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England & Wales - Cost data presentation 2018/19

- 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 2018/19.
- 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 compliance with EU & GB charging rules.
- To confirm hourly rate has been validated by independent external audit.
- All figures are budgeted costs, including previous years where stated

The annual process

October	The FSA budget for direct and indirect costs and hours for the following financial year are calculated.
November	Meat related costs are identified and based on the budget the hourly rates are calculated.
December	FSA legal confirm meat costs are consistent with EC882/2004.
January/February	The calculations for hourly rates are externally audited.
26 March 2018	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 by Finance based on data from all FSA groups 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 FSA Legal Director.
- The calculations are audited by external auditors.

Official control hourly rates

- Reduction in OV rates is driven by the increase in chargeable hours of 2% = -£0.64; direct costs increasing by 3% = +£0.96; offset by indirect costs decreasing by 12% = -£0.42 net effect = -£0.10.
- Reduction in MHI rates is driven by the decrease in chargeable hours of 7.5% = +£2.06; direct costs decreasing by 8% = -£2.24; indirect costs decreasing by 12% = -£-0.42 net effect = -£0.60.
- As 18/19 is a 53 week year fixed costs have been allocated over 1.9% higher hours, adding to the rate reduction. 19/20 this effect will reverse.

Grade	2017/18 rate	2018/19 rate	Change	% difference
OV Normal	£39.10	£39.00	-£0.10	-0.3
MHI Normal	£31.00	£30.40	-£0.60	-1.9

Industry official controls hourly rates 2018/19

	Budgeted OV costs	Budgeted MHI costs	2018/19 Total budget	2017/18 Total budget	Variance on 2017/18
Direct Costs	£13.72m	£23.27m	£36.99m	£38.08m	-2.9%
Indirect Costs	£1.74m	£3.92m	£5.66m	£6.45m	-12.2%
Total Costs	£15.46m	£27.19m	£42.65m	£44.53m	-4.2%
Industry chargeable hours (plussed up)*	396,283	893,234	1,289,517	1,347,323	-4.3%
Charge rate before discount	£39.00	£30.40			

* Hours shown are all I and H hours budgeted. Calculations for rates are made over all chargeable hours which reduces the indirect costs per hour compared with if only “I” and “H” hours were used

Industry meat costs

Budget in £m	2016/17 budget restated to align with 2017/18 structure	2017/18 budget	2018/19 budget
<u>Direct Costs</u>			
Employed staff costs	£19.60	£17.85	£16.32
Contractor costs	£18.24	£18.95	£19.22
Laundry/equipment costs	£0.61	£0.42	£0.62
Frontline travel costs	£0.79	£0.85	£0.83
Total direct costs	£39.23	£38.08	£36.99
<u>Indirect Costs</u>			
Operations support	£3.07	£2.89	£2.73
Finance & Performance	£1.43	£0.97	£0.69
Human Resources	£0.46	£0.36	£0.21
Depreciation / Amortisation	£0.25	£0.21	£0.23
Regulatory and Legal Strategy	£0.28	£0.24	£0.24
Operations IT	£1.98	£1.49	£1.27
Private Offices & Secretariats	£0.09	£0.08	£0.08
Corporate Support unit	£0.21	£0.21	£0.21
Total indirect costs	£7.77	£6.45	£5.66
Grand total meat costs	£47.00	£44.53	£42.65

Comparisons of 2018/19 to 2017/18 – Direct costs

Direct costs have decreased by £0.8m (2%)

- Employed Staff costs have decreased by £1.3m due to reduction in staff numbers £0.9m and reduced overtime expenditure of £0.4m. Contract costs have increased by £0.3m because of increased OV hours (£0.4m); partially offset by a saving on MHI hours £0.1m.
- Other budgeted direct costs for frontline staff have increased by (£0.2m).

Comparisons of 2018/19 to 2017/18 – Indirect costs

Indirect costs have decreased by £1.1m (17%)

- Operations support costs have decreased by £0.1m due to efficiency measures taken.
- Finance and Performance costs have decreased by £0.3m due to cost savings for meat related activity.
- Operations IT costs have decreased by £0.3m due to efficiency savings in re-contracting IT services.
- HR support costs have decreased by £0.2m due to efficiency measures.
- Other costs have decreased by £0.2m.

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;
- Cost of moving and reorganising our office space and the ways we work;
- Preparatory work for exiting the EU.
- Work on the Regulating Our Future programme.



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REVIEW AND CONCLUSION

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Review of calculation

The costs that the meat industry is charged under (Annex VI (EC) 882/2004) are:

- the salaries of the staff involved in the official controls;
- the costs for the staff involved in the official controls, including facilities, tools, equipment, training, travel and associated costs;
- the laboratory analysis and sampling costs.

Review of calculation

“Our overall assessment is that the controls used by the FSA for both models are designed appropriately. We conclude that the controls are operating effectively in mitigating the risk of misstatement.”

