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England & Wales - Cost data presentation 2017/18

- 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 2017/18.
 - 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.
- February – the calculations for hourly rates are externally audited.
- 27 March 2017 – 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

- Increase in OV rates is driven by the reduction in chargeable hours of 1% =+ £0.34; direct costs increasing by 1% = +£0.36; indirect costs decreasing by 18% = -£0.60.
- Increase in MHI rates is driven by the reduction in chargeable hours of 9% = +£2.36; direct costs decreasing by 3.7% = -£0.96 (this is due to a 6% increase to contract MHI costs =+0.94 offset by significant savings in employed staff costs -£1.90) ; indirect costs decreasing by 18% = -£0.60.

Grade	2016/17 rate	2017/18 rate	Change	% difference
OV Normal	£39.00	£39.10	£0.10	0.3
MHI Normal	£30.20	£31.00	£0.80	2.6

Industry official controls hourly rates 2017/18

	Budgeted OV costs	Budgeted MHI costs	2017/18 Total budget	2016/17 Total budget	Variance on 2016/17
Direct Costs	£13.16m	£24.93m	£38.08m	£39.23m	-6.1%
Indirect Costs	£1.84m	£4.60m	£6.45m	£7.77m	-0.9%
Total Costs	£15.0m	£29.53m	£44.53m	£47.00m	-5.3%
Industry chargeable hours (plussed up)*	383,367	963,956	1,347,323	1,443,878	-6.7%
Charge rate before discount	£39.10	£31.00			

* 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	2015/16 budget restated to align with 2017/18 structure	2016/17 budget restated to align with 2017/18 structure	2017/18 budget
<u>Direct Costs</u>			
Employed staff costs	£20.20	£19.60	£17.85
Contractor costs	£17.40	£18.24	£18.95
Laundry/equipment costs	£0.60	£0.61	£0.42
Frontline travel costs	£0.70	£0.79	£0.85
Total direct costs	£38.90	£39.23	£38.08
<u>Indirect Costs</u>			
Operations support	£2.79	£3.07	£2.89
Finance & Performance	£1.32	£1.43	£0.97
Human Resources	£0.67	£0.46	£0.36
Depreciation / Amortisation	£0.31	£0.25	£0.21
Regulatory and Legal Strategy	£0.29	£0.28	£0.24
Operations IT	£1.99	£1.98	£1.49
Private Offices & Secretariats	£0.06	£0.09	£0.08
Corporate Support unit	£0.21	£0.21	£0.21
Total indirect costs	£7.63	£7.77	£6.45
Grand total meat costs	£46.50	£47.00	£44.53

Comparisons of 2017/18 to 2016/17 – Direct costs

Direct costs have decreased by £1.2m (3%)

- Employed Staff costs have decreased by £1.8m due to reduction in staff numbers £1.2m and reduced overtime expenditure of £0.6m. Contract costs have increased by £0.7m because of the 6% increase in the new MHI contracts and an increase in MHI hours of 7%; partially offset by a saving on the OV contract rate and hours.
- Other budgeted direct costs for frontline staff have decreased by £0.1m.

Comparisons of 2017/18 to 2016/17 – Indirect costs

Indirect costs have decreased by £1.3m (17%)

- Operations support costs have decreased by £0.2m due to efficiency measures taken.
- Finance and Performance costs have decreased by £0.4m due to cost savings for meat related activity.
- Operations IT costs have decreased by £0.5m due to the focus of IT activities switching to flexible working and office reorganisation which is not included in the costs.
- 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;
- Pre-service training.

