse holds for losers.

Table 3.A: England – Number of Winners, Losers and No Change by Site, Sector and Size/ Quintile (Option 3)

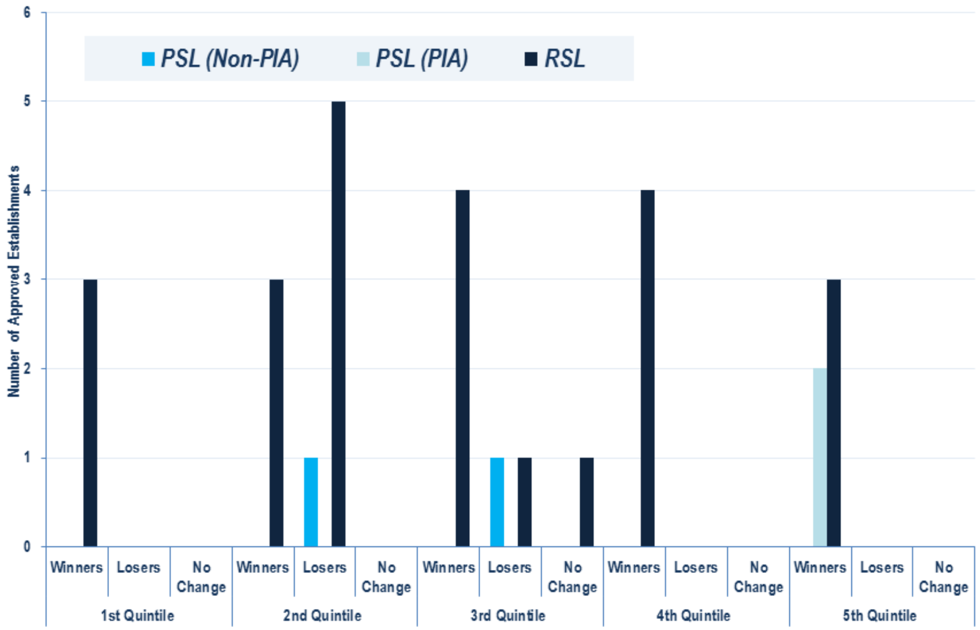
		England					Wales				
		GHE	PSL (Non-PIA)	PSL (PIA)	RSL	Total	GHE	PSL (Non-PIA)	PSL (PIA)	RSL	Total
1st Quintile	Winners	25	1	1	19	46	0	0	0	3	3
	Losers	3	5	0	15	23	0	0	0	0	0
	No Change	0	0	0	0	0	0	0	0	0	0
	Total	**28**	**6**	**1**	**34**	**69**	**0**	**0**	**0**	**3**	**3**
2nd Quintile	Winners	3	1	4	17	25	0	0	0	3	3
	Losers	2	6	1	21	30	0	1	0	5	6
	No Change	1	0	1	1	3	0	0	0	0	0
	Total	**6**	**7**	**6**	**39**	**58**	**0**	**1**	**0**	**8**	**9**
3rd Quintile	Winners	1	0	4	18	23	0	0	0	4	4
	Losers	3	10	1	22	36	0	1	0	1	2
	No Change	0	0	2	2	4	0	0	0	1	1
	Total	**4**	**10**	**7**	**42**	**63**	**0**	**1**	**0**	**6**	**7**
4th Quintile	Winners	0	0	5	32	37	0	0	0	4	4
	Losers	0	8	4	16	28	0	0	0	0	0
	No Change	0	0	0	1	**1**	0	0	0	0	0
	Total	**0**	**8**	**9**	**49**	**66**	**0**	**0**	**0**	**4**	**4**
5th Quintile	Winners	0	2	6	27	35	0	0	2	3	5
	Losers	0	9	4	11	24	0	0	0	0	0
	No Change	0	0	0	6	6	0	0	0	0	0
	Total	**0**	**11**	**10**	**44**	**65**	**0**	**0**	**2**	**3**	**5**
Total	Winners	29	4	20	113	166	0	0	2	17	19
	Losers	8	38	10	85	141	0	2	0	6	8
	No Change	1	0	3	10	14	0	0	0	1	1
	Total	**38**	**42**	**33**	**208**	**321**	**0**	**2**	**2**	**24**	**28**

Number of Winners, Losers, No Change by Site, Sector and Size/ Quintile (Option 3)

Graph 7.A – England



Graph 8.A – Wales*



* There are no Game Handling establishments (GHE) in Wales so they are not represented in Graph 8.A.