Mazars (Audit Report February 2018)

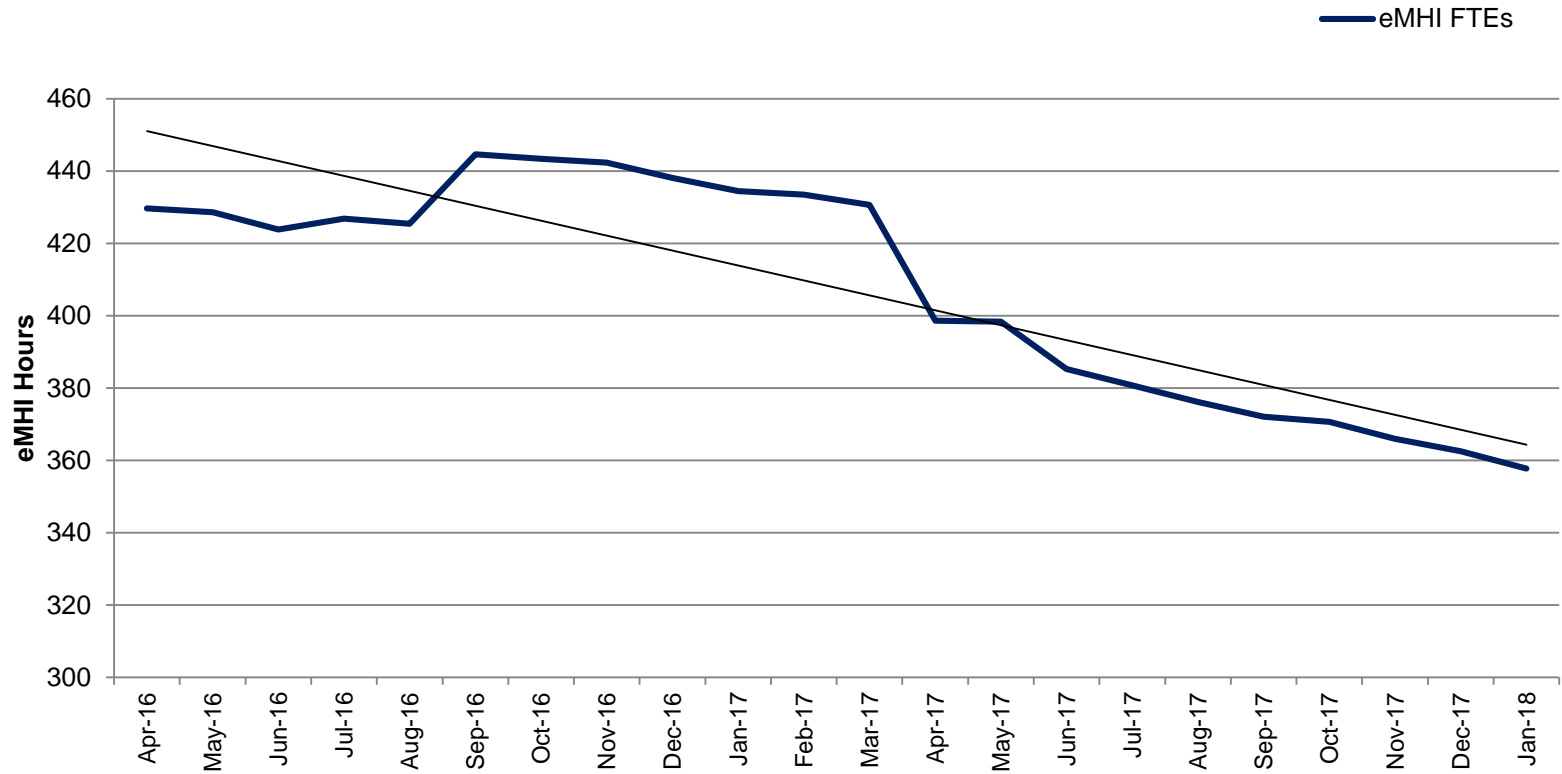
Operational change

- Regulating our Future (ROF) Meat strand - we have developed an overarching model encompassing all aspects of Official Control delivery in approved meat establishments – including the audit function. This provides a starting point against which ROF principles, can be applied to develop an interim and longer-term target operating model to describe the longer-term strategy for operational delivery.
- Review of Operational Policy on approvals – FSA has commissioned an external review of the policy and procedures relating to the approval of meat establishments. The FSA is committed to implementing the agreed recommendations during 2018/19.
- Animal Welfare – as part of its Animal Welfare Assurance Plan, the FSA will support and assure the introduction of mandatory installation of CCTV in slaughterhouses which will be legislated by Defra in May 2018.

Future developments

- The FSA is committed to effective controls which would best protect the consumer and that are as efficient as possible.
- In response to several incidents in cutting plants the FSA has announced a review of cutting plants and cold stores, which will be conducted in the first quarter of 2018/19 with recommendations to be implemented thereafter.
- Work with industry to encourage the take up of CCTV in cutting premises.
- As part of FSA's data strategy, we will undertake a pilot with industry to test a more effective and integrated way of capturing and reporting carcass condition information.

