



Feb 2021
T Hurley, R Collier, L Fishley,
M Rushworth & M Brewer

England and Wales - Cost data presentation 2021/22

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

.....

Purpose and Process

.....

The purpose of the slides

- The presentation of the cost data for meat industry hourly charge rates for 2021/22.
- The presentation covers England & Wales.
- To clarify and provide transparency on:
 - direct and indirect essential support costs of meat controls,
 - process to calculate hourly rates,
 - FSA application of current GB charging (including retained EU law).
- To confirm the hourly rates have been validated by independent external audit.
- All figures displayed in these slides are budgeted costs and hours.

The annual process

Month	Action
November	The FSA budget for direct and indirect costs and hours for the following financial year are calculated.
December	Meat related costs are identified and based on the budget the hourly rates are calculated.
January	FSA Legal confirm the costs included in the hourly meat rates are consistent with 2017/625.
February	The calculations for hourly rates are externally audited.
3 March 2021	Meeting with industry to agree discount rates.
3 March 2021	Cost Data Presentation to industry.
29 March 2021	New charge rates and discount bands implemented for FSA customers.

.....

Meat Controls hourly rate calculation

.....

How the meat rates are calculated

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

Meat controls hourly rates

Grade	2020/21 rate	2021/22 rate	Change	% difference
OV Normal	£44.20	£48.00	+£3.80	+8.6%
MHI Normal	£32.40	£31.90	-£0.50	-1.5%

The majority of the hours charged are for MHIs (71% of total hours). This hourly rate will decrease by -1.5%. The remaining 29% of hours are for OVs and will increase by 8.6% as a result of increased contract costs.

Grade	2019/20 rate	2021/22 rate	Change	% difference
OV Normal	£44.20	£48.00	+£3.80	+8.6%
Direct costs increase			+£3.55	+8.0%
Reduction (+) / increase (-) in chargeable hours			+£0.66	+1.5%
Indirect costs decrease			-£0.41	-0.9%
MHI Normal	£32.40	£31.90	-£0.50	-1.5%
Direct costs increase			-£0.29	-0.9%
Reduction (+) / increase (-) in chargeable hours			+£0.20	+0.6%
Indirect costs decrease			-£0.41	-1.3%

Industry meat controls hourly rates 2021/22

Costs	Budgeted OV costs	Budgeted MHI costs	2021/22 Total budget	2020/21 Total budget	Variance on 2020/21
Direct Costs	£17.30m	£26.57m	£43.88m	£42.58m	+3.0%
Indirect Costs	£1.21m	£2.91m	£4.13m	£5.05m	-18.3%
Total Costs	£18.52m	£29.49m	£48.01m	£47.63m	+0.8%
Industry chargeable hours (plussed up)*	385,732	925,577	1,311,309	1,326,365	-1.1%
Charge rate before discount	£48.00	£31.90			

- Hours shown are all I and H hours budgeted.
- There may be rounding differences in summarising the data
- M stands for million

Industry enforcement hourly rates 2021/22

You said

Industry representatives have asked the FSA to review its handling of charging for enforcement activity:

- Why do charges to the compliant include the costs of dealing with the non-compliant?
- Invoicing to FBOs lacks transparency on enforcement
- (EU) 2017/625 implemented from 14 December 2019 distinguishes enforcement in a way (EC) 882/2004 did not.
- Which activities within enforcement activities should be chargeable?

Industry enforcement hourly rates 2021/22

What we are doing

- Separate rates for enforcement work are being introduced.
- Charge rates for enforcement calculated based on a proportionate split of direct costs and indirect costs from the costs of other activity.
- Chargeable and non-chargeable activity codes to be introduced for enforcement from 29 March 2021.
- On introduction, charge rates for enforcement will be discounted.
- Public consultation to be launched on the removal of discounts on enforcement charges.

Industry enforcement hourly rates 2021/22

What does this mean for 2021/22?

- The enforcement hourly rates are equivalent to the normal charge rates due to the associated costs and time being proportionate to the overall costs of meat controls.
- Separating time recording for enforcement means the compliant are not paying for the enforcement time at non-compliant FBOs' premises.
- The non-compliant are charged for the hours spent on chargeable enforcement activity.
- Time recording data for enforcement activity (chargeable and non-chargeable) will better inform the FSA going forward, including future charge rate calculations.
- We believe some non-chargeable enforcement activity is being masked by staff carrying out this activity in their own time.
- The FSA will hold a consultation to discuss whether discounts will apply to charges for enforcement. Standard discounts will be applied to these charges until further notice.

