

2008-2009/57
SI 3268

SI 2009/1574

Summary: Intervention & Options

Department / Agency:
Food Standards Agency

Title: Impact Assessment of measures to change the charging arrangements and charging levels for meat official controls carried out in Great Britain from 28 September 2009.

Stage: Final

Version: Final

Date: June 2009

Related Publications: Food Standards Agency Board papers: Review of the Delivery of Official Controls in Approved Meat Premises: Final Report, 19 July 2007 - <http://www.food.gov.uk/multimedia/pdfs/fsa070706.pdf> ;
Future Delivery of Official Controls in Approved Premises - <http://www.food.gov.uk/multimedia/pdfs/board/fsa080504.pdf> ;
Future of Charging for Official Meat Controls - <http://www.food.gov.uk/multimedia/pdfs/board/fsa080705.pdf> .

Available to view or download at: <http://www.food.gov.uk/foodindustry/regulation/ria/>

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What is the problem under consideration? Why is government intervention necessary?

Consumers and food manufacturers need to be confident that meat is of the nature, substance and quality that they wish to buy, but they cannot assess this fully from its appearance when it is offered for sale. Government intervention is needed to ensure that meat is of the standard necessary to ensure that a good level of confidence is maintained and that the risk of meat-borne disease is managed appropriately. Meat official controls are carried out in order for the Government to achieve these objectives.

What are the policy objectives and the intended effects?

The main objective of the policy is to encourage increased efficiency in the conduct of official controls at approved meat businesses.

What policy options have been considered? Please justify any preferred option.

A range of options have been considered, with the measures at 1 to 6 below being pursued:

Option 1: do nothing;

Measure 1: introduce generally applicable time-cost charging for meat hygiene and animal welfare at slaughter controls;

Measure 2: defer increases in charges

Measure 3: defer the introduction of charges for controls on Specified Risk Material and for additional controls that apply to cattle slaughtered for human consumption that are tested for BSE;

Measure 4: introduce charges for meat controls carried-out on-farm by the MHS;

Measure 5: introduce measures relating to business declaration of work practices, review of and appeal against official control staff levels.

Measure 6: to amend the timing and calculation of adjustments to charge rates to comply with EC minima.

Measures 1, 4, 5 and 6 in combination are being pursued. These will provide an incentive to minimise official control costs and make small improvements to the operation of the charging system.

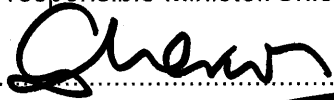
When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? 6 months after the implementation date.

Ministerial/CEO Sign-off For final proposal /implementation Impact Assessments:

Please sign **I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.**

Signed by the responsible Minister/Chief Executive*:

Please date

X 

X Date: 24/6/09

* for Impact Assessments undertaken by non-ministerial departments/agencies and NOT being considered by Parliament

Summary: Analysis & Evidence

Policy Option:
Measure 1

Description: to introduce a new method of calculating charges for meat hygiene and animal welfare at slaughter official controls (referred to as meat hygiene controls hereafter) based on the time-costs of carrying them out.

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' None identified
	One-off (Transition)	Yrs	
	£	1	
	Average Annual Cost (excluding one-off)		
£		Total Cost (PV)	£
Other key non-monetised costs by 'main affected groups'			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' None quantified
	One-off	Yrs	
	£	1	
	Average Annual Benefit (excluding one-off)		
£		Total Benefit (PV)	£
Other key non-monetised benefits by 'main affected groups' Increased efficiency in meat hygiene and animal welfare at slaughter official controls and increased levels of compliance, leading to a reduction in the total cost of these controls.			

Key Assumptions/Sensitivities/Risks

Price Base Year: N/A	Time Period Years: N/A	Net Benefit Range (NPV) £ N/A	NET BENEFIT (NPV Best estimate) £ N/A		
What is the geographic coverage of the policy/option?			GB		
On what date will the policy be implemented?			28/09/09		
Which organisation(s) will enforce the policy?			FSA (MHS)		
What is the total annual cost of enforcement for these organisations?			£0.1m for debt recovery		
Does enforcement comply with Hampton principles?			Yes		
Will implementation go beyond minimum EU requirements?			No		
What is the value of the proposed offsetting measure per year?			£ N/A		
What is the value of changes in greenhouse gas emissions?			£ N/A		
Will the proposal have a significant impact on competition?			No		
Annual cost (£-£) per organisation (excluding one-off)		Micro N/A	Small N/A	Medium N/A	Large N/A
Are any of these organisations exempt?		No	No	N/A	N/A
Impact on Admin Burdens Baseline (2005 Prices)				(Increase - Decrease)	
Increase of	£ Negligible	Decrease of	£ Nil	Net Impact	£ Negligible

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Summary: Analysis & Evidence

Policy Option:
Measure 2

Description: to defer increases in charges for meat hygiene controls..