Nominal/ Monetary Impact (Option 3)

8. Table 4.A shows the nominal/ monetary impact on discounts as a result of reforms as per Option 3. The values illustrate the nominal/ monetary and distributional impact of the change in discount received by each sector, split by size/quintile. However, the analysis only accounts for the absolute impact of the change, which ignores the relative financial position of a site.

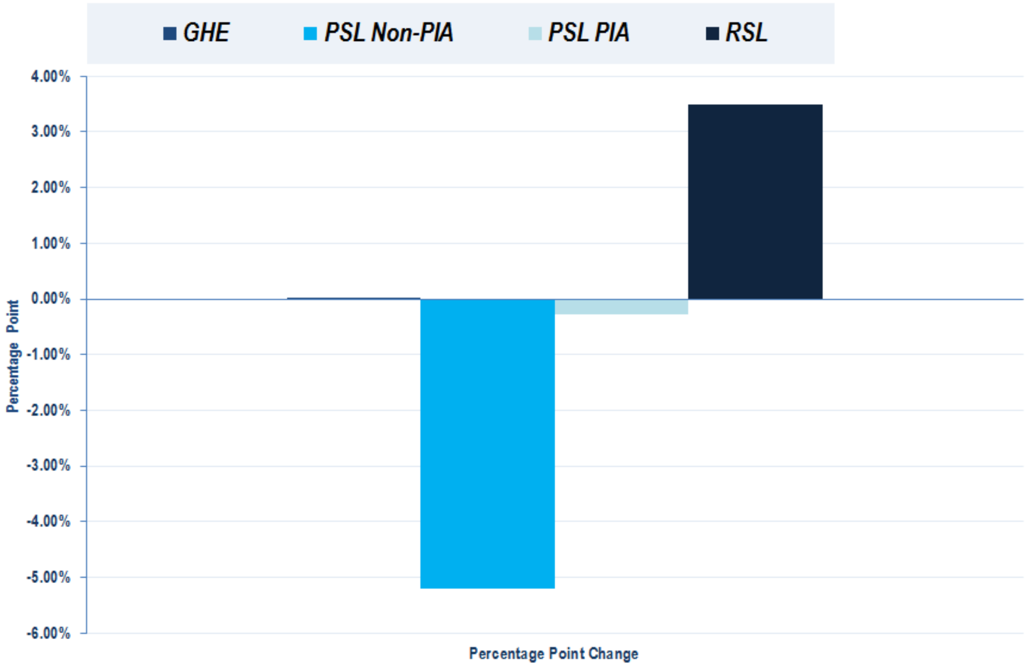
Table 4.A: E&W – Absolute Change (Monetary Impact) in Discount by Sector and Size/Quintile (Option 3)

	England				Wales			
	GHE	PSL (Non-PIA)	PSL (PIA)	RSL	GHE	PSL (Non-PIA)	PSL (PIA)	RSL
1st Quintile	£9,940	-£2,060	£330	£1,800	£0	£0	£0	£450
2nd Quintile	£2,750	-£15,170	£3,590	£1,380	£0	-£990	£0	£160
3rd Quintile	-£540	-£83,070	£4,120	£23,140	£0	-£6,780	£0	-£1,450
4th Quintile	£0	-£193,610	-£20,440	£142,830	£0	£0	£0	£35,810
5th Quintile	£0	-£499,330	£43,660	£1,116,800	£0	£0	£160,010	£305,750

