
STOW PROJECT PHASE 2 – SUSTAINABLE FUNDING MODEL PROJECT SCOPE

Report by Bill Stow, Independent Chair – Steering Group on Meat Charging

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1 SUMMARY

1.1 The Board is asked to **note**:

- That the Steering Group on Meat Charging will carry out this project according to the Agency's guiding principle of putting the consumer first.

1.2 The Board is asked to **agree**:

- Phase 2 of the meat charging work should go ahead once Phase 1 (covering meat official controls discount reform) has been brought to a successful conclusion
- The objective of this work should be a Sustainable Funding Model which meets the principles set out in paragraphs 5.4 and 5.5 below
- The scope of the work should encompass the issues set out in paragraph 5.6 below and any other related points that may emerge
- That the Steering Group should focus in a first stage on identifying any quick wins on issues relating to simplification and costs (whilst also undertaking analytical work on issues relating to delivery mechanisms) and provide an interim report to the Board with recommendations to be considered at the January 2017 meeting
- That the FSA Chair will nominate a member or members from the FSA Board to the Steering Group
- To agree the attached draft Terms of Reference (see Annex 2).

2 INTRODUCTION

2.1 At its meeting on 9 September 2015, the FSA Board commissioned the Steering Group on Meat Charging to prepare the scope of a project to define and develop a Sustainable Funding Model for official controls on meat inspection and to report back. (The paper agreed on that occasion is attached at Annex 1 for convenience.) The Steering Group has met three times and has agreed the following report.

2.2 The Steering Group is in favour of moving to a second phase of the charging project once phase 1 on discounts has been brought to a successful conclusion. It considers that there is sufficient common ground on the

principles which should govern a Sustainable Funding Model, and on the issues which will need to be tackled before such a model can be introduced, to offer a good chance of progress. As some of these issues are complex and contentious, it is difficult to say how long this work will take. The Board may wish to commission an interim report from the Steering Group to be considered at the January 2017 Board meeting, on the basis of which it could decide whether the project should continue and give guidance on emerging issues. At this check point it may also be possible for the Steering Group to propose for Board approval any quick wins that have been identified.

3 STRATEGIC AIMS

- 3.1 At its meeting in September 2012 the Board set a strategy¹ for charging. The collaborative and consensual approach, determined by the strategy, to working with industry and adopted under Phase 1 will be continued under Phase 2 as reaffirmed by the Board at its 9 September 2015 meeting (see Annex 1).

4 EVIDENCE

- 4.1 The FSA Analytics team's data analysis will be central to the Stow Phase 2 work.

5 DISCUSSION

- 5.1 It is helpful to address the question of a Sustainable Funding Model (SFM) in three parts:
- a) The Task (what has to be done?)
 - b) Who does it?
 - c) How is it funded?
- 5.2 The "Task" itself is the least easy for the Steering Group to tackle as so much of it is laid down in EU regulations. The Steering Group is aware that the FSA is reviewing its interpretation of the existing regulations in the light of international comparisons and also piloting and capturing evidence to support permanent changes in EU law. Despite this, modernisation of the underlying system of official controls and meat inspection to make them more flexible and fit for purpose – an objective shared by FSA and industry – is unlikely to occur in any significant way in the lifetime of this project. The Steering Group has agreed that this should not delay work on a Sustainable Funding Model. The Steering Group will continue to monitor EU and international developments, learn more about how other member states implement the current regulatory framework and consider the potential of advances in technology. There may

¹ Strategy on Charging for Meat Official Controls
<http://tna.europarchive.org/20121014024145/http://www.food.gov.uk/multimedia/pdfs/board/fsa120904.pdf>

also be scope for learning from how other regulatory functions are funded in the UK.

- 5.3 The Group's discussion has therefore focused on "Who does it?" and "How is it funded?" These are strongly interconnected and boil down to the fundamental questions of whether the costs of the current system can be reduced, and whether this can result in less dependence on the tax payer and at the same time provide value for money controls for all sectors of industry.