Employed Meat Hygiene Inspectors

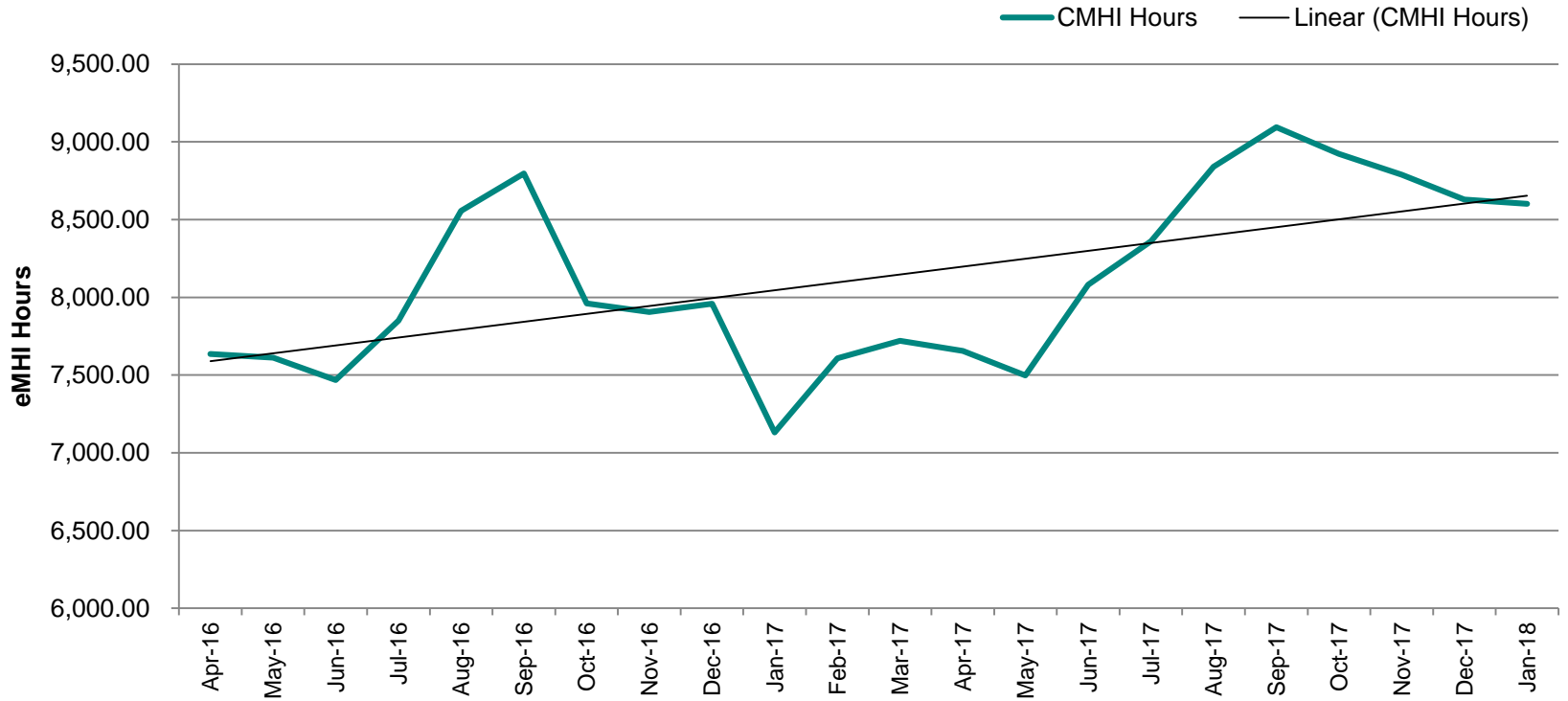


From April 17 Employed MHI usage falls as staff leaving are not replaced

Turnover of 2.0 FTEs per month

[Source: Rolling Forecast Headcount report]

