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Cost Data Slides for 2020/21

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England & Wales - Cost data presentation 2020/21

- Purpose of the slides and annual process.
- Official control hourly rate calculation.
- Review and conclusion.
- Annexes
 - Allowances.
 - Indirect cost detail.
 - Discounts.

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PURPOSE AND PROCESS

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The purpose of the slides

- The presentation of the cost data for meat industry hourly charge rates for 2020/21.
- There has been separate discussion with stakeholders of the policy and operational impact of (EU) 2017/625. There will be further consideration after the cost data presentation.
- The presentation covers England & Wales.
- To clarify and provide transparency on:
 - direct and indirect essential support costs of official controls,
 - process to calculate hourly rates,
 - FSA application of current EU & GB charging rules.
- To confirm the hourly rates have been validated by independent external audit.
- All figures displayed in these slides are budgeted costs.

The annual process

November	The FSA budget for direct and indirect costs and hours for the following financial year are calculated.
December	Meat related costs are identified and based on the budget the hourly rates are calculated.
January	FSA Legal confirm the costs included in the hourly meat rates are consistent with 2017/625.
January/February	The calculations for hourly rates are externally audited.
4 February 2020	Meeting with industry to agree discount rates.
27 February 2020	Cost Data Presentation to stakeholders.
30 March 2020	New charge rates and discount bands implemented for FSA customers.

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**OFFICIAL CONTROLS HOURLY
RATE CALCULATION**

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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 the relevant Director.
- 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.

Official control hourly rates

Grade	2019/20 rate	2020/21 rate	Change	% difference
OV Normal	£41.20	£44.20	+£3.00	+7.3%
MHI Normal	£31.50	£32.40	+£0.90	+2.9%

The majority of the hours charged are for MHIs (70% of total hours). This hourly rate will increase by 2.9%. The remaining 30% of hours are for OVs and will increase by 7.3% as a result of the retendered contract.

Grade	2019/20 rate	2020/21 rate	Change	% difference
OV Normal	£41.20	£44.20	+£3.00	+7.3%
Direct costs increase			+£3.00	+7.3%
Reduction (+) / increase (-) in chargeable hours			+£0.36	+0.9%
Indirect costs decrease			-£0.36	-0.9%
MHI Normal	£31.50	£32.40	+£0.90	+2.9%
Direct costs increase			+£1.53	+4.8%
Reduction (+) / increase (-) in chargeable hours			-£0.27	-0.8%
Indirect costs decrease			-£0.36	-1.1%

Industry official controls hourly rates 2020/21

	Budgeted OV costs	Budgeted MHI costs	2020/21 Total budget	2019/20 Total budget	Variance on 2019/20
Direct Costs	£15.82m	£26.76m	£42.58m	£40.19m	+5.9%
Indirect Costs	£1.49m	£3.56m	£5.05m	£5.16m	-2.2%
Total Costs	£17.31m	£30.32m	£47.63m	£45.35m	+5.0%
Industry chargeable hours (plussed up)*	391,817	934,548	1,326,365	1,317,478	+0.7%
Charge rate before discount	£44.20	£32.40			

* Hours shown are all I and H hours budgeted.

Industry meat costs

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

* See fields highlighted in slides 28 & 29 for breakdown

..... Comparisons of 2020/21 to 2019/20 – Direct costs

Direct costs have increased by £2.39m (5.9%)

- Contractor costs have increased by £2.48m. The contract was due for renewal and there have been significant cost pressures for the supplier linked to EU Exit and inflationary pressures, such as availability of labour. Prior to 2019/20 budgeted contractor costs remained flat for a number of years.
- Employed Staff costs have increased by £0.13m due to an increase in salary costs for the 2020/21 pay award, partially offset by a reduction in employed MHI FTEs and associated overtime.
- Other budgeted direct costs for frontline staff have decreased by £0.23m (e.g. travel, laundry, equipment).

..... **Comparisons of 2020/21 to 2019/20 – Direct costs**

Direct cost analysis per grade:

OV

Direct OV costs have increased by £1.1m due to additional contractor costs of £1.0m and employed staff costs increase £0.1m due to pay increases along with additional FVLs/ FVCs (+4 FTE). There is also a small reduction in chargeable hours of 4k.