Principles

- 5.4 The Group agreed on the following general principles which should guide any future work. A Sustainable Funding Model would:

- Be transparent, easy to understand and therefore easy to administer for FBOs and the FSA
- Be flexible and encourage innovation
- Be fair and equitable
- Incentivise efficiency and provide good value for money
- Not assume that one size fits all

- 5.5 Other principles were also suggested which would be more controversial until details are worked out. According to these any Sustainable Funding Model should:

- Be funded by industry and meat consumers rather than government and taxpayers
- Allow differential treatment between FBOs particularly to protect smaller businesses
- Involve charges that reflect the level of compliance
- Involve official controls which provide value for money and reflect actual costs in individual businesses
- Maintain the independence of the delivery of official controls

Issues

- 5.6 To meet these principles the Steering Group will need to tackle a range of issues. The following list comprises the ones that have been raised so far but is unlikely to be exhaustive. It is not intended to imply any particular answers to the questions covered. These will be evaluated during the project.

Who does it?

- What scope is there for an alternative delivery model within the existing EU regulatory framework and UK employment law?
- How might the official control tasks be best delivered?
- What would value for money look like?

How is it funded?

- What costs should be included in charges?
- What costs can most easily be reduced and how?
- What provision might be made for small and micro businesses?
- How should non-mandatory chargeable services, e.g. export certification, be dealt with?
- Should there be separate arrangements for poultry and red meat?
- Should discounts ultimately disappear?
- What link might be made between charging and compliance?

5.7 Of these, the 'Who' questions are likely to be the most difficult. The Steering Group might therefore commission more analytical work on these whilst also examining the scope for some quick wins on transparency and costs.

6 CONSULTATION

6.1 Proposals developed under Phase 2 would require consultation but the required extent of this would be dependent on the nature of the proposals and their impact.

7 LEGAL/RESOURCE/RISK/SUSTAINABILITY IMPLICATIONS

7.1 Embarking on Phase 2 of the Stow Project before Phase 1 has been delivered would be a risk for the FSA. If Phase 1 cannot be implemented the overall strategy around meat official controls charging should be brought back to the Board for re-evaluation.

8 DEVOLUTION IMPLICATIONS

8.1 The devolution implications of the creation of Food Standards Scotland and the potential impact on the Stow Project were outlined in the September 2015 Board paper (see Annex 1).

8.2 The Steering Group involves stakeholders from all four countries of the UK and the FSA will seek to continue their engagement in the process. It will be for stakeholders to determine how involved they wish to be in the process.

9 CONCLUSION AND RECOMMENDATIONS

9.1 The Board is asked to **note**:

- That the Steering Group on Meat Charging will carry out this project according to the Agency's guiding principle of putting the consumer first.

9.2 The Board is asked to **agree**:

- Phase 2 of the meat charging work should go ahead once Phase 1 (covering meat official controls discount reform) has been brought to a successful conclusion
- The objective of this work should be a Sustainable Funding Model which meets the principles set out in paragraphs 5.4 and 5.5 above
- The scope of the work should encompass the issues set out in paragraph 5.6 above and any other related points that may emerge
- That the Steering Group should focus in a first stage on identifying any quick wins on issues relating to simplification and costs (whilst also undertaking analytical work on issues relating to delivery mechanisms) and provide an interim report to the Board with recommendations to be considered at the January 2017 meeting
- That the FSA Chair will nominate a member or members from the FSA Board to the Steering Group
- To agree the attached draft Terms of Reference (see Annex 2).

Annex 1

STOW PROJECT – PHASE 2

September 2015 Board paper (FSA 15/09/05) attached separately

Annex 2

Terms of Reference for Phase 2 of the Steering Group on Meat Charging

1. Purpose

- 1.1 The purpose of this Phase of the Steering Group's work is for the FSA and all stakeholders to work collaboratively to define and develop a Sustainable Funding Model for official controls on meat inspection which is in accordance with the Agency's guiding principle of putting the consumer first; is transparent and easy to understand and administer for FBOs and FSA; is flexible and encourages innovation; is fair and equitable; which incentivises efficiency and provides good value for money; and which allows for differential treatment where justified, avoiding any assumption that one size fits all.

2. Scope

- 2.1 The Group has discretion to pursue any issues relating directly to its purpose of defining and developing a Sustainable Funding Model. These are expected to include questions relating both to delivery and funding mechanisms. In a first stage the Steering Group is asked particularly to consider issues relating to simplification and costs. The Steering Group should report on progress to the FSA Board no later than its January 2017 meeting, with recommendations for any quick wins on simplification and costs or other issues on which the Steering Group has been able to make significant progress. The Board will at that time decide whether further work should continue and agree any necessary changes to these Terms of Reference.