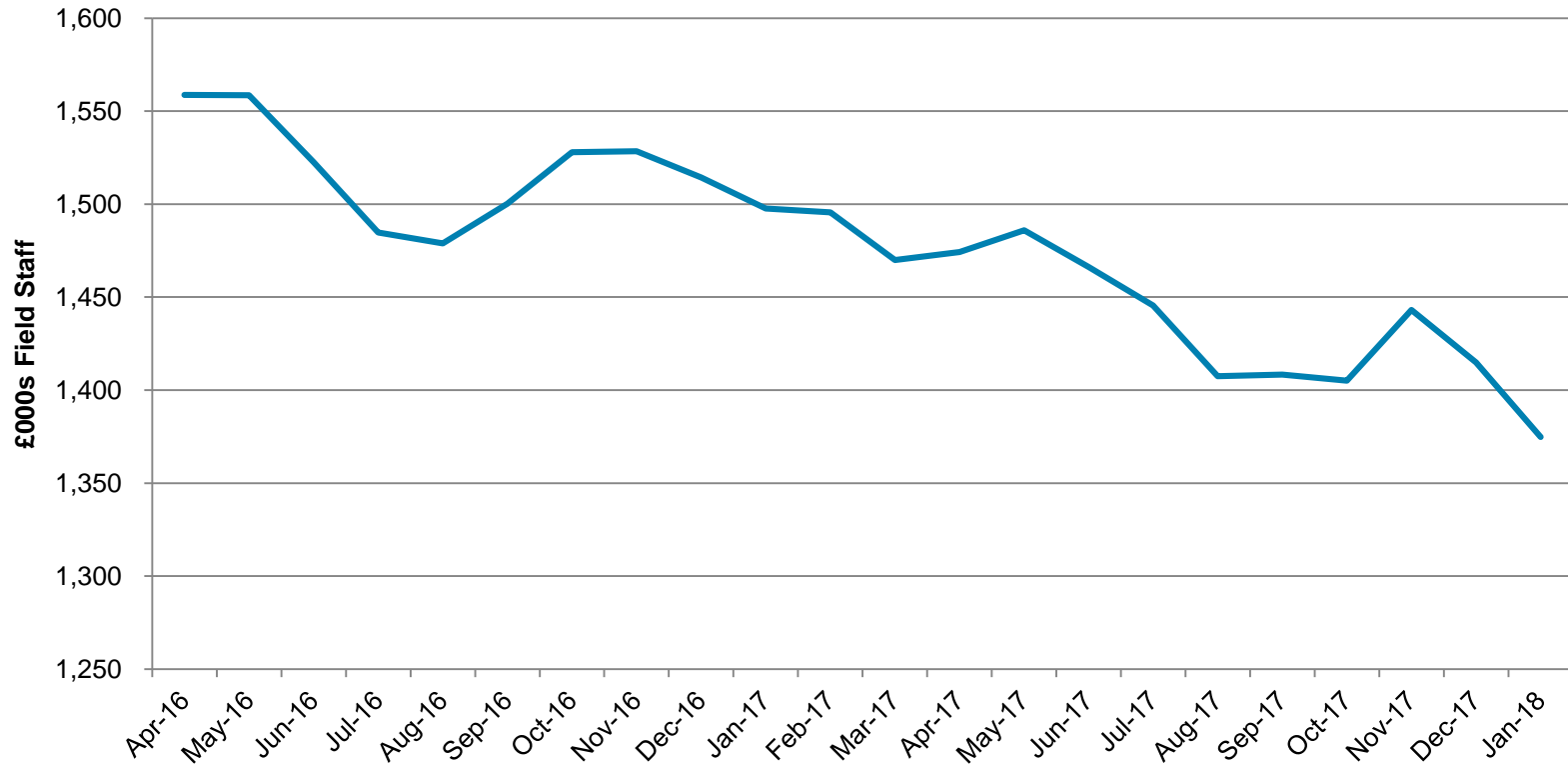
Contract Meat Hygiene Inspectors



From May 17 use of Contract MHIs increases backfilling the reduction in employed MHIs

[Source: Rolling forecast – chargeable hours]