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' None
	One-off (Transition)	Yrs	
	£ 0		
	Average Annual Cost (excluding one-off)		
	£ 0		Total Cost (PV) £ 0
Other key non-monetised costs by 'main affected groups'			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' None
	One-off	Yrs	
	£ 0		
	Average Annual Benefit (excluding one-off)		
	£ 0		Total Benefit (PV) £ 0
Other key non-monetised benefits by 'main affected groups'			

Key Assumptions/Sensitivities/Risks

Price Base Year: N/A	Time Period Years: N/A	Net Benefit Range (NPV) £ 0	NET BENEFIT (NPV Best estimate) £ 0		
What is the geographic coverage of the policy/option?			GB		
On what date will the policy be implemented?			N/A		
Which organisation(s) will enforce the policy?			FSA (MHS)		
What is the total annual cost of enforcement for these organisations?			N/A		
Does enforcement comply with Hampton principles?			N/A		
Will implementation go beyond minimum EU requirements?			N/A		
What is the value of the proposed offsetting measure per year?			£ N/A		
What is the value of changes in greenhouse gas emissions?			£ N/A		
Will the proposal have a significant impact on competition?			No		
Annual cost (£-£) per organisation (excluding one-off)		Micro £0	Small £0	Medium £0	Large £0
Are any of these organisations exempt?		No	No	N/A	N/A
Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)					
Increase of £ Nil		Decrease of £ Nil		Net Impact £ Negligible	

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Summary: Analysis & Evidence

Policy Option:
Measure 3

Description: to defer the introduction of charges for Specified Risk Material official controls and for additional controls that apply to cattle slaughtered for human consumption that are tested for BSE..

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' None
	One-off (Transition)	Yrs	
	£ 0		
	Average Annual Cost (excluding one-off)		
	£ 0		Total Cost (PV) £ 0
Other key non-monetised costs by 'main affected groups'			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' None
	One-off	Yrs	
	£ 0		
	Average Annual Benefit (excluding one-off)		
	£ 0		Total Benefit (PV) £ 0
Other key non-monetised benefits by 'main affected groups'			

Key Assumptions/Sensitivities/Risks					
Price Base Year: N/A	Time Period Years: N/A	Net Benefit Range (NPV) £ 0	NET BENEFIT (NPV Best estimate) £ 0		
What is the geographic coverage of the policy/option?			GB		
On what date will the policy be implemented?			N/A		
Which organisation(s) will enforce the policy?			FSA (MHS)		
What is the total annual cost of enforcement for these organisations?			N/A		
Does enforcement comply with Hampton principles?			N/A		
Will implementation go beyond minimum EU requirements?			N/A		
What is the value of the proposed offsetting measure per year?			£ N/A		
What is the value of changes in greenhouse gas emissions?			£ N/A		
Will the proposal have a significant impact on competition?			No		
Annual cost (£-£) per organisation (excluding one-off)		Micro £0	Small £0	Medium £0	Large £0
Are any of these organisations exempt?		No	No	N/A	N/A
Impact on Admin Burdens Baseline (2005 Prices)				(Increase - Decrease)	
Increase of	£ Nil	Decrease of	£ Nil	Net Impact	£ Negligible

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Summary: Analysis & Evidence

Policy Option:
Measure 4

Description: to enable charges to be made for official controls carried out on-farm or at another place of origin by the MHS.

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' None quantified
	One-off (Transition)	Yrs	
	£		
	Average Annual Cost (excluding one-off)		
£		Total Cost (PV)	£
Other key non-monetised costs by 'main affected groups' New charges for a proportion of the costs of the limited services currently carried out on farms or other places of origin by the MHS.			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' None quantified
	One-off	Yrs	
	£		
	Average Annual Benefit (excluding one-off)		
£		Total Benefit (PV)	£
Other key non-monetised benefits by 'main affected groups' New charges for a proportion of the costs of the limited services currently carried out on farms or other places of origin by the MHS. Additional choice in services provided on farm or at another place of origin.			

