

EXECUTIVE NOTE TO
THE MEAT (OFFICIAL CONTROLS CHARGES) (SCOTLAND)
REGULATIONS 2008 (S.S.I. 2008/ 98)

1. The above instrument was made in exercise of the powers conferred by section 2(2) of and paragraph 1A of Schedule 2 to the European Communities Act 1972. The instrument is subject to negative resolution procedure.

Policy Objectives

2. The purpose of the instrument is to revoke the Meat (Official Controls Charges) (Scotland) (No.2) Regulations 2007 (SSI 2007/538 “the current regulations”) and continue to provide for the collection of meat hygiene official controls charges in Scotland, as required by Regulation (EC) No. 882/2004 (“the OFFC Regulation”)¹. In addition, the instrument will increase most of the standard charge rates set out in Schedule 2 to the current Regulations by 8% (approximately 5% more than inflation). The rates in Schedule 2 are set out in Pounds Sterling, converted by reference to minimum rates in Euros set out in the OFFC Regulation at the exchange rate applicable to 2008 (as to which see paragraph 6 below). The instrument also continues to contain provisions for the setting of meat hygiene time costs hourly rates of official controls inspectors, which will also be increased by 8% (approximately 5% more than inflation).
3. The rates in the OFFC Regulation are throughput rates for inspection costs relating to the slaughter per species/type of animal or bird. For controls and inspections connected with cutting operations, the fee is per tonne of meat entering the cutting plant for the purpose of being cut up or boned there.
4. The instrument perpetuates the current meat hygiene charging system, which was introduced in 2001. In the past that system has effectively supported smaller slaughterhouses and cutting plants by providing for official control charges to be the lower of time cost charges and charges calculated from the specified throughput rates (where those throughput rates have been artificially low). The system has resulted in a significantly higher proportion of businesses paying charges calculated from standard rates (as opposed to time costs) than was intended and in those charges recovering an increasingly lower proportion of official control costs, at considerable cost to the public purse. There is now a need to reduce substantially the cost of the controls and for businesses to pay a greater proportion of the cost, in line with the Agency’s strategic objectives. The Agency and the Meat Hygiene Service (MHS), with stakeholder input, are developing

¹ Regulation (EC) No. 882/2004 of the European Parliament and of the Council on official controls performed to ensure the verification of compliance with feed and food law, animal health and animal welfare rules (O.J. No. L165, 30.4.04, p.1). A copy of this Regulation accompanies this Executive Note.

proposals for new charging arrangements from 2009/10 that will be subject to public consultation, probably in late Summer/early Autumn 2008.

5. The instrument will increase current meat hygiene standard charge rates per type of animal slaughtered and per tonne of meat cut up that are specified in the current Regulations by 8% from 31 March 2008, except for those rates that have already been increased to the minima that the OFFC Regulation required in the current Regulations. Those rates that were increased by more than 8% in the current Regulations to reach the OFFC Regulation minima will not be increased further and the rate for adult bovines, which was increased by 6.2% to reach OFFC Regulation minimum, will be increased by a further 1.8% (i.e. 8% in total).

6.1 The rates in Schedule 2 to the instrument have been converted from Euros to Pounds Sterling. This has been done with reference to the minimum charge rates set out in Euros in the OFFC Regulation. The OFFC Regulation does not specify the basis for converting the minimum rates into national currencies. The conversion system adopted for the purposes of the instrument is the one specified in the previously applicable EC law, contained in Council Directive 85/73/EEC, which provided for the rate of conversion into national currency for any given calendar year to be that published on the first working day of September of the previous calendar year in the C Series of the Official Journal of the European Union. In the event that no rate is published on that day, the applicable rate used is that published on the next day after that day on which a rate is published.

6.2 Although no such conversion provision is made expressly in the OFFC Regulation, it has been inferred that the conversion method in Directive 85/73/EEC should be continued. This method was used in the current Regulations which have been notified to the Commission and there has been no indication of dissatisfaction with the conversion method. Consequently, in this instrument, the standard rates that equate to the OFFC Regulation minima were converted from Euros to Pounds Sterling using the exchange rate published on 3rd September 2007.

6.3 Moreover, provision is made in Schedule 2 for the Pound Sterling rates for 2009 to be if necessary increased to equate to the OFFC Regulation minima using the Euro/£ exchange rate published on the first working day of September 2008. There is no provision for subsequent years as the Instrument includes a “sunset clause” in regulation 1 whereby the Instrument will cease to have effect on 1st January 2010 (the intention is that it will then be replaced by a further instrument to ensure continued compliance with EC law).

7 A final point to note is that the instrument makes provision for references to the Community Instruments listed in Schedule 1 to be read as references to those Instruments as amended from time to time. This

means that if any of those Instruments are amended it will not be

necessary to make an amendment to this SSI.

Consultation

8.1 A public consultation was carried out by the Agency in Scotland between 26 November 2007 and 18 January 2008 on the draft Meat (Official Controls Charges) (Scotland) Regulations 2008. Sixty stakeholders in Scotland were consulted, including organisations representing slaughterhouses, game handling establishments and meat cutting sectors. In addition, the operators of all approved slaughterhouses, game handling establishments and meat cutting businesses were sent a letter alerting them to the consultation and providing them the opportunity to respond either directly or via a representative organisation. Four responses were received from Scottish stakeholders, all of which made substantive comments. These included issues related to MHS efficiency and the industry's willingness or ability to pay. However, some comments focussed on proposed *future* charging strategy and were not specific to the 8% increase proposed for 2008/09. To that extent, therefore they were not pertinent to this consultation. None of the comments resulted in a need to amend the instrument.

8.2 A summary of the responses may be found in the Scottish consultation section of the Food Standards Agency's website.

8.3 A list of interested parties consulted is attached at Annex 1 to this note.

Financial effects

9 Although the instrument will impose additional costs on businesses, the impact of the increased charges are proportional to the size of the business. A Regulatory Impact Assessment (RIA) has been prepared and it accompanies this Executive Note.