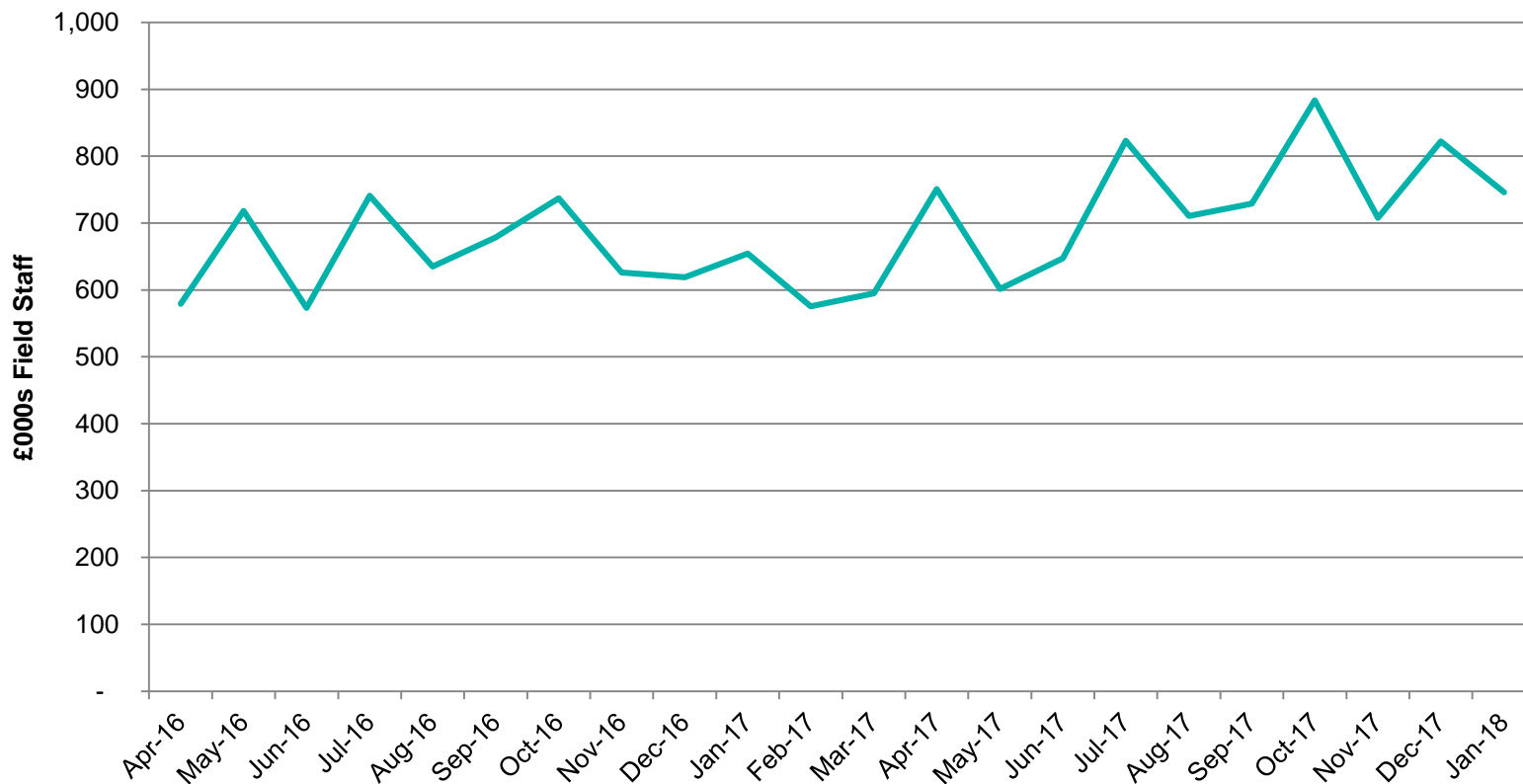
Field Based Staff monthly salaries



Field Based Staff Salaries reduced from £1.55m to £1.38m per month

[Source: Rolling forecast – Operating Costs]

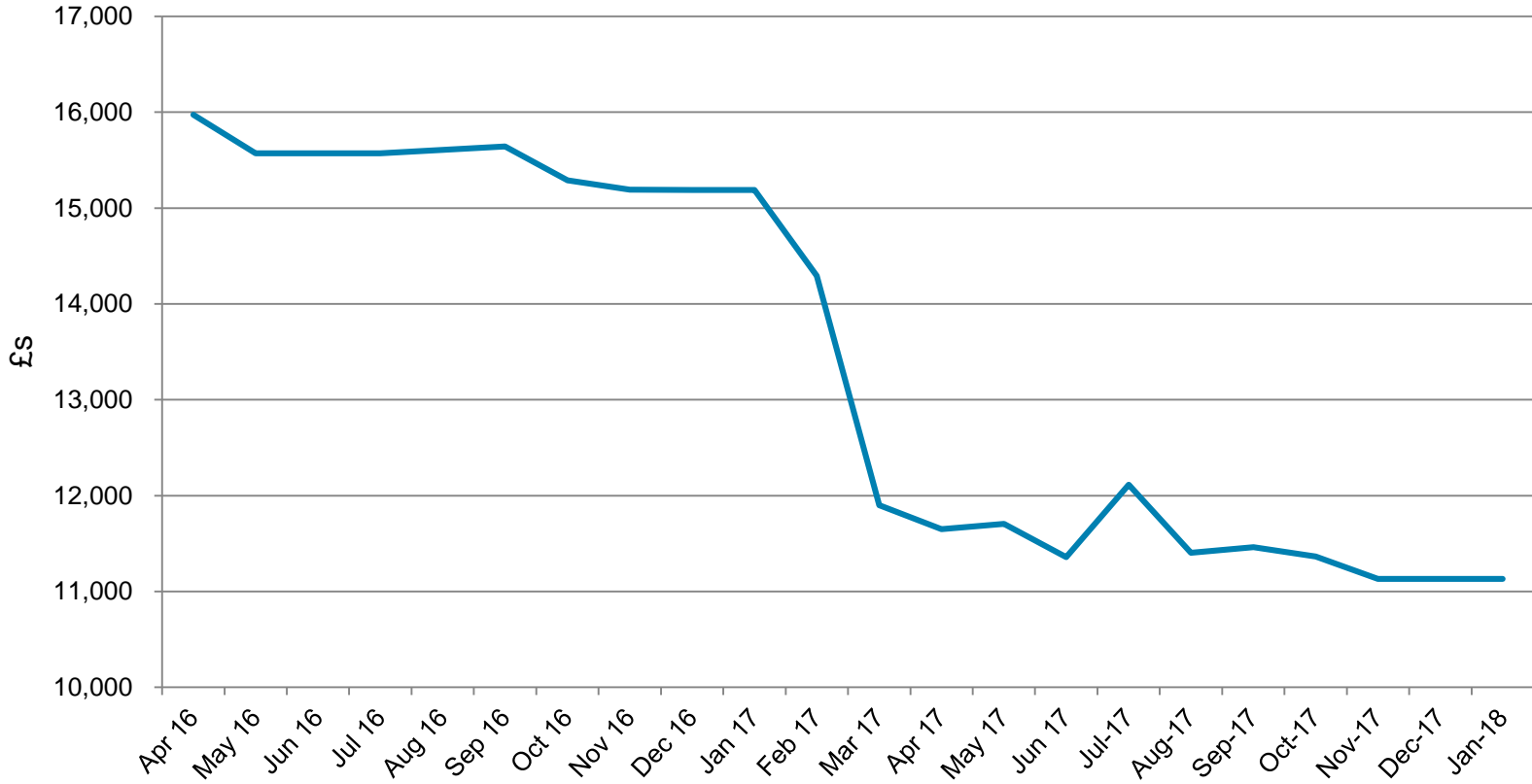
Cost of Contract Meat Inspectors



Cost of CMHIs increase to cover peak seasonal period

[Source: Rolling forecast – Operating Costs]