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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

“Based on the findings, the amended models appear to function as intended with robust calculations. Based on the project we have carried out, the MHI and OV hourly charge rates appear to have been calculated appropriately. The computation of the apportionment of indirect costs (pay and non-pay) appears to function as intended and the bases for apportionment seem to be applied appropriately.” RSM Tenon (Audit Report February 2017)

Operational reform

- Audit frequencies – the FSA has adopted an extended audit frequency (EAF) regime from January 2017 beginning with premises which have achieved the award of two consecutive “Good” audit outcomes. The FSA will consider further the circumstances under which EAF could be awarded to premises achieving consecutive “Generally satisfactory” audit outcomes.
- Reductions in official control hours – the introduction of the Stow 1 discounting and charging arrangements from 2016/17, where the marginal discount rate is lower the greater the hours of FSA time used, has driven greater collaborative working between Food Business Operators and the FSA to reduce the resources required to deliver official controls.
- New laundry contract – the retendering of the laundry contract, effective from April 2017, has been taken as an opportunity to drive further efficiencies. Laundry and equipment costs chargeable to industry have fallen to £0.42m in 2017/18 compared with £0.61m in 2016/17.

Future developments

The FSA is committed to effective controls which would best protect the consumer and that are as efficient as possible.

Future Regulatory Reform

- Continuing working with industry to drive further efficiencies that best protect consumers .
- Exploring development of complementary or alternative delivery models - including their sustainable funding – for meat and other food businesses. Ensuring regulation is effective and costs no more than it should are key principles.
- The FSA’s data strategy will support the FSA’s future regulation, working with industry to collect only the information the FSA needs in the most efficient way.

Conclusion

- Chargeable hours have decreased.
- Further decreases in hours are expected to reduce the overall costs to industry.
- While cost pressures have increased the rate charged to industry, the number of hours budgeted to be charged to industry have decreased.



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CHARGEABLE ALLOWANCES

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Standard allowances

Allowance code	Allowance narrative	2017/18 charge before discount	2017/18 discount	2016/17 charge before discount
CASL	Casualty slaughter call-out	£25.20	50%	£23.84
COVA	Sunday working as part of normal week	£70.65	50%	£66.75
HTIM	Half time contractual overtime for Saturday working as part of normal week	£75.70	50%	£71.53
NGHT	Night shift	£25.20	50%	£23.84
SHFT/UNSO	Shift working	£29.65	50%	£28.01
UNSH/UNSP	Unsocial hours	£10.20	50%	£9.66

Standard allowance rates

- The allowances are calculated based on the 'MHI direct' cost per hour
- 2017/18 rates have increased by 6% / £1.40 due to:
 - a reduction in chargeable hours over which the management and other overheads are spread;
 - increase in the contractor hourly rate of 6% , partially offset by the reduction in MHI overtime and the efficiencies made in the management structure.



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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.
- 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	90.2%	3.1%	6.7%	100.0%
Operations support	£2.89	£0.10	£0.22	£3.20
Finance & Performance	£0.97	£0.03	£0.07	£1.08
Human Resources	£0.36	£0.01	£0.03	£0.40
Depreciation / amortisation	£0.21	£0.01	£0.02	£0.23
Regulatory and Legal Strategy	£0.24	£0.01	£0.02	£0.27
Operations IT	£1.49	£0.05	£0.11	£1.65
Private Offices & Secretariats	£0.08	£0.0	£0.01	£0.09
Corporate Support Unit	£0.21	£0.01	£0.02	£0.23
Total indirect costs	£6.45	£0.22	£0.48	£7.15