Industry enforcement rates and codes 2021/22

- OV enforcement charge rate £48.00
- MHI enforcement charge rate £31.90

- Chargeable enforcement activity code IENF
- Non-chargeable enforcement activity code NENF

Industry meat costs

Budget in £ million	2016/17 budget restated to align with 2017/18 structure	2017/18 budget	2018/19 budget	2019/20 budget	2020/21 budget	2021/22 budget
Direct Costs						
Employed staff costs	£19.60	£17.85	£16.32	£16.83	£16.96	£17.62
Contractor costs	£18.24	£18.95	£19.22	£21.66	£24.14	£24.74
Laundry/equipment costs	£0.61	£0.42	£0.62	£0.73	£0.62	£0.69
Frontline travel costs	£0.79	£0.85	£0.83	£0.97	£0.86	£0.83
Total direct costs	£39.23	£38.08	£36.99	£40.19	£42.58	£43.88
Indirect Costs						
Operations Support	£3.07	£2.89	£2.73	£2.69	£2.90	£2.18
Finance & Performance	£1.43	£0.97	£0.69	£0.49	£0.35	£0.30
Human Resources	£0.46	£0.36	£0.21	£0.10	£0.10	£0.08
Depreciation / Amortisation	£0.25	£0.21	£0.23	£0.28	£0.16	£0.18
Regulatory and Legal Strategy	£0.28	£0.24	£0.24	£0.22	£0.25	£0.16
Operations IT	£1.98	£1.49	£1.27	£1.01	£0.92	£0.93
Private Office & Secretariats	£0.09	£0.08	£0.08	£0.08	£0.08	£0.08
Corporate Support Unit	£0.21	£0.21	£0.21	£0.30	£0.29	£0.22
Total indirect costs	£7.77	£6.45	£5.66	£5.16	£5.05	£4.13
Grand total meat costs	£47.00	£44.53	£42.65	£45.35	£47.63	£48.01

Comparisons of 2021/22 to 2020/21 – Direct costs

Direct costs have increased by £1.3 million (3%)

- Contractor costs included in the charge rates have increased by £0.6 million inline with the contract renewal in 2020/21, plus additional costs due to the market pressures regarding OV resource for example, EU Exit, RCVS language requirements. Partially offsetting these increases is the removal of some associated contractor costs.
- Employed Staff costs have increased by £0.7 million due to an increase in salary costs for the 2021/22 pay inflation, and additional employed veterinary resource.

.....

Comparisons of 2021/22 to 2020/21 – Direct costs

Direct cost analysis per grade:

MHI

Direct MHI costs have decreased by -£0.2 million. This is due to reduced contractor costs of -£0.4 million, employed MHI staff costs have increased by £0.2 million due to pay reform increases, slightly increased overtime partially offset by a reduction of 6 MHI FTEs and reduced casual MHI overtime. There is also a small reduction in chargeable hours of 7,000.

OV

Direct OV costs have increased by £1.5 million due to additional contractor costs of £1.0 million and employed staff costs increase £0.5 million due to pay increases along with additional employed veterinary resource. There is also a small reduction in chargeable hours of 7,000 (£0.3 million decrease).

Comparisons of 2021/22 to 2020/21 – Indirect costs

Following review of 2017/625 the elements of cost included in the charge rates has been revised and discounts adjusted accordingly.