3. Accountability

- 3.1 The FSA Chief Operating Officer, as the Senior Responsible Officer, has overall responsibility to deliver proposals that will be acceptable to the whole of industry, supported by an independent chair, to ensure that there is independent oversight in the development of any proposals. An FSA Board member will attend meetings and report back to the FSA Board.

4. Membership

- 4.1 The independent Chair will preside at meetings of the Group, with the following members:

Bill Stow	-	Independent Chair
Chris Dodds	-	Livestock Auctioneers Association
Peter Hewson	-	Association of Independent Meat Suppliers
Stephen Rossides	-	British Meat Processors Association
Elliott Bell	-	Ulster Farmers Union
Ian Anderson	-	Scottish Association of Meat Wholesalers

Mike Bailey	-	National Farmers Union
Phil Hadley	-	Agriculture & Horticulture Development Board
Richard Stevenson	-	National Federation of Meat & Food Traders
Richard Griffiths	-	British Poultry Council
Deirdre McIvor	-	Ulster Farmers Union
Conall Donnelly	-	Northern Ireland Meat Exporters Association
Paul Bell	-	Unison
Joanne Briggs	-	National Sheep Association
Elizabeth Andoh-Kesson	-	British Retail Consortium
Chris Sturman	-	The Food Storage & Distribution Federation
Zoe Davies	-	National Pig Industry
Tim Farrar	-	Morrisons
Richard Collier	-	Food Standards Agency
Jeff Halliwell	-	Food Standards Agency Board member
Jason Feeney	-	Food Standards Agency
Martin Evans	-	Food Standards Agency
Niall Perera	-	Food Standards Agency
Nicholas Daniel	-	Food Standards Agency
Stephen Crookes	-	Food Standards Agency (secretariat)

4.2 The Steering Group will have a principle of one representative attending from each member organisation. The named representatives listed in 4.1 above will be attendees at Steering Group meetings. Substitutes may attend at the discretion of the Chair. Additional members of the Steering Group may be appointed at the discretion of the Chair. The Secretariat will be provided by Stephen Crookes.

5. Frequency of Meetings and Ways of Working

5.1 The Steering Group will decide on meeting frequency and may convene Sub-Groups on a proposal from the Chair. It will draw up Ground Rules for behaviour.

ANNEX 1

STOW PROJECT – PHASE 2

Report by Jason Feeney, Chief Operating Officer

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1 SUMMARY

1.1 The Board is asked to **note**:

- The outcome of the consultation process on discount reform
- The importance of discount reform, as outlined in the National Audit Office Efficiency Review of the FSA's delivery of official controls, which stated that reform is key to driving further efficiency in official control delivery

The Board is asked to **agree**:

- To reaffirm their commitment to the principles of the strategy for meat charging originally agreed in September 2012
- To the continuation of the Stow work with Phase 2 focused on developing a sustainable funding model for meat official controls
- To commission the Steering Group to develop a scope for the Phase 2 work to be reported back to the Board for agreement
- That a Board Member be nominated by the Chair to participate in the Group, as Jeff Halliwell did in Phase 1
- That a final decision on the approach to Phase 2 be taken in light of the outcome of the Regulatory Policy Committee (RPC) and Reducing Regulation Committee (RRC) decisions on Phase 1

2 INTRODUCTION

2.1 Under Phase 1 of the Stow work the Steering Group on Meat Charging took forward proposals for the reform of the system of discounts on meat official control charges. The Steering Group is comprised of meat industry stakeholders with Bill Stow as its independent chair. It is supported and

facilitated by FSA staff. The Board last discussed the work of the Steering Group at the September 2014 meeting¹.