Key Assumptions/Sensitivities/Risks				
Price Base Year: 2008	Time Period Years: one	Net Benefit Range (NPV) £ N/A	NET BENEFIT (NPV Best estimate) £ N/A	
What is the geographic coverage of the policy/option?			GB	
On what date will the policy be implemented?			28/09/09	
Which organisation(s) will enforce the policy?			FSA (MHS)	
What is the total annual cost of enforcement for these organisations?			Negligible debt recovery	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			Yes	
What is the value of the proposed offsetting measure per year?			£ N/A	
What is the value of changes in greenhouse gas emissions?			£ N/A	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro N/A	Small N/A	Medium N/A	Large N/A
Are any of these organisations exempt?	No	No	N/A	N/A
Impact on Admin Burdens Baseline (2005 Prices)			(Increase - Decrease)	
Increase of	£ Negligible	Decrease of	£ Nil	Net Impact £ Negligible

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Summary: Analysis & Evidence

Policy Option:
Measure 5

Description: to require businesses to declare working hours and practices, to introduce a £250 fee to initiate a review of the initial MHS assessment of required staff levels, and to allow businesses to appeal against the final MHS assessment of required staff levels.

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' None quantified.
	One-off (Transition)	Yrs	
	£		
	Average Annual Cost (excluding one-off)		
	£		Total Cost (PV) £
Other key non-monetised costs by 'main affected groups' Cost of reviews of Business Agreements to Government where agreement cannot be reached (estimated at £1k-£2k per review, but expected number of reviews is not known at this stage).			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' None quantified.
	One-off	Yrs	
	£		
	Average Annual Benefit (excluding one-off)		
	£		Total Benefit (PV) £
Other key non-monetised benefits by 'main affected groups' Greater collaborative working between businesses and the MHS will achieve increased efficiency in meat hygiene and animal welfare at slaughter official controls leading to a reduction in the total cost of controls.			

Key Assumptions/Sensitivities/Risks Assumed that there is no additional cost to agreeing the Business Agreement rather than the current Operating Hours Agreement

Price Base Year: 2008	Time Period Years: one	Net Benefit Range (NPV) £ N/A	NET BENEFIT (NPV Best estimate) £ N/A		
What is the geographic coverage of the policy/option?			GB		
On what date will the policy be implemented?			28/09/09		
Which organisation(s) will enforce the policy?			FSA (MHS)		
What is the total annual cost of enforcement for these organisations?			Negligible		
Does enforcement comply with Hampton principles?			Yes		
Will implementation go beyond minimum EU requirements?			Yes		
What is the value of the proposed offsetting measure per year?			£ N/A		
What is the value of changes in greenhouse gas emissions?			£ N/A		
Will the proposal have a significant impact on competition?			No		
Annual cost (£-£) per organisation (excluding one-off)		Micro N/A	Small N/A	Medium N/A	Large N/A
Are any of these organisations exempt?		No	No	N/A	N/A
Impact on Admin Burdens Baseline (2005 Prices)				(Increase - Decrease)	
Increase of	£ Negligible	Decrease of	£ Nil	Net Impact	£ Negligible

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Summary: Analysis & Evidence

Policy Option:
Measure 6

Description: to amend the timing of adjustments to charge rates to comply with EC minima from January to April each year and to use an average exchange rate for the previous calendar year instead of one for a single point in time.

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' None quantified.
	One-off (Transition)	Yrs	
	£		
	Average Annual Cost (excluding one-off)		
£		Total Cost (PV)	£
Other key non-monetised costs by 'main affected groups' The average exchange rate for a calendar year may be higher or lower than the rate prevailing at the single point in time, so the impact may lead to higher or lower charges than would have been the case.			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' None quantified.
	One-off	Yrs	
	£		
	Average Annual Benefit (excluding one-off)		
£		Total Benefit (PV)	£
Other key non-monetised benefits by 'main affected groups' As for costs, plus administrative savings for MHS and business from all charge rates changing at the same time instead of two separate occasions.			