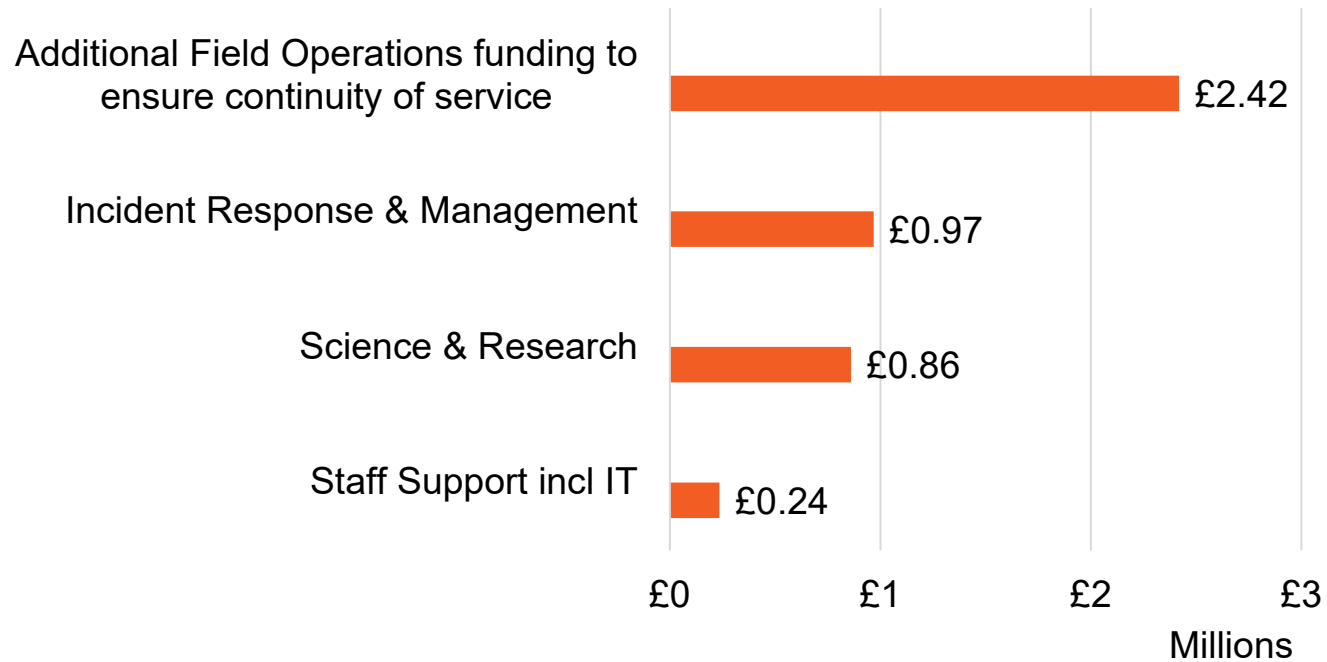
Indirect costs have decreased by £0.9 million (18.3%)

- Operations support has reduced by £0.7 million largely due to the removal of testing and sampling costs
- Reduction of £0.1 million of Legal FTE support costs

Pandemic costs

The FSA has incurred significant additional cost due to the Covid 19 pandemic in 2020/21, which will not be recovered from industry.

Pandemic related costs
2020/21 Forecast



What is not included in the costs?

The following areas are excluded:

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

.....

Review and Conclusion

.....

Review of calculation

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

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

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

Review of calculation

“On the basis of our review of the 2021/22 ABC and HCR models, we are satisfied that the charge rates for OVs and MHIs have been calculated correctly in each model, based on our assessment of the mechanics and validation of the source data to the reports provided.”

Mazars (Audit Report February 2021)

Operational change

- The Operational Transformation Programme has been established to modernise and improve how we regulate the meat, wine and dairy industries. Programme activity has been significantly slowed this year due to the diversion of resources to EU Exit and pandemic response activities.
- Progress has however been made in certain areas. A proposal for a high-level Future Delivery Model (FDM) has been developed covering seven key workstreams. The FDM proposal will be discussed with FSA Board, pending approval, will then be subject to a consultation period. Pre-consultation engagement with industry and other stakeholders, both internal and external, is underway.
- Work has been undertaken with an external partner to fully develop the business case for the programme and the final draft is undergoing internal approval.
- Work is also underway to identify which parts of the FDM will require legislative change, so that activity can be commenced, but also what improvements can be progressed more quickly within current OCR.

Operational change

- Whilst the current model is not broken, and continues to ensure the required food hygiene and animal welfare controls are comprehensively delivered, there are some aspects that could be improved. We plan to develop a new operating model over the next 3-5 years, to achieve a flexible, outcome focused and risk-based model which seeks to maximise industry compliance. Development of this model will be guided by segmentation of FBOs into categories which will in turn reflect the costs incurred and charges for Official Controls applied to FBOs
- Implementation of the Animal Welfare Action Plan will continue to monitor compliance with Annex II changes that were implemented in December 2019, and enable our response to any new developments
- Internal changes will be made to the management of the Approvals process, in response to the independent review of Approvals
- Operational Transformation will continue to identify, review, test and implement new initiatives to improve how we regulate the meat, wine and dairy industries
- During 2021 we expect to report to Cabinet Office how we will change our existing commercial delivery model for Official Controls – this deadline will inform some of our timescales for delivery