MHI

Direct MHI costs have increased by £1.3m due to additional contractor costs of £1.5m, employed MHI staff costs have remained level due a reduction of 18 MHI FTEs and reduced MHI overtime offsetting a pay increase. Partially offsetting the contractor increase is an increase in chargeable hours of 10k.

Comparisons of 2020/21 to 2019/20 – Indirect costs

Indirect costs have decreased by £0.3m (4.1%)

- Operations IT costs have decreased by £0.1m due to efficiency savings in re-contracting IT services.
- Reduction of £0.2m of Legal / Debt Recovery costs

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;
- Preparatory work for exiting the EU;
- Work on the Official Controls Modernisation (formerly Regulating Our Future) programme;
- National Food Crime Unit.



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REVIEW AND CONCLUSION

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Review of calculation

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

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

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

Review of calculation

“Our review of the 2020-21 ABC and HCR models did not identify discrepancies in either model which led to a miscalculation of the charge out rates for either OVs or MHIs. A review of the models’ calculation mechanics and sampled source data validated that the hourly charge out rates had been calculated appropriately for the 2020-21 year, and that the cost apportionment exercise conducted in the ABC model had also been carried out effectively.”

Mazars (Audit Report February 2020)

Operational change

- The Operational Transformation Programme has been established to modernise and improve how we regulate the meat, wine and dairy industries. 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 an outcome focused and risk-based model which seeks to drive industry compliance. Application of this 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 that was undertaken by John Barnes.
- The new Service Delivery Partner contract will be implemented, and transitional arrangements are underway to ensure a smooth process

Future developments

- Operational Transformation will continue to identify, review, test and implement new initiatives to improve how we regulate the meat, wine and dairy industries
- In August 2021 we are expected to report to Cabinet Office how we will change our existing delivery model for Official Controls – this deadline will inform some of our timescales for delivery

Conclusion

- FSA faces significant cost pressures in a challenging labour market post EU Exit. This is particularly noticed in the availability of veterinary services. We will continue to work to reduce the other costs which are more within FSA's control.
- Despite this year's increase the total cost of meat official controls remains well below 2016/17 levels in real terms.
- Industry continues to benefit from a substantial discount (£19.3m) against these charges.

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CHARGEABLE ALLOWANCES

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Standard allowances

Allowance code	Allowance narrative	2020/21 charge before discount	2020/21 discount	2019/20 charge before discount
CASL	Casualty slaughter call-out	£27.80	50%	£26.55
COVA	Weekend working as part of a normal week	£90.35	50%	£66.35
HTIM	Weekend working as part of a normal week	£90.35	50%	£86.30
NGHT	Night shift	£35.65	50%	£44.80
SHFT/UNSO	Shift working	£28.80	50%	£27.50
UNSH/UNSP	Unsocial hours	£15.70	50%	£14.15

Explanation of movement in allowance rates

- The allowances are calculated based on the 'MHI direct' cost per hour and the trend in actual occurrences.
- Allowances represent less than 1% of the cost of industry controls.
- Since the introduction of Stow charging in 2016/17 the calculation of allowance rates has been further reviewed and improved. This has led to movements up and down in the charge rates for 2020/21.
- 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).

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INDIRECT COST DETAIL

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Indirect cost outputs

Operations Support covers

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

Finance & Performance covers

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

People & Organisational Change (HR) covers

- Human Resources support.

Indirect cost outputs

Regulatory and Legal Strategy support covers

- Legal Branch – legal input on meat related issues.
- 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 & Government

<u>Budgeted indirect costs</u>	<u>Industry Charges</u>	<u>Government</u>	<u>FSA</u>	<u>Total</u>
£m	91.28%	3.13%	5.59%	100.00%
Operations support	£2.90	£0.10	£0.18	£3.18
<i>Sub total</i>	£2.90	£0.10	£0.18	£3.18
Finance & Performance	£0.35	£0.01	£0.02	£0.38
Human Resources	£0.10	£0.00	£0.01	£0.11
Depreciation / amortisation	£0.16	£0.01	£0.01	£0.18
Regulatory and Legal Strategy	£0.25	£0.01	£0.01	£0.27
Operations IT	£0.92	£0.03	£0.06	£1.01
Private Office & Secretariats	£0.08	£0.00	£0.01	£0.09
Corporate Support Unit	£0.29	£0.01	£0.01	£0.32
Total indirect costs	£5.05	£0.17	£0.31	£5.53