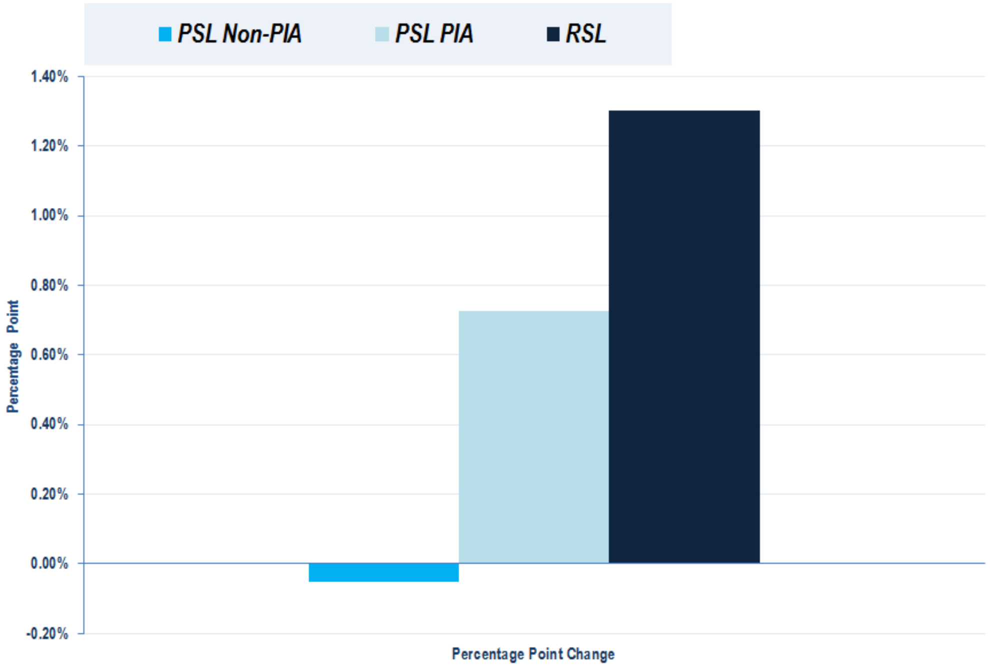
Percentage Point Change (Option 3) as a Share of Total E&W Discount Pot.

10. Graphs 9.A and 10.A show the percentage point change in share of total England & Wales discount pot as a result of reforms as per Option 3 for respective countries England and Wales.