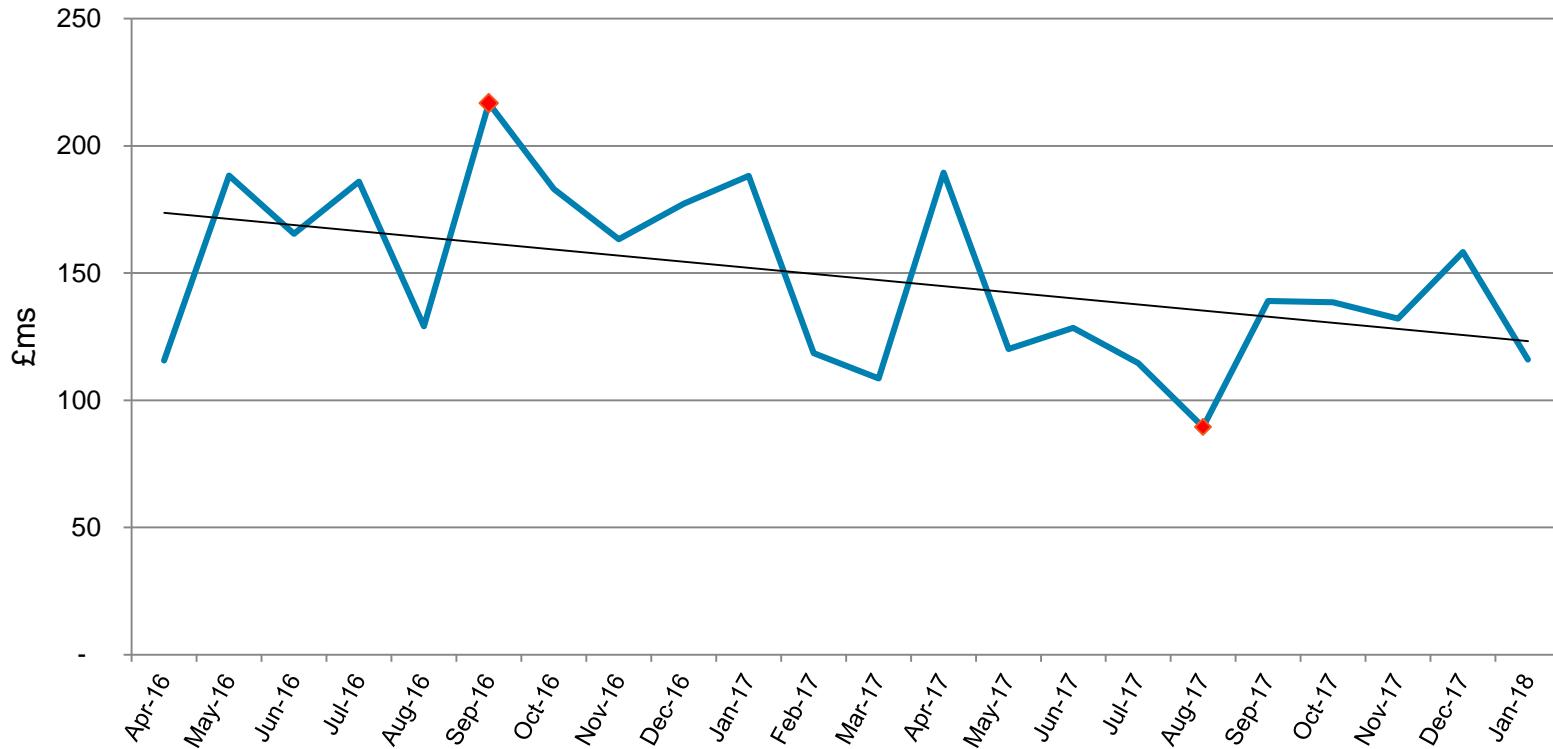
Shift Allowance



Contractual Allowances reduced from £16k per month to £11k – due to rationalization of allowances and better use of staff resources

[Source: iTrent]