- 2.2 The Board agreed that a public consultation should be launched on the proposals for discount reform developed by the Steering Group. This took place from 9 March to 15 June 2015.
- 2.3 As might be expected with proposals which would lead to some Food Business Operators (FBOs) being charged more and some charged less the responses to the consultation were mixed. The consultation responses have been collated and the FSA's responses are being prepared. This information is being used to update the Impact Assessment prior to it being submitted to the Government's RPC for an opinion. Subject to the necessary clearance by RPC the proposals will be submitted to the Government's RRC. These stages are key in how or whether the proposals can be implemented.
- 2.4 The Board expressed a desire to build on the collaborative work between the industry Steering Group and the FSA and take this forward in a further phase. Bill Stow has agreed to chair Phase 2.

3 STRATEGIC AIMS

- 3.1 At its meeting in September 2012 the Board set a strategy² for charging. The Board agreed that:
- The FSA's priority in relation to charging policy is to protect the interests of consumers.
 - That the FSA should pursue a more collaborative approach with stakeholders interested in these issues, working in partnership to deliver shared outcomes.
 - That priority should be given to building a more consensual approach to progressing three issues:
 - A review of the current discount system making recommendations on how to reform the system to address anomalies.
 - Joint working to identify further ways to reduce costs while continuing to deliver effective consumer protection, building on the outcomes of an efficiency review.
 - Exploring with stakeholders the options for alternative delivery models, including through the use of a control body.
- 3.2 In line with this strategy Phase 1 focused heavily on a much more collaborative and consensual approach to working with industry. This worked

¹ Steering Group on Meat Charging: Meat Official Controls Discount Reform
<http://www.food.gov.uk/sites/default/files/fsa140907.pdf>

² Strategy on Charging for Meat Official Controls
<http://tna.europarchive.org/20121014024145/http://www.food.gov.uk/multimedia/pdfs/board/fsa120904.pdf>

well during the period that the Steering Group was developing proposals for a reformed system of discounts from August 2013 to February 2015. Industry and FSA staff worked together to produce proposals that are practical and move the charging system closer to a sustainable model. It is recommended that the strategy outlined above should continue to be built upon in Phase 2.

4 EVIDENCE

- 4.1 During Stow Phase 1 the FSA Analytics team produced robust data and analysis to assess options that was praised by industry. The Analytics team will be central to the work under Phase 2.

5 DISCUSSION

- 5.1 Under Phase 1 the Board set the Steering Group a clearly defined objective and remit to develop proposals for a reformed system of discounts on meat official control charges to align incentives and drive efficiencies for taxpayers and industry alike. Moving to Phase 2 is an opportunity to assess how effectively the process worked under Phase 1 and use this experience to help determine any changes that should be made.
- 5.2 The Steering Group had a range of meat industry stakeholders as members and most attended all or a very high proportion of meetings and remained fully engaged with the Group to the completion of the process to date. The report Bill Stow presented to the Board in September 2014 was a report from the Steering Group of industry proposals and the questions used in the consultation were jointly prepared and agreed by the Steering Group and FSA staff.
- 5.3 Having highlighted all of these positive points it has to be noted that the industry response to the consultation was not as positive as the FSA would have hoped given that the proposals consulted upon were developed by industry representatives. However, in a situation where there would be winners and losers this is understandable. The proposals will now be subject to the Government's regulatory process which will determine the final outcome.
- 5.4 It should be noted that the Steering Group is very resource intensive for the FSA, as well as for industry participants. The rationale for the investment of scarce resource (particularly from the finance and analytics teams) is that proposals will be more soundly based, more broadly supported, and more likely to successfully pass through the RPC / RRC process such that they can be successfully implemented. Should the Phase 1 proposals be insufficiently well supported by industry to successfully negotiate the RPC / RRC process then the Board will need to consider whether the investment of further significant resource in Phase 2 is justifiable. It is therefore proposed that the outcome of Phase 1 is considered by the Board at the point that final approval to proceed with Phase 2 is decided upon.