Key Assumptions/Sensitivities/Risks					
Price Base Year: 2008	Time Period Years: one	Net Benefit Range (NPV) £ N/A	NET BENEFIT (NPV Best estimate) £ N/A		
What is the geographic coverage of the policy/option?			GB		
On what date will the policy be implemented?			28/09/09		
Which organisation(s) will enforce the policy?			FSA (MHS)		
What is the total annual cost of enforcement for these organisations?			Negligible		
Does enforcement comply with Hampton principles?			Yes		
Will implementation go beyond minimum EU requirements?			No		
What is the value of the proposed offsetting measure per year?			£ N/A		
What is the value of changes in greenhouse gas emissions?			£ N/A		
Will the proposal have a significant impact on competition?			No		
Annual cost (£-£) per organisation (excluding one-off)		Micro N/A	Small N/A	Medium N/A	Large N/A
Are any of these organisations exempt?		No	No	N/A	N/A
Impact on Admin Burdens Baseline (2005 Prices)				(Increase - Decrease)	
Increase of	£ Negligible	Decrease of	£ Nil	Net Impact	£ Negligible

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Evidence Base (for summary sheets)

Rationale for Government intervention and intended outcomes

1. Consumers and food manufacturers need to be confident that meat is of the nature, substance and quality that they wish to buy, but they cannot assess this fully from its appearance when it is offered for sale. Government intervention is needed to ensure that meat is of the standard necessary to ensure that a good level of confidence is maintained and that the risk of meat-borne disease is managed appropriately. Meat official controls are carried out in order for the Government to achieve these objectives.
2. Approved meat businesses derive benefit from the meat official controls and they are currently required to pay a proportion of the cost of them. However, since 2001 the proportions of the cost that are borne by businesses and by taxpayers have become unbalanced with the result that most slaughterhouses and game handling establishments, and some meat cutting plants are charged much less than the cost of the controls.
3. At present, there is little incentive for the majority of businesses to use official control time efficiently. To overcome this, the system of charging is to be changed. The Statutory Instrument to which this Impact Assessment refers will replace the current charging system under which most slaughterhouses and game handling establishments are charged on the basis of the number of animals that they process and about half of cutting plants are charged on the tonnage of meat that they cut up. The measures will replace this with a system that charges a proportion of the official meat controls cost calculated from the time it takes to carry out those controls. This will provide each business with an incentive to reduce the number of official control hours that it requires and for it to work cooperatively with the official controls authority, the Meat Hygiene Service (MHS), to achieve that end.

Background

4. The EC requirements for charges for official controls are set out in Regulation (EC) No. 882/2004, known as the OFFC¹ Regulation.
5. The Regulation:
 - i. requires that charges be made to businesses for the cost of meat hygiene and animal welfare at slaughter official controls (referred to as meat hygiene controls hereafter) carried out at approved meat premises². These charges must be no more than actual costs incurred in carrying out official controls and in general no less than the amount calculated from specified minimum rates per animal or tonne of meat (the minima);
 - ii. permits charges to be made for other controls, such as those on the removal and disposal of Specified Risk Material (SRM) from cattle, sheep and goats and the cost of additional BSE controls³ that apply to cattle slaughtered for human consumption that are required to be tested for BSE, at approved meat premises. These charges must be no more than actual costs (the minima do not apply).

¹ Regulation "on Official Controls performed to ensure the verification of compliance with Feed and Food law, animal health and animal welfare rules".

² Slaughterhouses, game handling establishments and meat cutting plants that are approved by the Food Standards Agency (FSA) as required by Regulation (EC) 853/2004.

³ Controls set out in the Transmissible Spongiform Encephalopathies (England) Regulations 2008 (No. 1881) as amended, Schedule 2, Part 1 and Schedule 7 and equivalent Regulations in Scotland, Wales and Northern Ireland.

6. Official meat controls are carried out in Great Britain by the MHS, which is part of the Food Standards Agency (FSA).⁴
7. The cost of meat hygiene controls has increased and the proportion of costs charged to industry has fallen substantially since the present meat hygiene charging system was introduced in 2001.
8. The Treasury guidance states that the purpose of charging for services is to ensure that resources are allocated efficiently. Other benefits include:
 - a. greater visibility of the costs and benefits of services;
 - b. encouraging users and the MHS to work cooperatively to examine critically the level of controls required in each business, which in turn enables the MHS to better assess whether more or less resources should be allocated to the business;
 - c. that it relieves taxpayers of costs properly borne by users who benefit directly from a service, enabling public resources to be allocated elsewhere, or to lower public expenditure and borrowing;
 - d. consumers and food manufacturers need to be confident that meat is of the nature, substance and quality that they wish to buy, but they cannot assess this fully from its appearance when it is offered for sale. Official controls are needed to ensure that meat is of the standard necessary to ensure that a good level of confidence is maintained and that the risk of meat-borne disease is managed appropriately, which benefits approved meat businesses and the meat industry generally.