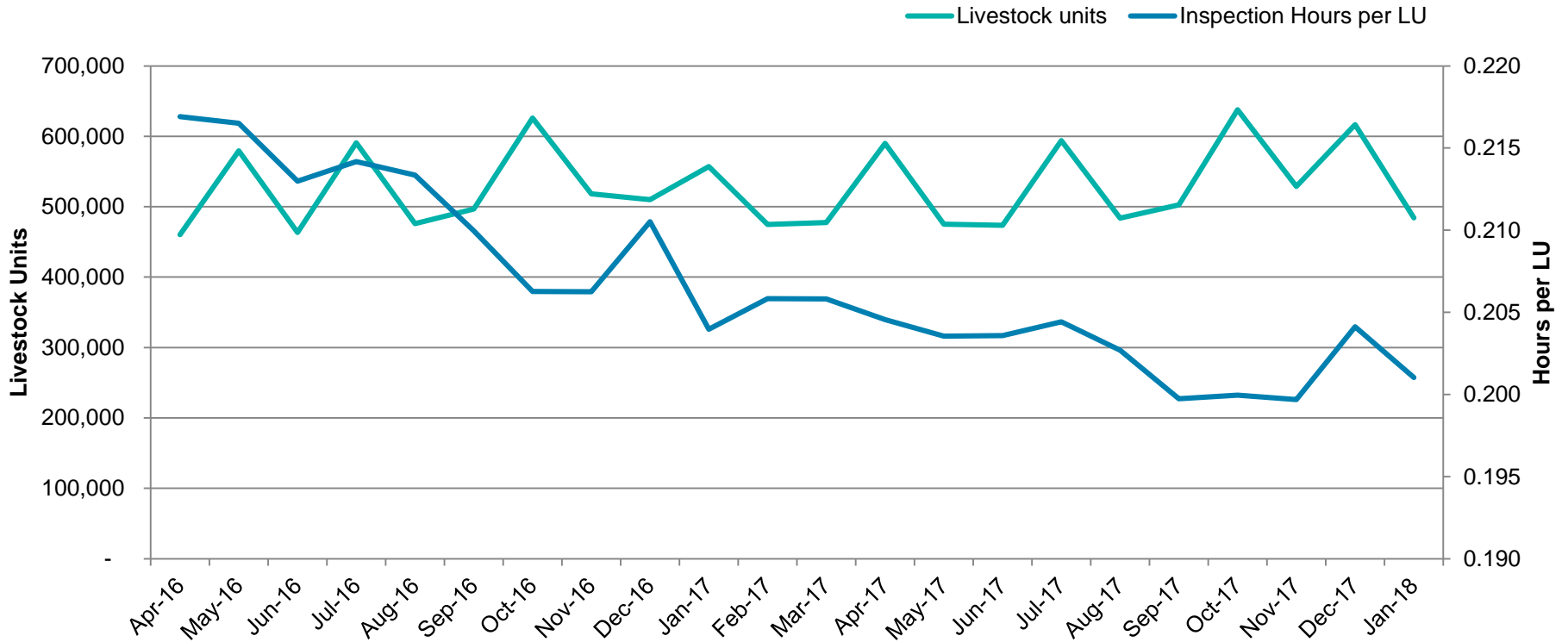
Field Based Staff Overtime Costs



Field Based Staff Overtime reduced by 39% from Oct 16 to Aug 17 with a much reduced seasonal peak in Nov and Dec 17 compared to the same period the previous year

[Source: Rolling forecast – Operating Costs]

Livestock Units vs Inspection Hours



Inspection Hours per Livestock Unit continues to fall despite LUs remaining constant – this shows an increase in productivity

Conclusion

- Hourly charge rates to industry have decreased.
- Chargeable hours have decreased.
- Operations has delivered savings in costs e.g. reduction of overtime and shift allowances.
- Further decreases in hours are expected to reduce the overall costs to industry.

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CHARGEABLE ALLOWANCES

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Standard allowances

Allowance code	Allowance narrative	2018/19 charge before discount	2018/19 discount	2017/18 charge before discount
CASL	Casualty slaughter call-out	£25.15	50%	£25.20
COVA	Sunday working as part of normal week	£62.85	50%	£70.65
HTIM	Half time contractual overtime for Saturday working as part of normal week	£81.70	50%	£75.70
NGHT	Night shift	£61.15	50%	£25.20
SHFT/UNSO	Shift working	£25.65	50%	£29.65
UNSH/UNSP	Unsocial hours	£13.70	50%	£10.20

Explanation of movement in allowance rates

- The allowances are calculated based on the 'MHI direct' cost per hour
- With the introduction of Stow charging from 2016/17 a new methodology was adopted for allowance charging.
- 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.
- After two years of Stow charging the methodology for the calculation of allowance rates has been thoroughly reviewed and improved. This has led to movements up and down in the charge rates for 2018/19.
- The most significant change for 2018/19 is the increase in the Night Shift rate from £25.20 to £61.15 per shift.
- The review for 2018/19 identified that the Night Shift allowance has been undercharged for the last two years. In line with FSA charging policy this change is only being applied prospectively.

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INDIRECT COST DETAIL

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Indirect cost outputs

Operations Support covers

- Operational Assurance – meat premises approvals, business and tactical support for frontline operations (instructions, guidance, training, reporting), SLA and contract management.
- Field Support – providing core 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.
- Accommodation of the support.

Organisational Development (HR) covers

- Human Resources support.