FOOD STANDARDS AGENCY SCOTLAND

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Contact:

Claire Tyreman

Food Standards Agency Scotland, St Magnus House, 25 Guild Street, Aberdeen,
AB11 6NJ

Tel: 01224 285105

Claire.Tyreman@foodstandards.gsi.gov.uk

**Scottish consultation on the draft MEAT (OFFICIAL CONTROLS CHARGES)
(SCOTLAND) REGULATIONS 2008: List of Interested Parties**

Aberdeen Angus Cattle Society
Aberdeen Scotch Meat Ltd
ABP Scotland
ANM Group Ltd
Association of Deer Management Groups
Association of Meat Inspectors
BASC Scotland
Braehead Foods Ltd
Branded Beef Breeders Ltd
British Deer Society
British Goat Society
British Poultry Council
British Veterinary Association
Coldstorage and Distribution Federation
Deer Commission for Scotland
Department for Environment and Rural Affairs
Fenton Barns (Scotland) Ltd
Glasgow University Veterinary School
Grampian Country Food Group
Grampian Pig Producers
Greggs Scotland
Independent Farming Group
James Finlay Ltd
MacSween of Edinburgh
M D Longhorn & Co
Meat and Livestock Commission
Meat Hygiene Service
National Beef Association Scottish Council
National Farmers Union Scotland
Orkney Direct Waste Disposal
Orkney Meat Ltd
Pataks Frozen Food
Quality Meat Scotland
Rick Bestwick Ltd
Royal Environmental Health Institute for Scotland
Royal Highland and Agricultural Society of Scotland
Scottish Agricultural College
Scottish Association of Meat Wholesalers

Scottish Beef Cattle Association
Scottish Centre for Infection and Environmental Health
Scottish Chambers of Commerce
Scottish Consumer Council
Scottish Crofting Foundation
Scottish Government Rural Directorate
Scottish Federation of Meat Traders Association
Scottish Food and Drink Federation
Scottish Food Quality Certification Ltd
Scottish Game Dealers and Processors Association
Scottish Gamekeepers Association
Scottish Retail Consortium
Scottish Rural Property and Business Association
Scottish Society for the Prevention of Cruelty to Animals
Simply Organic
The Halal Food Authority
The Scottish Gourmet (Scotland Direct)
Tombuie Smokehouse
Women's Food and Farming Union
And 3 individuals

FINAL REGULATORY IMPACT ASSESSMENT

1. TITLE OF THE PROPOSAL

THE MEAT (OFFICIAL CONTROLS CHARGES) (SCOTLAND) REGULATIONS 2008

- 1.1. Implementation of the provisions of Regulation (EC) 882/2004 on Official Feed and Food Controls (OFFC) relating to charging for official controls at approved meat establishments for which domestic legal provisions are necessary.

2. PURPOSE & INTENDED EFFECT OF THE MEASURE

2.1 The Objective

- 2.1.1. The objective of the proposed SSI is to in Scotland, increase charges to approved meat plants for meat hygiene controls by 8% (approximately 5% above inflation) above the levels applicable between 31 December 2007 and 30 March 2008, from 31 March 2008. This is intended to start to redress the cost sharing balance for this work in 2008/09 by transferring approximately £179,000 of the controls cost to businesses in Scotland. This would reduce the cost to taxpayers from approximately £1.279 million to approximately £1.1 million out of a total cost of £4.6 million faced by the MHS in providing meat hygiene official controls in Scotland. The proposed regulations will apply in Scotland only. Equivalent legislation is proposed in England, Wales and Northern Ireland.

2.2. Background

- 2.2.1 The EC OFFC Regulation² requires that charges be made to industry for the cost of meat hygiene and animal welfare official controls. Those charges must be, in general, no more than actual costs and no less than the amount calculated from specified minimum rates per animal or per tonne of meat. However, the cost of the controls has been increasing and the proportion of costs charged to industry has fallen substantially since the present charging system was introduced in 2001. There is now a need to reduce substantially the cost of the controls (a major programme of work is underway by the FSA and MHS in this regard) and for businesses to pay a greater proportion of the cost.

² Regulation (EC) No 882/2004 on official controls performed to ensure the verification of compliance with feed and food law, animal health and welfare rules.

2.2.2 It is proposed to increase most meat hygiene and animal welfare charges to the operators of approved meat businesses by 8% above the levels applicable between 31 December 2007 and 30 March 2008, from the start of the 2008/09 financial year. The increase would apply to both time-cost and standard (throughput) charge rates. No changes are proposed to the method of calculating the charges whereby food business operators (FBOs) pay the lower of time costs and throughput charges. A proposed Scottish Statutory Instrument titled the Meat (Official Controls Charges) (Scotland) Regulations 2008 is needed to implement this.

2.2.3 The objectives of the proposed regulations in Scotland are to:

- i. Provide for the continuance of the present system for the setting of meat hygiene and animal welfare time costs hourly rates for official controls inspectors, which will enable them to be increased by 8% as is proposed; and
- ii. Increase current meat hygiene and animal welfare standard (throughput) rates per type of animal and per tonne of meat that are specified in legislation by 8% from 31 March 2008, except for those rates that were increased to the minima required by the EC OFFC Regulation on 31 December 2007. It is proposed that those rates that were increased by more than 8% on 31 December 2007 to reach the OFFC minima will not be increased further, and that the rate for adult bovines, which had to be increased by 6.2% to reach the OFFC minimum, will be increased by a further 1.8% (i.e. 8% in total).

2.2.4 As indicated above, some standard rates needed to be increased to the minima that the EC OFFC Regulation requires. Following a separate consultation, this requirement was implemented from 31 December 2007 by the Meat (Official Controls Charges) (Scotland) (No.2) Regulations 2007 (the No.2 Regulations), and by equivalent regulations in England and Wales and, from 1 January 2008, in Northern Ireland.