2020/21 Staff related indirect costs – Meat

Group	FTE	Meat %	Meat FTE	Indirect cost £m	Industry cost 2020/21 £m	Industry cost 2019/20 £m	Variance £m	Variance %
RDOT (Operations Assurance)	37.5	56.0	21.0	£1.34	£1.22	£1.14	-£0.08	-7%
Field Delivery (Support)	30.4	49.3	15.0	£0.95	£0.86	£0.73	-£0.13	-18%
Finance	18.1	19.9	3.6	£0.14	£0.13	£0.13	£0.00	0%
Procurement	9.5	10.6	1.0	£0.07	£0.06	£0.06	£0.00	0%
IT Service delivery	14.4	17.3	2.5	£0.13	£0.12	£0.11	-£0.01	-11%
Information Management	19.8	10.1	2.0	£0.14	£0.13	£0.12	-£0.01	-9%
HR Support	23.6	4.2	1.0	£0.08	£0.08	£0.07	-£0.01	-8%
Legal	21.1	5.2	1.1	£0.08	£0.08	£0.07	-£0.01	-10%
Internal Audit	8.7	31.2	2.7	£0.19	£0.17	£0.15	-£0.02	-16%
Communications	17.9	0.0	0.0	£0.00	£0.00	£0.00	£0.00	0%
CEO's Office	10.6	9.5	1.0	£0.09	£0.08	£0.07	-£0.01	-17%
Chair & Deputy's Office	9.4	0.0	0.0	£0.00	£0.00	£0.00	£0.00	0%
Corporate Support Unit	31.2	25.0	7.8	£0.32	£0.29	£0.30	£0.01	3%
Subtotal	252.2		58.7	£3.54	£3.23	£2.95	-£0.28	-9%

2020/21 Other Indirect Costs over £100k – Meat

Associated Cost	Full cost £m	Meat %	Indirect cost £m	Industry cost 2020/21 £m	Industry cost 2019/20 £m	Variance £m	Variance %
Field Management and Regulatory Delivery travel	£0.23	41%	£0.10	£0.09	£0.20	£0.11	55%
Sampling and testing costs	£0.79	100%	£0.79	£0.73	£0.63	-£0.10	-14%
Financial IT systems costs	£0.21	8%	£0.02	£0.02	£0.02	£0.00	0%
Legal debt recovery costs	£0.13	0%	£0.00	£0.00	£0.15	£0.15	100%
IT support costs	£1.06	0.27%	£0.29	£0.26	£0.48	£0.22	46%
Software licenses and network costs	£0.70	40%	£0.28	£0.26	£0.13	-£0.13	-100%
Phone costs	£0.41	39%	£0.16	£0.14	£0.17	£0.03	12%
Office accommodation	£3.15	5%	£0.15	£0.14	£0.13	-£0.01	-8%
Medicals and training	£1.10	2%	£0.02	£0.02	£0.03	£0.01	33%
IT support costs for Board meetings	£0.09	0%	£0.00	£0.00	£0.01	£0.01	0%
Depreciation/Amortisation	£1.83	10%	£0.18	£0.16	£0.28	£0.12	43%
Sub Total	£9.71		£1.99	£1.83	£2.22	£0.39	18%
<i>Grand Total</i>			£5.53	£5.05	£5.16		

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HOURS BANDS AND DISCOUNTS

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Hours bands and discount rates for official controls in red and poultry slaughterhouses and game establishments

- On 4 February FSA discussed with industry representatives and agreed the discount bands and rates that would be applicable for 2020/21.
- FSA agreed to Industry Representatives proposal that the hours bands for Game Handling Establishments be set the same as Red Meat Slaughterhouses.
- The net charge FBOs pay will be less due to the discounts which are shown in the following slide.

Discounts and bands 2020/21

Band	Maximum annual hours 2019/20			Maximum annual hours 2020/21			Discount 2019/20	Discount 2020/21
	GHE	PSL	RSL	GHE	PSL	RSL	All	All
1	3	519	162	189	579	189	90%	90%
2	12	1,401	759	801	1,683	801	75%	75%
3	48	3,633	2,328	2,511	3,258	2,511	55%	50%*
4	81	5,400	6,477	6,654	6,030	6,654	33%	30%*
5	306	20,052	14,427	15,321	20,053	15,321	28%	27%*
6	>306	>20,052	>14,427	>15,321	>20,053	>15,321	25%	25%

*discount rates were agreed with industry representatives 3 March 2020