Indirect cost outputs

Regulatory and Legal Strategy support covers

- Legal Branch – legal input on meat related issue.
- 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, visits to meat plants, 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 request 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	90.6%	3.0%	6.4%	100.0%
Operations support	£2.73	£0.09	£0.19	£3.01
<i>Sub total</i>	<i>£2.73</i>	<i>£0.09</i>	<i>£0.19</i>	<i>£3.01</i>
Finance & Performance	£0.69	£0.02	£0.04	£0.75
Human Resources	£0.21	£0.01	£0.02	£0.24
Depreciation / amortisation	£0.23	£0.01	£0.02	£0.26
Regulatory and Legal Strategy	£0.24	£0.01	£0.02	£0.27
Operations IT	£1.27	£0.04	£0.09	£1.40
Private Offices & Secretariats	£0.08	£0.00	£0.01	£0.09
Corporate Support Unit	£0.21	£0.01	£0.01	£0.23
Total indirect costs	£5.66	£0.19	£0.40	£6.25

2018/19 Staff related indirect costs - Meat

Group	FTE	Meat %	Meat FTE	Indirect cost £m	Industry cost 2018/19 £m	Industry cost 2017/18 £m	Variance £m	Variance %
Operations Assurance	24.4	82.8	20.2	£1.33	£1.20	£1.00	-£0.20	-20.50%
Field Delivery (Support)	17.6	59.1	10.4	£0.81	£0.75	£0.89	£0.14	15.30%
Finance	29.8	15.4	4.6	£0.28	£0.25	£0.23	-£0.02	-10.30%
Procurement	7.4	13.4	1.0	£0.08	£0.07	£0.06	-£0.01	-20.80%
IT Service delivery	24.6	10.2	2.5	£0.11	£0.10	£0.13	£0.03	23.34%
Information Management	19.8	10.1	2.0	£0.12	£0.11	£0.10	-£0.01	-10.53%
HR Relations, Systems and Data	0.0	0.0	0.0	£0.00	£0.00	£0.18	£0.18	100.00%
HR Org Development	24.5	4.1	1.0	£0.07	£0.06	£0.24	£0.18	73.58%
Legal	23.0	4.8	1.1	£0.07	£0.07	£0.08	£0.01	17.33%
Internal Audit	7.1	39.4	2.8	£0.19	£0.17	£0.17	-£0.00	-1.26%
Communications	23.4	0.0	0.0	£0.00	£0.00	£0.00	£0.00	0.00%
CEO's Office	10.2	9.8	1.0	£0.08	£0.07	£0.07	-£0.00	0.00%
Chair & Deputy's Office	10.0	0.0	0.0	£0.00	£0.00	£0.00	£0.00	0.00%
Corporate Support Unit	35.0	17.0	6.0	£0.23	£0.21	£0.21	£0.00	0.77%
Subtotal	256.8		52.6	£3.38	£3.06	£3.36	£0.30	8.93%

2018/19 Other Indirect Costs over £100k - Meat

Associated Cost	Full cost £m	Meat %	Indirect cost £m	Industry cost 2018/19 £m	Industry cost 2017/18 £m	Variance £m	Variance %
Field Management and Operations Assurance travel	£0.15	41.1	£0.06	£0.06	£0.09	£0.03	38%
Sampling and testing costs	£0.80	100	£0.80	£0.72	£0.83	£0.11	13%
Financial IT systems costs	£0.27	9.7	£0.03	£0.03	£0.14	£0.11	81%
Legal debt recovery costs	£0.13	100	£0.13	£0.12	£0.13	£0.01	9%
IT support costs	£2.85	28.8	£0.82	£0.74	£0.90	£0.16	17%
Software licenses and network	£0.53	32.7	£0.17	£0.16	£0.27	£0.11	42%
Mobile phone costs	£0.38	44.4	£0.17	£0.15	£0.07	-£0.08	-119%
Office accommodation	£2.77	8.7	£0.24	£0.22	£0.25	£0.03	13%
Medicals and training	£0.25	66.1	£0.17	£0.15	£0.20	£0.05	24%
Meeting facilities for meat staff	£0.10	9.7	£0.01	£0.01	£0.02	£0.01	55%
IT support costs for Board meetings	£0.14	9.7	£0.01	£0.01	£0.01	-£0.00	0%
Depreciation/Amortisation	£1.23	20.8	£0.26	£0.23	£0.21	-£0.02	-10%
Sub Total	£9.59		£2.87	£2.60	£3.10	£0.50	16%
<i>Grand Total</i>			£6.25	£2.60	£6.45		

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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

- The FSA discussed and agreed with industry representatives, on 1 February, the discount bands and rates that would be applicable for 2018/19.
- The rate FBOs actually pay will be less due to the discounts which are shown in the following slides.

Discounts and bands 2018/19

Band	Maximum annual hours 2017/18			Maximum annual hours 2018/19			Discount 2017/18	Discount 2018/19
	GHE	PSL	RSL	GHE	PSL	RSL	All	All
1	3	315	180	3	315	171	90%	90%
2	15	1,014	765	27	1,014	759	75%	75%
3	42	2,850	2,397	42	2,961	2,358	60%	57%
4	84	6,366	5,916	111	7,866	5,547	40%	38%
5	447	18,648	14,313	402	22,266	13,434	35%	32%
6	>447	>18,648	>14,313	>402	>22,266	>13,434	25%	25%

TUPE PIA Rate 2018/19 £25.20