2.2.5 This RIA sets out the estimated effects of the proposed regulations in relation to the current time costs hourly rates and of the standard charge rates specified in the No.2 Regulations 2007 and by those of the equivalent regulations in England and Wales. The position is similar in Northern Ireland. In Great Britain (GB) the charges are paid by food business operators (FBOs) to the Meat Hygiene Service (MHS), an Executive Agency of the Food Standards Agency, and the effects of the policy are assessed on a Scottish basis in this Regulatory Impact Assessment (RIA) unless otherwise stated.

Time Cost Charges

2.2.6 Due to policy decisions in previous years, time costs hourly rates are, depending on the type of staff concerned, currently 20% - 30% below what they need to be to recover the cost of delivering the official controls to which they relate. The proposal to increase 2008/09 time costs hourly rates by 8% (approximately 5% plus inflation) would reduce this deficit to 15% - 25% and would be an important step in narrowing the gap between the cost of controls and the charges for those controls. No changes would be needed to the No 2 Regulations to implement this: it will be sufficient for the proposed Scottish Statutory Instrument to contain the same provisions, which is proposed. The proposed time costs hourly rates for meat hygiene and animal welfare official controls from 31 March 2008, are shown in Table 1 below.

Table 1: proposed time costs hourly rates from 31 March 2008

	2007/08	2008/09
Inspector	£ per hour	£ per hour
Normal time	20.80	22.50
Time and a half	31.20	33.75
Double time / Bank Holiday	41.60	45.00
Official Veterinarian (OV)		
Normal Time	34.00	36.70
Overtime Rate	51.00	55.05

Standard charge-rates

2.2.7 Due to constraints of EC law, it was not possible to increase standard charge rates from the time that the present charging system was introduced in 2001 until 1 January 2007 when the EC OFFC Regulation started to apply. This change to EC law allowed 2007/08 rates to be increased by 3.5% to cover inflation and the opportunity is now being taken to propose increasing most standard charge rates by the same amount as time costs hourly rates (approximately 5% more than inflation) as it is the policy of the FSA Board that FBOs should be charged an increased proportion of the costs of carrying out these official controls. The proposals would mean that the ratio of businesses that pay time costs and standard rates charges would be broadly that which applies at present, with the majority of businesses continuing to be charged on the basis of standard rates.

2.2.8 As indicated by 2.2.3. (ii) above, the position is complicated by the fact that some current standard charge-rates are below the minima required by the EC OFFC Regulation from 1 January 2008.

Table 2

	Type of Animal	Pre 31/12/07 rate	From 31/12/07 rate	Change
1.	Bovine animals aged 8 months or more at slaughter	£3.1806	£3.3788	+6.2%
2.	Turkeys weighing less than 2kg	£0.0071	£0.0169	+138.0%
3.	Turkeys weighing 2 kg or more (except those that are adult and weigh at least 5kg)	£0.0142	£0.0169	+19.0%
4.	Boars weighing less than 25kg	£0.3534	£1.0136	+186.8%
5.	Boars weighing 25kg or more	£0.9189	£1.0136	+10%
6.	Ruminants weighing less than 12kg	£0.1237	£0.3379	+173.2%
7.	Ruminants weighing 12kg to 18kg	£0.2474	£0.3379	+36.6%

In view of this, it is intended, in the regulations proposed to come into force on 31 March 2008, to:

- i. increase the rate for bovine animals aged 8 months or more at slaughter a further 1.8% above the current rate per animal, calculated as follows: pre 31 December 2007 rate = £3.1806; rate from 31 December 2007 = £3.3788 (+6.2%); proposed rate from 31 March = £3.4350 (8% above the current rate); and
- ii. apply no further increase to the 31 December 2007 rates in the No 2 Regulations for the types of animal listed in rows 2 to 7 of the Table 2 above.

2.2.9 The effect of retaining the 31 December 2007 rates for the types of animal listed at numbers 2 to 7 of Table 2 above would be that they would remain at the EC minima. In addition, some other rates (e.g. for bovine animals aged 8 months or more at slaughter and ruminants (mainly deer) weighing more than 18kg) would be only a little above the minima. To ensure continued compliance with the EC OFFC Regulation, provision is made in the proposed regulations for the Pound Sterling rates for 2009 to be, if necessary, increased to equate to the OFFC minima using the Euro/£ exchange rate published in the C Series of the Official Journal of the EU on the first working day of September 2008. There is no provision for subsequent years as the proposed regulations include a "sunset clause" whereby they will cease to have effect on 1 January 2010 (when they will be replaced by a further set of regulations to ensure continued compliance with EC law).

2.2.10 The changes to the No. 2 Regulations are set out in **Annex C** which accompanies this RIA. They would affect all slaughterhouses, game handling establishments and cutting plants.

2.2.11 All operators would continue to pay the lesser of time-costs or standard charges. Currently, over 90% of meat plants in Scotland pay on standard rates.

2.3. Rationale for Government intervention

2.3.1. The Government charges businesses in respect of the cost of the meat hygiene and animal welfare official controls that they receive. The cost of the controls has been increasing and the proportion of the cost charged to industry has fallen substantially since the present charging system was introduced in 2001. There is now a need to reduce substantially the cost of the controls (a major programme of work is underway in the FSA and MHS in this regard) and for businesses to pay a greater proportion of the cost of the controls that they receive.

2.4. DEVOLUTION

2.4.1. The proposed regulations will apply in Scotland only. England, Wales and Northern Ireland will make separate legislation.

3. CONSULTATION

3.1. The Agency carried out a consultation exercise in Scotland between 26 November 2007 and 18 January 2008. Around 60 stakeholders in Scotland were consulted about the proposals, including industry representative organisations. In addition, all operators of approved slaughterhouses, game handling establishments and meat cutting businesses in Scotland were alerted to the consultation and given the opportunity to respond to it, either directly or via a representative organisation.