Field Operations

- **The Official Controls Regulation 2017/625 (OCR)** – Within Field Operations, we will continue to work with colleagues across the Agency to implement necessary changes in order to comply with the OCR requirements, whilst also looking at areas of opportunity that are already provided for, and yet to be utilised, under the OCR framework to optimise efficiency and capacity. We will also consider assessment of opportunities, including risks and UK/FSA appetite, to introduce divergence to current legislative requirements.
- **Veterinary capacity** – Linked with the above, the FSA will work with the Service Delivery Partner to ensure that there are the right number of Official Veterinarians with the right skills delivering the FSA Official Controls. We will also continue to work with other government departments to consider the veterinary resources and capacity within the wider system.
- **Export certification** – The FSA will evaluate the support that has been provided to deliver export certification following the end of the EU Exit transition period and work with Defra officials in respect of the strategic way forward in response to export work.
- **Covid response** – Field Operations will continue to focus on delivery of the Official Controls throughout the Covid pandemic, ensuring the health, safety, and wellbeing of our teams and those that we work with. We will continue to work with industry to ensure that there are appropriate contingencies in place to mitigate any service failure. We will also actively explore the temporary measures that are available under Article 3 of the Official Controls (Temporary Measures) (Coronavirus) (Amendment) Regulations to support delivery of meat official controls in the event of resourcing pressures associated with Covid 19.

Conclusion

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

.....

Chargeable Allowances

.....

Standard allowances

Allowance code	Allowance narrative	2021/22 charge before discount	2021/22 discount	2020/21 charge before discount
CASL	Casualty slaughter call-out	£27.65	50%	£27.80
COVA	Weekend working as part of a normal week	£96.75	50%	£90.35
HTIM	Weekend working as part of a normal week	£96.75	50%	£90.35
NGHT	Night shift	£39.35	50%	£35.65
SHFT/UNSO	Shift working	£28.65	50%	£28.80
UNSH/UNSP	Unsocial hours	£15.85	50%	£15.70

Explanation of movement in standard allowance rates

- The allowances are calculated based on the 'MHI direct' cost per hour and the trend in actual occurrences.
- Allowances represent less than 1% of the cost of industry controls.
- Since the introduction of Stow charging in 2016/17 the calculation of allowance rates has been further reviewed and improved. This has led to movements up and down in the charge rates for 2021/22.
- From 2016/17 nationally calculated allowance rates replaced charges based on the payments to the specific individuals in particular plants to match the way the hourly rates are calculated.
- Whilst the individual rates have fluctuated up and down the total charge to industry is expected to remain constant (£0.4m full cost before applying the 50% discount).

Emergency call-out allowances

Allowance code	Allowance Narrative	2021/22 charge before discount	2021/22 discount
EMGH	Emergency call-out not in SOR	£180.00	50%
EMGL	Emergency call-out in SOR	£100.00	50%

- New charges from the start of 2021/22

Emergency call out charges

- Regulation (EU) 2019/627 requires post mortem inspection (PMI) to be carried out without delay after slaughter. In cases of emergency slaughter the maximum delay permitted for PMI is 24 hours from arrival of the carcass at the slaughterhouse
- The FSA has not been fully applying these requirements. Making the necessary provisions will result in additional costs for the FSA which the new call out charges will recover from FBOs at the rate of 50%
- Time charges will be invoiced in addition to the call out charges
- FBOs wishing to ensure this call out provision must discuss it with their FSA operational management and document it in their Statement of Resources
- In addition, all operational requirements must be in place for emergency slaughter, including the necessary standard operating procedure

.....

2021/22 Indirect Cost Detail

.....

Indirect cost outputs

Operations Support covers:

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

Finance & Performance covers

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

People & Organisational Change (HR) covers

- Human Resources support

Indirect cost outputs

Regulatory (Audit) support covers

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

Corporate Support Unit covers

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

Operations IT

- IT – technological support/infrastructure for field staff

Private Office & Secretariat support covers

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

Indirect costs apportionment between Industry and Government

<u>Budgeted indirect costs</u>	<u>Industry Charges</u>	<u>Government</u>	<u>FSA</u>	<u>Total</u>
£m	91.17%	3.07%	5.76%	100.00%
Operations support	£2.18	£0.07	£0.14	£2.39
<i>Sub total</i>	£2.18	£0.07	£0.14	£2.39
Finance & Performance	£0.30	£0.01	£0.02	£0.33
Human Resources	£0.07	£0.00	£0.00	£0.08
Depreciation / amortisation	£0.18	£0.01	£0.01	£0.20
Regulatory (Audit)	£0.16	£0.01	£0.01	£0.18
Operations IT	£0.93	£0.03	£0.06	£1.02
Private Offices & Secretariats	£0.08	£0.00	£0.01	£0.09
Corporate Support Unit	£0.22	£0.01	£0.01	£0.24
Total indirect costs	£4.13	£0.14	£0.26	£4.53