- 5.5 Under Phase 2 the Board could follow one of the options outlined below:
- Option A – set an overarching scope for the Steering Group within which it should work to develop proposals on a particular issue to report back to the Board with recommendations.
 - Option B – allow the Steering Group to determine any issues it wishes to explore and then assess options and report back to the Board with recommendations.
 - Option C – note the progress to date on Stow Phase 1 but defer any decision on progressing to Stow Phase 2 until the outcome of Phase 1 is known.
- 5.6 Option A is recommended because it would follow the approach in Stow Phase 1 which addressed discount reform. The project was successful in establishing a mechanism that was able to take proposals from industry representatives, subject these to detailed analysis and appraisal and, for those chosen by the Steering Group, present proposals to the Board.
- 5.7 It is proposed that the focus of Phase 2 should be on developing a sustainable future funding model for meat official controls that delivers against industry and FSA aspirations.
- 5.8 The term sustainable funding model has been deliberately chosen instead of full cost recovery because it better reflects the need to consider all aspects of delivery, rather than suggesting that the sole objective is to transfer the costs of the existing model, unchanged, to industry. There were projects that concluded in 2009 and 2012 which were aimed at delivering a move to full cost charging with a comparatively small residual level of support for industry. While the 2009 project delivered part of its objectives, with a move back to time based charging, the project in 2012 failed to deliver any of its objectives. Therefore, it is proposed that the Steering Group should start from a blank page for this issue and evaluate funding mechanisms from a 360° viewpoint; consumer, taxpayer, industry and Government.
- 5.9 It is also recommended that Phase 2 considers how industry stakeholders can aid the FSA in the delivery of Steering Group proposals. This work should seek to address the issue of an agreed position being determined among industry stakeholders, on proposals they had developed, but many of the responses to the consultation diverging from the consensus of the Steering Group. While it would be highly unlikely that there would ever be a complete uniformity of views it would be a worthwhile area for the Steering Group to explore how to improve the alignment of views.
- 5.10 It is recommended that the Steering Group is commissioned to develop a scope for the Phase 2 work based on the broad principles in this paper and then this is reported back to the Board for consideration before the Steering Group takes the work further.

6 CONSULTATION

- 6.1 Proposals developed under Phase 2 would require consultation but the required extent of this would be dependent on the nature of the proposals.

7 LEGAL/RESOURCE/RISK/SUSTAINABILITY IMPLICATIONS

- 7.1 Embarking on Phase 2 of the Stow Project before Phase 1 has delivered is a risk for the FSA. With our limited resources we could be allocating scarce specialist staff to work that is not going to deliver a benefit to the consumer, the taxpayer and the greater good of the industry overall. This is why it is recommended that if Phase 1 cannot be implemented the overall strategy around meat official controls charging should be brought back to the Board for re-evaluation.

8 DEVOLUTION IMPLICATIONS

- 8.1 Under the charging arrangements introduced in 2009 there was one overarching system of charging and discounting for official controls that applied across all of the UK. This was administered separately for GB and Northern Ireland. With the creation of Food Standards Scotland (FSS) a third more divergent dynamic has been introduced because FSS now discounts and charges for official controls in a quite different way to the rest of the UK. FSS has different hourly rates, a different discount system based on throughput and transitional relief funded by the Scottish Government.
- 8.2 At present there is very little difference in the hourly rates for Scotland compared with the rest of GB but, if this were to change and there were significant differences, it could result in challenges, from industry either within Scotland or the rest of the UK, to either system.
- 8.3 The Steering Group includes stakeholders from all four UK countries and the FSA will seek to continue their engagement in the process. It will be for stakeholders to determine how involved they wish to be in the process.

9 CONSUMER ENGAGEMENT

- 9.1 Under Phase 1 consumers have not been directly involved in the work of the Steering Group but it has been an explicit principle of the project that nothing will be taken forward that is detrimental to the interests of consumers. This is in line with the Board strategy for charging related issues which was agreed in September 2012 and will continue to be followed under Phase 2.

10 CONCLUSION AND RECOMMENDATIONS

- 10.1 The Board is asked to **note**:
- The outcome of the consultation process on discount reform

- The importance of discount reform, as outlined in the National Audit Office Efficiency Review of the FSA's delivery of official controls, which stated that reform is key to driving further efficiency in official control delivery

The Board is asked to **agree**:

- To reaffirm their commitment to the principles of the strategy for meat charging originally agreed in September 2012
- To the continuation of the Stow work with Phase 2 focused on developing a sustainable funding model for meat official controls
- To commission the Steering Group to develop a scope for the Phase 2 work to be reported back to the Board for agreement
- That a Board Member be nominated by the Chair to participate in the Group, as Jeff Halliwell did in Phase 1
- That a final decision on the approach to Phase 2 be taken in light of the outcome of the RPC and RRC decisions on Phase 1