3.1.1 The consultation followed the Cabinet Office Code of Practice, although an eight-week consultation proved to be necessary, instead of the usual 12 weeks, to ensure that revised charge rates could take effect from the start of the 2008/09 financial year. None of the Food Business Operators or stakeholder organisations commented on the reduced consultation period. Consultations were also carried out on equivalent proposals in England, Wales and Northern Ireland.

3.1.2 There were four responses to the consultation, including one sent jointly by four of the main representative industry organisations.

3.1.3 While only a small proportion of those consulted responded directly, they included representative industry organisations and operators of approved meat plants, representing the views of the majority of the

industry. Several issues were raised, in particular in relation to MHS efficiency and the industry's willingness or ability to pay. However, many comments focussed on proposed *future* charging strategy and were not specific to the 8% increase proposed for 2008/09. To that extent, therefore, they were not pertinent to this consultation. None of the comments resulted in a need to amend the proposals.

- 3.1.4 Most of the opposition to the proposals, including from the main representative organisations, took the form of an assertion that charge rate increases should not be made until the MHS had delivered overall cost reductions. However, they did not acknowledge that, as explained in the consultation letter, the proposal to increase industry charges (in Scotland by around £179,000, £1.5 million in total across GB) in 2008/09 would coincide with an estimated £4 million decrease in MHS costs across GB. The issue of MHS efficiency is, in any case, of very limited relevance to the proposal as most businesses pay standard rate charges that are unaffected by the MHS official control costs incurred.
- 3.1.5 Organisations representing farmers were concerned about possible knock-on effects on the livestock sector. No evidence was provided to substantiate these concerns and there were no comments on the information in RIA that was included with the consultation proposals.
- 3.1.6 There is a risk that the proposed increases may not be affordable to some businesses that are already particularly vulnerable financially. However, the consultation RIA indicated that the impact was likely to be manageable, bearing in mind that the proposed increases are proportional to the size of the business, and that small and medium sized businesses would still be benefiting from a significant subsidy as a result of the current charging policy (the Maclean subsidy).
- 3.1.7 For context, Table 3, overleaf, shows the estimated impact that the increases proposed will have on a random selection of actual businesses across the spectrum of business sizes in GB. The table shows a high level estimate of what the increase will mean to individual operators. The figures are based on actual charges to operators (rounded) and exclude additional charges (e.g. where operators are charged additionally for time that they work beyond their agreed operating hours). The table demonstrates that an 8% increase on charges is relatively small for small businesses that would still receive a significant subsidy.

Table 3: Estimated impact of the proposed rate increases on differing sizes of red meat slaughterhouses across GB.

Plant size ¹	07/08 Forecast Full Year Through-put Charge	07/08 Forecast Full Year Time Costs	07/08 Forecast Full Year Charge	Estimated 08/09 Charge including 8% increase	Total Increase in charge	Subsidy ²
	£	£	£	£	£	%
Micro	21	538	21	23	2	96
Micro	350	6,108	350	378	28	94
Small	8,591	26,320	8,591	9,278	687	65
Med	24,647	98,200	27,647	29,585	2,212	70
Large	169,172	286,317	169,172	182,705	13,533	36
Large	653,611	453,684	453,684	489,978	36,294	0 ³

¹ The four size categories of plants are based on annual throughput quartiles. Micro plants process fewer than 895 Animal Units (AUs), small plants process between 895 and 6,561 AUs, medium-sized plants process between 6,562 and 32,613 AUs, and large plants process more than 32,613 AUs.

² Does not take account of the fact that current time cost hourly rates do not recover full costs due to Ministerial rate freezes some years ago.

³ Businesses on time costs may benefit from reduced MHS official control hours in 2008/09.

3.1.8. The table at **Annex A** summarises the responses to the consultation in terms of the specific questions posed. The Food Standards Agency's considered responses to stakeholders' comments are given in the last column of the table. A list of stakeholders who responded can be found at the end of that document.

4. OPTIONS

4.1.1 The options considered were:

- i. Option 1 - do nothing;
- ii. Option 2 - increase charges by inflation only;
- iii. Option 3 - increase charges by 8% (approximately 5% plus inflation) compared to their pre 31 December 2007 levels*;
- iv. Option 4 - increase charges by a greater amount.

* That is, the standard charge rates applicable between 26 March and 30 December 2007 inclusive and the time costs hourly rates applicable between 28 May 2007 and 30 December 2007 inclusive.

4.1.2. Analysis of options

- i. Option 1 (doing nothing) – This would not put the UK in breach of EC law but it would continue to widen the gap between the cost of controls and the charges for those controls. It would not take account of a need for businesses to pay a greater proportion of the costs to the Agency of delivering official controls at approved meat plants or of the funds available to the Agency. It would also be contrary to the Agency's general principle that it is inappropriate for it to subsidise the costs of official controls for business and that Agency expenditure should be aligned more closely with its strategic objectives.
- ii. Option 2 (increasing charges by inflation only) would maintain the gap between the cost of controls and the charges for those controls, but it would not take account of a need for businesses to pay a greater proportion of the cost to the Agency of delivering official controls at approved meat plants or of the funds available to the Agency. It would also be contrary to the Agency's general principle that it is inappropriate for it to subsidise businesses and that expenditure should be aligned more closely with its strategic objectives.
- iii. Option 3 (increasing charges by 8% compared to their pre December 2007 levels) would begin to narrow the gap between the cost of controls and the charges for those controls. It would take some account of a need for business to pay a greater proportion of the cost to the Agency of delivering official controls at approved meat plants and of the funds available to the Agency. It would go some way towards meeting the Agency's general principle that it is inappropriate for it to subsidise businesses and that expenditure should be aligned more closely with its strategic objectives. In addition, this option would take account of increases to some throughput rates from 31 December 2007 that were needed to bring them to the minima required by the EC OFFC Regulation.