2017/18 Staff related indirect costs - Meat

Group	FTE	Meat %	Meat FTE	Indirect cost £m	Industry cost 2017/18 £m	Industry cost 2016/17 £m	Variance £m	Variance %
Operations Assurance	29.41	70.9	20.85	£1.11	£1.00	£1.26	£0.26	20.9%
Field Delivery (Support)	17.20	72.7	12.50	£0.99	£0.89	£0.77	(£0.13)	(16.7%)
Finance	28.60	16.1	4.60	£0.25	£0.23	£0.72	£0.49	68.6%
Procurement	6.44	2.4	0.16	£0.06	£0.06	£0.04	(£0.02)	(40.3%)
IT Service delivery	16.00	1.0	0.16	£0.15	£0.13	£0.09	(£0.04)	(49.4%)
Information Management	16.00	12.5	2.00	£0.12	£0.10	£0.22	£0.12	52.3%
HR Relations, Systems and Data	12.80	2.5	0.32	£0.20	£0.18	£0.17	(£0.01)	(4.0%)
HR Org Development	10.97	2.7	0.30	£0.26	£0.24	£0.17	(£0.07)	(40.1%)
Legal	14.00	7.9	1.10	£0.09	£0.08	£0.08	£0.00	3.2%
Internal Audit	7.10	5.6	0.39	£0.18	£0.17	£0.20	£0.03	17.4%
Communications	34.30	0.0	0.00	£0.00	£0.00	£0.17	£0.17	100.0%
CEO's Office	1.00	19.8	0.20	£0.07	£0.07	£0.08	£0.01	17.5%
Chair & Deputy's Office	11.92	0.0	0.00	£0.00	£0.00	£0.00	£0.00	0.0%
Corporate Support Unit	46.70	12.8	6.00	£0.23	£0.21	£0.21	£0.00	0.0%
Subtotal	252.43		48.57	£3.71	£3.35	£4.18	£0.83	19.9%

2017/18 Other Indirect Costs over £100k - Meat

Associated Cost	Full cost £m	Meat %	Indirect cost £m	Industry cost 2017/18 £m	Industry cost 2016/17 £m	Variance £m	Variance %
Operations Assurance Travel	£0.06	70.9	£0.04	£0.04	£0.07	£0.03	43.4%
Field Management travel	£0.07	72.7	£0.05	£0.05	£0.12	£0.07	61.8%
Sampling and testing costs	£0.92	100.0	£0.92	£0.83	£0.85	£0.02	2.4%
Financial IT systems costs	£0.40	39.4	£0.16	£0.14	£0.14	£0.00	(0.9%)
Legal debt recovery costs	£0.14	100.0	£0.14	£0.13	£0.13	£0.00	0.0%
IT support costs	£3.50	28.4	£0.99	£0.90	£1.13	£0.23	20.7%
Software licenses and network	£0.76	39.4	£0.30	£0.27	£0.30	£0.03	10.4%
Mobile phone costs	£0.18	39.4	£0.07	£0.07	£0.07	£0.00	7.0%
Office accommodation	£3.64	7.5	£0.27	£0.25	£0.38	£0.13	35.0%
Medicals and training	£0.32	68.6	£0.22	£0.20	£0.12	(£0.08)	(65.8%)
Meeting facilities for meat staff	£0.22	11.9	£0.03	£0.02	£0.02	£0.00	(17.6%)
IT support costs for Board meetings	£0.14	11.9	£0.02	£0.01	£0.01	£0.00	(47.8%)
Depreciation/Amortisation	£1.92	11.9	£0.23	£0.21	£0.25	£0.04	19.0%
Sub Total	£12.27		£3.44	£3.10	£3.58	£0.48	13.5%
Grand Total			£7.15	£6.45	£7.76		

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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 with industry representatives, during February and March 2017, the discount bands and rates that would be applicable for 2017/18.
- The rate FBO's actually pay will be less due to the discounts which are shown in the following slides.

Discounts and bands 2017/18

Band	Maximum annual hours 2016/17			Discount 2016/17	Maximum annual hours 2017/18			Discount 2017/18
	GHE	PSL	RSL	All	GHE	PSL	RSL	All
1	3	303	177	90%	3	312	180	90%
2	18	945	771	75%	15	1,182	765	75%
3	39	2,691	2,355	65%	42	2,850	2,397	60%
4	75	7,080	5,889	50%	84	6,336	5,916	40%
5	507	21,099	13,521	40%	447	18,648	14,313	35%
6	>507	>21,099	>13,521	25%	>447	>18,648	>14,313	25%

TUPE PIA Rate 2017/18 £25.20