Graph 9.A – England



Graph 10.A – Wales*

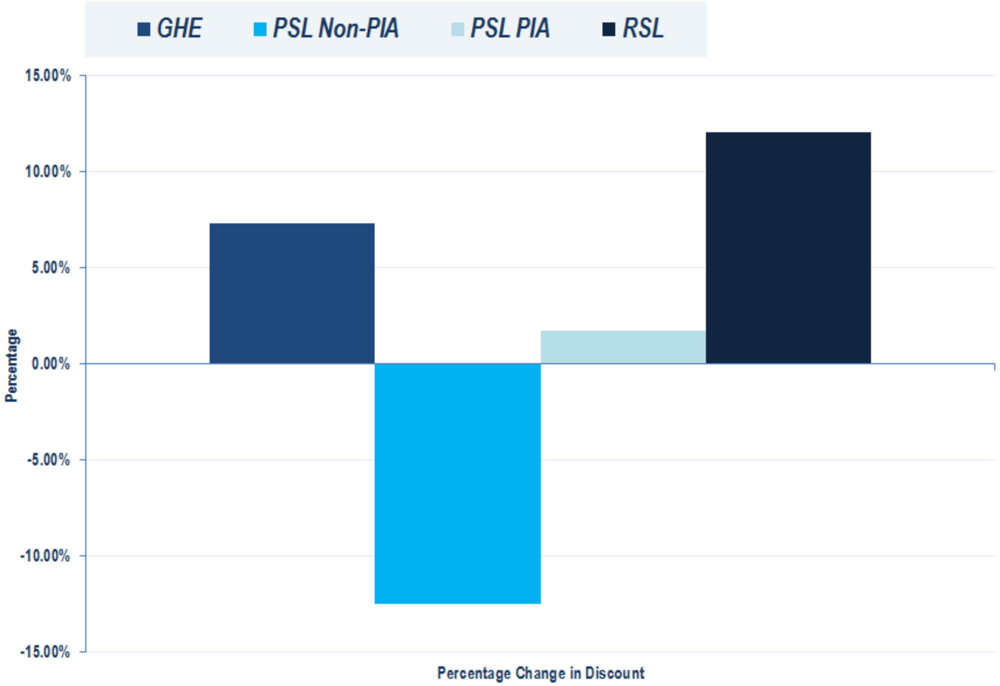


* There are no Game Handling establishments (GHE) in Wales so they are not represented in Graph 10.A.

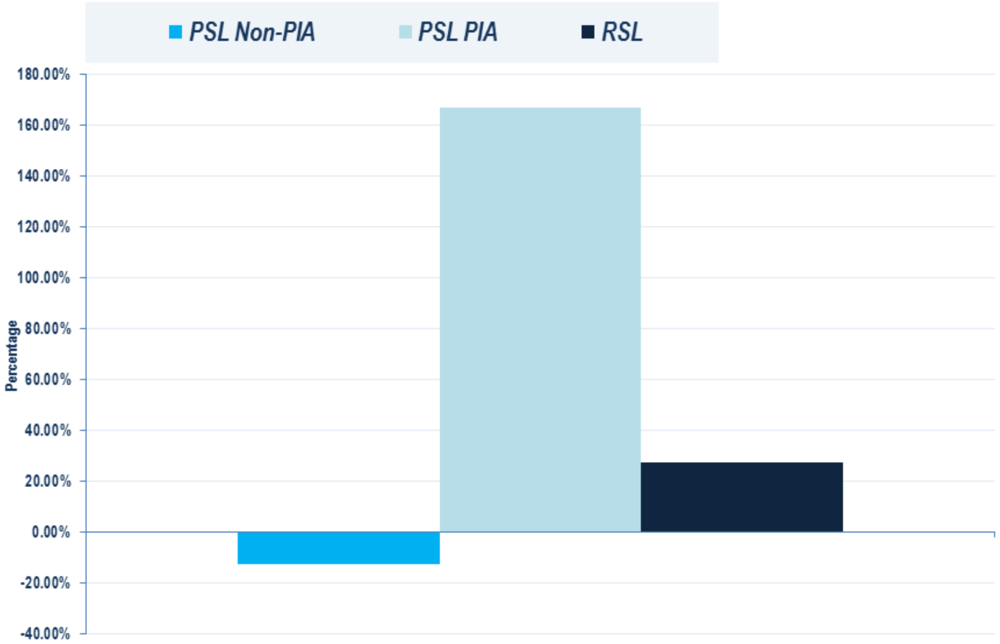
Estimated Percentage Change in Discount Received (Option 3)

9. Graphs 11.A and 12.A show the estimated percentage change in discounts received relative to 2013/14 as a result of the reforms as per Option 3 for respective countries England and Wales. Impacts are shown by sector.

Graph 11.A – England



Graph 12.A – Wales*



* There are no Game Handling establishments (GHE) in Wales so they are not represented in Graph 12.A.

Glossary

• EAC	Equivalent Annual Cost
• FBO	Food Business Operator
• FSA	Food Standards Agency
• FTE	Full Time Equivalent
• GHE	Game Handling Establishment
• HMT	Her Majesty’s Treasury
• KRD	Key Results Driver
• MCDM	Meat Charging Discount Model
• MHI	Meat Hygiene Inspector
• NAO	National Audit Office
• OV	Official Veterinarian
• PIA	Plant Inspection Assistant
• PSL	Poultry Slaughterhouse
• PV	Present Value
• RPC	Reducing Regulation Committee
• RRC	Regulatory Policy Committee
• RSL	Red Meat Slaughterhouse
• SGMC	Steering Group on Meat Charging
• SME	Small Medium Enterprise
• SoR	Statement of Resources