- iv. Option 4 (increasing charges by a greater amount) – This option has the same advantages as Option 3, but it would take more account of a need for businesses to pay a greater proportion of the cost of the Agency of delivering official controls at approved meat plants and of the funds available to the Agency. It would also go further towards meeting the Agency’s general principle that it is inappropriate for it to subsidise businesses and that expenditure should be aligned more closely with its strategic objectives. It would, however, be less affordable to businesses generally. In addition, whilst further increases in charging rates (above the 8% proposed for 2008/09) will be required beyond 2008/09, regard will need to be had to the achievement of the planned reductions in overall costs of controls in proposing the increased levels of charges.

After taking account of comments in response to consultation on the proposals, it was decided, for the reasons outlined in Section 3 and on consultation summary at **Annex A** that Option 3 should be implemented.

5. COSTS AND BENEFITS

5.1. Sector and groups affected

- 5.1.1. The regulations will affect slaughterhouses that process cattle, slaughterhouses that process turkeys and game handling establishments that process wild boar and/or wild ruminants. No impacts on racial equality, social, animal welfare or environmental issues due to the proposals have been identified.

5.2. Red meat slaughterhouses

5.2.1 Costs

- 5.2.1.1 Red meat slaughterhouses will be affected by an 8% increase in both time-cost and standard rates except that:
 - i. The standard rate for adult bovines would increase by 1.8% only (this is to take account of the 6.2% increase that came into effect on 31 December 2007).
 - ii. The standard rates for boars and for ruminants (other than bovines, sheep and goats) weighing no more than 18kg would not be increased (this is to take account of the greater than 8% increases that came into effect on 31 December 2007).
- 5.2.1.2 The total charge for the red meat slaughterhouse sector in Scotland is estimated to increase by £147,000 per annum or 4.8%, which is significantly below 8% because of the relatively small rise in the standard rate for adult bovines. Table 4, overleaf, shows the percentage increase in the charge is fairly constant across plant size categories. However, the effect on large

plants is slightly greater than on other plants because some of them do not benefit from the relatively lower increase in standard rate for adult bovines (due to their specialisation in the slaughter of pigs/sheep, or the fact that they are charged time-costs).

5.2.1.3 Table 5, overleaf, shows the impact of the proposals on profitability in the red meat slaughterhouse sector is estimated to be small, as the average profit margin would decrease by approximately 0.01%, assuming that this sector would be able to transfer two thirds of the increase in charge to primary producers. However, the small decrease in profitability would worsen the situation of a sector characterised by low profitability (average profit margin in the studied sample is 1.19%). The transfer of any increased charges from the slaughterhouse sector may impact upon primary producers across Scotland in general.

Table 4: Estimated increase in hygiene charges paid by red meat slaughterhouses in Scotland³

	Plant type ⁴				
	Micro (n=9)	Small (n=4)	Medium (n=12)	Large (n=12)	All (n=37)
MHS Charge 2008Q1 (annualised)⁵					
Total (£k)	6	39	419	2,595	3,060
Average per plant (£k)	0.7	9.8	35.0	216.3	82.7
Average per animal unit (AU) (£)	2.1	2.7	2.8	2.5	2.6
Number of plants charged time cost	0	0	0	6	6
MHS charge 2008/9 (8% increase)					
Total (£k)	6	41	436	2,723	3,207
Average per plant (£k)	0.7	10.2	36.4	227.0	86.7
Average per animal unit (£)	2.2	2.8	2.9	2.7	2.7
Number of plants charged time cost	0	0	0	4	4
Increase in charge over 2008Q1 baseline					
Total (£k)	0	2	17	128	147
Average per plant (£k)	0.03	0.43	1.40	10.67	3.97
Percentage increase	4.6%	4.3%	4.0%	4.9%	4.8%

³ Due to roundings, the numbers do not necessarily calculate to the figures shown.

⁴ 1. The four size categories of plants are based on annual throughput quartiles. Micro plants process fewer than 895 Animal Units (AUs), small plants process between 895 and 6,561 AUs, medium-sized plants process between 6,562 and 32,613 AUs, and large plants process more than 32,613 AUs.

2. The figures should be treated with caution, however, because they reflect the situation of red meat slaughterhouses only, as employment data for the other types of plants is not available. In addition, the figures were estimated from employment information for 27 medium-sized and large firms, from which was inferred an average number of employees per Animal Unit (AU). This average was then applied to all plants to estimate the number of employees. This procedure is likely to over-estimate the number of micro and small firms (because those firms probably have relatively more employees per AU than larger ones, given the economies of scale in the sector). In addition, the figures could be misleading because, for example, cutting plants are numerous, but will be subject to much smaller increases in charge than suggested by the tables.

⁵ The base-year charges to which this RIA relates are intended to be in effect from 31 December 2007 to 30 March 2008 inclusive, i.e. for three months only. Estimated figures for that period have been multiplied by four to provide base-year data from which the estimated increase in charges have been derived.

Table 5: Estimated* impact of proposals on profit of red meat slaughterhouses across GB⁶

Profit expressed using 2005/6 prices	Plant type ⁷				
	Micro	Small	Medium	Large	All
Basic details					
Throughput Quartile	1	2	3	4	N/A
Number of firms in sample	4	10	34	30	78*
Maximum throughput possible in this band (AUs)	895	6,561	31,638	386,447	N/A
2008Q1					
Average pre-tax profit (£k)	-163.06	39.24	25.25	384.51	155.56
Pre-tax profit margin	-28.75%	2.23%	0.46%	1.42%	1.19%
Hygiene charge as percentage of pre-tax profit	-0.82%	14.36%	167.38%	49.22%	59.14%
Number of firms with negative profit	3	4	14	6	27
2008/9 (8%)					
Average pre-tax profit (£k)	-163.07	39.19	24.90	382.521	154.52
Pre-tax profit margin	-28.75%	2.23%	0.45%	1.42%	1.18%
Hygiene charge as percentage of pre-tax profit	-0.83%	14.74%	173.82%	51.32%	61.56%
Number of firms with negative profit	3	4	14	7	28

* Estimates include data from 11 Scottish premises.