2021/22 Staff related indirect costs – Meat

Group	FTE	Meat %	Meat FTE	Indirect cost £m	Industry cost 2021/22 £m	Industry cost 2020/21 £m	Variance £m	Variance %
Regulatory Delivery	27.5	81%	22.1	£1.27	£1.16	£1.22	£0.06	5%
Field Delivery (Support)	28.6	49%	13.9	£0.77	£0.70	£0.86	£0.16	19%
Finance	19.0	24%	4.6	£0.12	£0.11	£0.13	£0.02	15%
Procurement	12.8	8%	1.0	£0.06	£0.06	£0.06	£0.00	7%
IT Service delivery	69.3	6%	4.5	£0.28	£0.25	£0.25	-£0.00	-1%
HR Org Development	40.3	2%	1.0	£0.06	£0.06	£0.08	£0.02	26%
Legal	27.7	4%	1.1	£0.00	£0.00	£0.08	£0.08	100%
Internal Audit	11.0	25%	2.8	£0.18	£0.16	£0.17	£0.01	5%
Communications	30.7	0%	0.0	£0.00	£0.00	£0.00	£0.00	0%
CEO's Office	19.4	5%	1.0	£0.09	£0.08	£0.08	£0.00	4%
Chair & Deputy's Office	10.0	0%	0.0	£0.00	£0.00	£0.00	£0.00	0%
Corporate Support Unit	32.0	19%	6.0	£0.24	£0.22	£0.29	-£0.09	-33%
Subtotal	265.0		57.6	£3.07	£2.80	£3.23	£0.10	3%

2021/22 Other Indirect Costs over £100k – Meat

Associated Cost	Full cost £m	Meat %	Indirect cost £m	Industry cost 2021/22 £m	Industry cost 2020/21 £m	Variance £m	Variance %
Field Management and Regulatory Delivery travel	£0.23	10%	£0.02	£0.03	£0.09	£0.06	67%
Sampling and testing costs	£0.79	0%	£0.00	£0.00	£0.73	£0.73	100%
Financial IT systems costs	£0.21	6%	£0.01	£0.01	£0.02	£0.01	50%
Legal debt recovery costs	£0.13	0%	£0.00	£0.00	£0.00	£0.00	0%
IT support costs	£1.30	32%	£0.41	£0.37	£0.26	-£0.11	-42%
Software licenses and network	£0.70	18%	£0.13	£0.12	£0.26	£0.14	54%
Phone costs	£0.41	49%	£0.20	£0.18	£0.15	-£0.03	-20%
Office accommodation	£3.29	4%	£0.14	£0.13	£0.14	£0.01	7%
Medicals and training	£0.58	8%	£0.05	£0.04	£0.02	-£0.02	-100%
IT support costs for Board meetings	£0.09	0%	£0.00	£0.00	£0.00	£0.00	0%
Depreciation/Amortisation	£2.59	8%	£0.20	£0.18	£0.16	-£0.02	-13%
Sub Total	£10.33		£1.16	£1.06	£1.83	£0.77	42%
<i>Grand Total</i>				£4.13	£5.05		

Mapping to Article 85

Article 85 presentation of 2021/22 Industry cost mapped to categories in Article 81		
Category	Description	£millions
A	The salaries of the staff, including support and administrative staff, involved in the performance of official controls, their social security, pension and insurance costs.	£41.00
B	The cost of facilities and equipment, including maintenance and insurance costs and other associated costs.	£2.35
C	The cost of consumables and tools.	£0.74
D	The cost of services charged to the competent authorities by delegated bodies for official controls delegated to these delegated bodies.	£0.00
E	The cost of training of the staff referred to in point (A), with the exclusion of the training necessary to obtain the qualification necessary to be employed by the competent authorities.	£0.78
F	The cost of travel of the staff referred to in point (A), and associated subsistence costs.	£3.15
G	The cost of sampling and of laboratory analysis, testing and diagnosis charged by official laboratories for those tasks.	£0.00
TOTAL		£48.01

This slide has been updated in September 2021 to correct the mapping in the original published slides. In the revised table above contractor costs have been moved from category D and mapped across the other categories in Article 81 of retained Regulation 2017/625.