5.2.2. Benefits

- i. There will be a reduction in cost to taxpayers in subsidising the cost of official controls.

5.3 Poultry slaughterhouses

5.3.1 Costs

5.3.1.1 Poultry slaughterhouses would be affected by an 8% increase in both time-costs hourly rates and standard rates, except that:

- i. The standard rate for turkeys weighing less than 2kg would not be increased because the rate was increased by more than 8% from 31 December 2007; and
- ii. The standard rate for young turkeys weighing 2kg or more and adult turkeys weighing less than 5kg would not be increased because the rate was increased by more than 8% from 31 December 2007.

5.3.1.2 The change in standard rates for turkeys of different weights that took place on 31 December 2007 has not been included in the analysis as MHS data currently does not record turkey throughput separately. The simulation results therefore overestimate the charge increases, but the over-estimation is considered to be minimal. However, we understand that none of the

⁶ Due to roundings, the numbers do not necessarily calculate to the figures shown.

⁷ See footnote 3, paragraph 1.

approved poultry slaughterhouses in Scotland currently process turkey. With that caveat, the proposed 8% increase in standard and hourly rates would raise the total annual charge across the poultry sector by £25,500, or 12.03%. Table 6 below provides a breakdown of the Scottish position.

5.3.1.3 The reason that the annual charge is estimated to increase by a greater percentage than the increases to charges is because they would represent a greater proportion of official controls costs due to the way slaughterhouse staff costs enter the charge calculation⁸. The relative increase in charge does, however, vary with plant size, from 0% for micro plants to 12.03% for large plants. This is explained by the fact that large plants tend to employ more Plant Inspection Assistants (PIAs – Slaughterhouse staff with the appropriate qualifications carrying out specific tasks relating to the production of meat from poultry or lagomorphs under the supervision of an Official Veterinarian).

Table 6: estimated increase in hygiene charges affecting poultry slaughterhouses in Scotland⁹

	Plant type ¹⁰				
	Micro	Small	Medium	Large	All
	1 plant	0 plants	0 plants	5 plants	6 plants
MHS Charge 2008Q1 (annualised)¹¹					
Total (£k)	0.0	0.0	0.0	211.8	211.8
Average per plant (£k)	0	0	0	42.4	35.3
Average per animal unit (AU) (£)	0.0	0.0	0.0	0.3	0.3
Number of plants charged time cost	0	0	0	0	0
MHS charge 2008/9 (8% increase)					
Total (£k)	0.0	0.0	0.0	237.3	237.3
Average per plant (£k)	0	-	-	47.46	39.55
Average per animal unit (£)	0.0	-	-	0.6	0.5
Number of plants charged time cost	0	0	0	0	0
Number of plants with zero charge	1	0	0	1	2
Increase in charge over 2008Q1 baseline					
Total (£k)	0.0	0.0	0.0	25.5	25.5
Average per plant (£k)	0.00	-	-	5.09	4.24
Percentage increase	-	-	-	12.03%	12.03%

⁸ Businesses that employ staff to do official controls work are charged as follows:

Official controls cost (time-costs or as calculated from throughput rates) (A) less slaughterhouse staff cost to the business (B) = the official controls charge to the business (C). The proposed increases to A have been assumed to be greater than the likely increases to B, leading to an estimated 12.03% increase in official controls charges to large plants.

Illustrative example:	Official controls cost (A)	£100	+8%	£108
	Slaughterhouse staff cost (B)	£35	+3%	£36
	Official controls charge (C)	£65	10.7%	£72

⁹ Due to roundings, the numbers do not necessarily calculate to the figures shown.

¹⁰ See footnote 3, paragraph 1.

¹¹ See footnote 4.

5.3.2 Benefits

- i. There will be a reduction in cost to taxpayers in subsidising the cost of official controls.

5.4 Game-Handling Establishments

5.4.1 Costs

- 5.4.1.1 Game-handling establishments will be affected by an 8% increase in both time-cost and standard rates, except that the standard charge rates for boars and for ruminants (mainly deer) weighing no more than 18kg would not be increased (this is to take account of the greater than 8% increases that came into effect on 31 December 2007).
- 5.4.1.2 The assessment of the impact on game-handling establishments, shown in Table 7 below, is based on MHS data for 2004/05, when there were 14 plants subject to charging in Scotland. The great majority of these were small in size and they paid an extremely small proportion of the total of MHS charges to the meat industry, approximately £21,000. This underlying position is considered to be substantially unchanged and the proposed 8% increase in charges would result in an estimated 5.4% increase in payments, costing a total of approximately £1000. The less than proportional increase is because no increases are being proposed to the standard rates for boars and ruminants weighing no more than 18kg.

Table 7: estimated increase in hygiene charges paid by Game Handling Establishments in Scotland¹²

	Scotland
	(n=14)
MHS Charge 2008Q1 (annualized)¹³	
Total (£)	21,122
Average per plant (£)	1,509
Number of plants charged time cost	1
MHS charge 2008/9 (8% increase)	
Total (£)	22,270
Average per plant (£)	1,591
Number of plants charged time cost	1
Increase in charge over 2008Q1 baseline	
Total (£)	1,148
Average per plant (£)	82.01
Percentage increase	5.4%

¹² Due to roundings, the numbers do not necessarily calculate to the figures shown.

¹³ The base-year charges to which this RIA relates are intended to be in effect from 31 December 2007 to 30 March 2008 inclusive, i.e. for three months only. Estimated figures for that period have been multiplied by four to provide base-year data from which the estimated increase in charges have been derived.

5.4.1.3 Scotland would be relatively more affected than the rest of GB because almost a third of all game plants are located in Scotland. However, the average percentage increases in charge per plant in Scotland are very similar to those for the whole of GB. In that sense the effect of the proposals on Scottish plants is not disproportionate.

5.4.2 Benefits

- i. There will be a reduction in cost to taxpayers in subsidising the cost of official controls.

5.5 Impact on Cutting Plants

5.5.1 Costs

5.5.1.1 The impact on cutting plants has been estimated using data from April to August 2007, which takes account of the current audit-based official controls system that was introduced in January 2006 and of the abolition of an EC minimum charge rule¹⁴ from January 2007. The implementation of the EC OFFC minimum standard rates on 31 December 2007 did not affect the rate that is currently charged per tonne of meat in the United Kingdom. As a result, the proposals involve the same percentage increase for hourly and standard rates. It follows that the relative increase in charge to the operators of cutting plants would be exactly equal to the proposed percentage 8% increase in rates, i.e. the charge would increase by exactly 8%.

5.5.1.2 Table 8, below, reports an estimated 2007/08 charge of £61,000 derived from the data. It follows that an 8% increase in rates would raise the charge by £5,000.

Table 8: Estimate of 2007/08 charge for cutting plants (based on available data from April to August 2007)¹⁵

	Plant Type ¹⁶				
	Micro	Small	Medium	Large	All
Number of plants	30	13	23	28	94
MHS charge 2008Q1 (annualised) ¹⁷					
Total (£k)	3.4	5.6	19.9	31.8	60.7
Average per plant (£k)	0.1	0.4	0.9	1.1	0.6
Number of plants charged time cost	8	3	8	10	29
MHS charge 2008/9 (8% increase)					
Total (£k)	3.7	6.0	21.5	34.3	65.6
Average per plant (£k)	0.1	0.5	0.9	1.2	0.7
Number of plants charged time cost	8	3	8	10	29
Increase in charge over 2008Q1 baseline					
Total (£k)	0.3	0.4	1.6	2.5	4.9
Average per plant (£k)	Negligible	0.03	0.07	0.09	0.05
Percentage increase	8.0%	8.0	8.0%	8.0%	8.0%

¹⁴ The EC minimum charge rule specified that the charge to FBOs should not be lower than 45% of the charge calculated from standard (throughput) rates.

¹⁵ Due to roundings, the numbers do not necessarily calculate to the figures shown

¹⁶ See footnote 3, paragraph 1.

¹⁷ Due to roundings, the numbers do not necessarily calculate to the figures shown.

5.5.2 Benefits

- i. There will be a reduction in cost to taxpayers in subsidising costs of official controls.

5.6 Impact on Individual Businesses

5.6.1 The impact of implementing the proposed increases to time cost hourly rates and standard rates would mean that the ratio of businesses that pay time costs and standard rates charges would be broadly that which applies at present. Businesses paying time costs would be charged 8% more per hour, but the total charge will continue to depend on the amount of chargeable work done. The impact on businesses paying standard rates charges would vary between businesses depending on the type and numbers of the animals or of the meat that they processed. Table 9, below, gives examples of how the standard rates would change and is provided to help FBOs assess the impact of the proposals on their business.

Table 9: examples of current and proposed charges per 100 animals¹⁸

	Current charge £ per 100 animals	Proposed charge £ per 100 animals from 31 March 2008	Increase	
			£ Per 100 animals	%
Bovine - adult	337.88	343.50	4.62	1.8%*
Bovine - young	176.70	190.84	14.14	8%
Sheep less than 12kg	12.37	13.36	0.99	8%
Sheep 12 –18kg	24.74	26.72	1.98	8%
Sheep over 18kg	35.34	38.17	2.83	8%
Pigs less than 25kg	35.34	38.17	2.83	8%
Pigs 25kg or more	91.89	99.24	7.35	8%
Boar less than 25kg	101.36	101.36	None	Nil
Boar 25kg or more	101.36	101.36	None	Nil
Other ruminants less than 18kg	33.79	33.79	None	Nil
Other ruminants 18kg or more	35.34	38.17	2.83	8%
All broilers	0.71	0.77	0.06	8%
Turkey less than 2kg	1.69	1.69	None	Nil
Turkey over 2kg, except as below	1.69	1.69	None	Nil
Turkey – adult 5kg or more	2.82	3.05	0.23	8%

* The increase to adult bovines is a further 1.8% above the current rate per animal, calculated as follows:
current rate = £3.3788 (+6.2%); 31 March 2008 rate = £3.4350 (*8% above the current rate).

5.7 Costs to Small Firms

5.7.1 The operators of all approved meat businesses would continue to pay the lesser of time-costs or standard charges. This arrangement was introduced to provide support to smaller plants by charging them on the basis of their throughput and table 10, overleaf, gives examples of the effect of the proposals on micro and small businesses.

¹⁸ Due to roundings, the numbers do not necessarily calculate to the figures shown.

Table 10: examples of the effect of the proposed increase in standard rates charges per week for businesses with relatively low levels of throughput¹⁹.

	No of animals		Charge from 31/12/07 [#] £		Proposed charge £		Increase £		Increase %	
	Micro	Small	Micro	Small	Micro	Small	Micro	Small	Micro	Small
Slaughterhouse (mixed species)										
Bovine adult	2	11	6.76	37.17	6.87	37.79	0.11	0.62	1.8%	1.8%
Sheep less than 12kg	2	11	0.25	1.36	0.27	1.47	0.02	0.11	8.0%	8.0%
Sheep 12 – 18kg	2	11	0.49	2.72	0.53	2.94	0.04	0.22	8.0%	8.0%
Sheep over 18kg	7	55	2.47	19.44	2.67	20.99	0.20	1.55	8.0%	8.0%
Pigs less than 25kg	7	55	2.47	19.44	2.67	20.99	0.20	1.55	8.0%	8.0%
Pigs 25kg or more	15	110	13.78	101.08	14.89	109.16	1.11	8.08	8.0%	8.0%
Boars less than 25kg	2	11	2.03	11.15	2.03	11.15	0	0	Nil	Nil
Boars 25kg or more	2	11	2.03	11.15	2.03	11.15	0	0	Nil	Nil
Deer less than 18kg	2	11	0.68	3.72	0.68	3.72	0	0	Nil	Nil
Deer 18kg or more	3	22	1.06	7.77	1.15	8.40	0.09	0.63	8.0%	8.0%
Total charge			32.02	215.00	33.79	227.76	1.77	12.76	5.5%	5.9%
Poultry slaughterhouse										
Broilers	750	8,500	5.33	60.35	5.78	65.45	0.45	5.1	8.0%	8%
Turkeys, less than 2kg	50	550	0.84	9.30	0.84	9.30	0	0	Nil	Nil
Turkey, 2kg or more ²⁰	500	5,500	8.45	92.95	8.45	92.95	0	0	Nil	Nil
Turkey, adult 5kg or more	50	550	1.41	15.51	1.52	16.78	0.11	1.27	8.0%	8%
Total charge			16.03	178.11	16.59	184.48	0.56	6.37	3.5%	3.6%
Game-handling establishment										
Small game birds, less than 2kg	5	170	0.04	1.21	0.04	1.31	0	0.10	8.0%	8.0%
Small ground game, 2kg or more ²¹	1	35	0.01	0.50	0.02	0.54	0.01	0.04	8.0%	8.0%
Boars less than 25kg	1	2	1.01	2.03	1.01	2.03	0	0	Nil	Nil
Boars 25kg or more	1	2	1.01	2.03	1.01	2.03	0	0	Nil	Nil
Deer less than 18kg	1	20	0.34	6.76	0.34	6.76	0	0	Nil	Nil
Deer 18kg or more	1	20	0.35	7.07	0.38	7.63	0.03	0.56	8.0%	8%
Total charge			2.76	19.60	2.80	20.30	0.04	0.70	1.4%	3.6%
Cutting plant										
	Tonnes									
All Meat	2	6	4.24	12.72	4.58	13.74	0.34	1.02	8.0%	8.0%

[#] No 2 Regulations.

6. TEST RUN OF BUSINESS FORMS

6.1 No changes to the administration of the system for charging for meat hygiene official controls are intended as part of these proposals. No new or additional forms will be introduced.

7. COMPETITION ASSESSMENT

7.1. The proposals are unlikely to significantly affect competition as all approved meat businesses will be affected by the generally applicable increase in time-

¹⁹ Due to roundings, the numbers do not necessarily calculate to the figures shown.

²⁰ Except those which are adult and weight 5kg or more.

²¹ Except those which are adult and weight 5kg or more.

cost and standard charges. Similar proposals are being made in England, Wales and Northern Ireland. All operators would continue to pay the lesser of time costs or standard charges.

8. ENFORCEMENT, SANCTIONS AND MONITORING

- 8.1. The Meat Hygiene Service (MHS) would monitor the delivery of the proposal in GB (DARD in NI) in accordance with their usual procedures.
- 8.2. The regulations have been drafted, in accordance with Hampton principles. This applies, in particular, to the way that the regulations have been drafted to be easily understood and easily implemented, the information requirements that will be made of FBOs, the sanctions that may be applied and the easy availability of free advice about charges.
- 8.3. No changes are being proposed to the sanctions contained in the current regulations, which are considered to be proportionate and the minimum needed to enable the policy to be implemented effectively

9. SUSTAINABLE DEVELOPMENT

- 9.1. The proposal might have an impact on the delivery of the Scottish Government's strategic objectives on sustainable development if meat processing premises were to close. In this event it could lead to an increase in food miles, through livestock and meat having to travel greater distances, although the majority of meat premises will continue to benefit from paying meat inspection charges according to throughput.

10. RURAL PROOFING

- 10.1. Scotland's meat industry is distributed across rural and urban areas, with some small slaughterhouses, cutting premises and game handling establishments located on islands and in other remote parts of the country. Larger and more complex meat processing premises are generally sited close to the main centres of population. Therefore, the proposed increases in charges would affect businesses according to processing activities as opposed to location. FBOs of many meat processing premises would continue to benefit from being charged the lower of the standard charge or time based charge. Since some slaughterhouse FBOs source animals from a diverse range of primary producers, passing on all or part of the proposed increases to meat inspection charges may impact upon primary producers across the whole country and particularly those in rural areas.

11. RISK, UNCERTAINTY AND UNINTENDED CONSEQUENCES

- 11.1. The risk of increasing time costs and most standard rates charges by 8% is considered to be low as this increase would apply throughout the UK. However,

there is uncertainty as to whether the incidence of slow payments and bad debts might rise leading to an increase in implementation costs. Implementation would be done using current systems and the risk of other unintended consequences is considered to be low.

12. IMPLEMENTATION AND DELIVERY PLAN

- 12.1 The MHS would implement the proposal in Scotland and the rest of GB (and by the Department of Agriculture and Rural Development –DARD- in NI) in accordance with their usual procedures. This includes ensuring that the FBOs are alerted to the increased charges that would affect them.

13. POST-IMPLEMENTATION REVIEW

- 13.1 The policy would be reviewed in June 2008 to establish its actual costs and benefits and the achievement of its desired objectives.

14. SUMMARY AND RECOMMENDATION

- 14.1 The proposed SSI will ensure continuing compliance with EC law and maintain the current charging system.
- 14.2 Option 3 is preferred as it will start to redress the cost-sharing balance for meat hygiene official controls in 2008/09, leaving further increases to be considered with regard to planned reductions in the overall costs of official controls.

15. DECLARATION AND PUBLICATION

- 15.1 I have read the Regulatory Impact Assessment and I am satisfied that the benefits justify the costs.

Signed: S.Robison

Date: 6th March 2008

Minister for Public Health

Contact point

Claire Tyreman
Animal Food Chain and Novel Foods Branch
Food Standards Agency Scotland
6th floor, St Magnus House
25 Guild Street
Aberdeen
AB11 6NJ

Tel: 01224 285105

e-mail: Claire.Tyreman@foodstandards.gsi.gov.uk