Official control charges are therefore regarded as a legitimate cost to these businesses.

Context

Reducing the cost of meat official controls

9. The MHS has actively sought to improve the efficiency and effectiveness with which it carries out meat official controls, which has reduced the cost of doing so. This was achieved by streamlining the structure of the MHS, which yielded significant savings. Following a review, staffing levels in approved abattoirs were reduced by 134 staff, which delivered a saving of £4million. A further £7 million per annum is being saved as a result of a comprehensive restructuring of the organisation of official controls work, which has been achieved through grouping approved meat businesses into geographical clusters, revised management structures and the closure of regional offices. The work to increase efficiency is continuing.

The current method of charging for meat hygiene controls

10. The current method of calculating meat hygiene charges, known as the Maclean system, is to charge each business the lower of discounted MHS staff time costs or a charge that depends on the number of animals or amount of meat that is processed (known as a throughput charge). This method of calculation was introduced in 2001 when the slaughterhouse industry was rapidly rationalising in response to changing market needs and was facing a sudden significant rise in official control charges due to the need in 1999 for the Government to implement an EC law which required full time veterinary supervision at slaughterhouses. There was concern that the increased charges were sufficiently large to present a real risk that some businesses would be forced to close, which could have

⁴ In Northern Ireland, official controls are carried out by the Department of Agriculture and Rural Development (DARD). A separate consultation on equivalent changes was carried out in Northern Ireland.

caused disruption to the meat supply and had adverse consequences for the rural economy and on animal health and welfare.

11. The Maclean charging system provided a significant level of subsidy to slaughterhouses, game handling establishments and cutting plants from the full cost of official controls and helped the industry to remain robust even during the challenges presented by the legacy of BSE and other disease outbreaks, such as foot and mouth and avian influenza. It also ensured that smaller businesses received significant levels of support.
12. The subsidised throughput charge was intended as a limited support for a limited time for small and medium-sized red meat slaughterhouses. It was needed because official controls could not be carried out efficiently at these businesses due to the relatively few animals slaughtered (i.e. because the MHS could not achieve economies of scale). However, in practice, the benefit was provided to the vast majority of the industry, both large and small plants, and it resulted in a subsidy from the public purse to the meat industry of approximately £30 million in 2008/09 against an initial level of £10million to 12 million per annum. Most importantly, the Maclean charging system removed incentives for industry to use MHS resources efficiently because the charge paid was typically a throughput charge which was not related to the amount of MHS time used.
13. Some official controls are carried out at poultry slaughterhouses by Plant Inspection Assistants (PIAs) who are employed by the business to do them instead of MHS staff.

EC Minima requirements

14. The OFFC Regulation sets out minimum rates of meat hygiene charge per type of animal and per tonne of meat (by type of meat) that is processed by an approved meat business. These rates are specified in Euros and compliance in the UK has been ensured by taking annual account of the €/£ exchange rate - the rate for each calendar year being taken to be the first rate published in the Official Journal of the European Community in the September prior to the year to which it was applied.
15. The current method of charging for meat hygiene controls takes account of the need to ensure that charges were generally no lower than those calculated from the minimum EC rates per animal or per tonne of meat stipulated in the OFFC Regulation.

Statutory Instrument

16. The Statutory Instrument, entitled the Meat (Official Controls Charges) (England) Regulations 2009, accompanying this IA is needed to implement four of the proposals set out in paragraph 21 below (proposals 1, 4, 5 and 6) in England. Equivalent legislation is being made in Scotland and Wales to provide coverage throughout Great Britain (GB) to coincide with the MHS's geographical area of responsibility. Equivalent legislation is also being made in Northern Ireland to ensure a consistent approach to charging across the UK.
17. It should be noted that the Regulations enable the charges for meat hygiene official controls to be varied but they do not make any specific reference to increasing, or reducing, charges compared with their current levels. Implementing proposal 1 only, the introduction of generally applicable time-cost charging, would be cost-neutral. This is explained in paragraph 28 below.

Consultation

18. Around 100 stakeholders in GB were consulted about the proposals, including industry representative organisations. In addition, around 900 operators of approved slaughterhouses, game handling establishments and meat cutting businesses were alerted

to the consultation and given the opportunity to respond to it, either directly or via a representative organisation.

19. The consultation followed the Cabinet Office Code of Practice, although a 14-week consultation period proved to be necessary, instead of the usual 12 weeks, as the consultation period straddled the Christmas and New Year holiday period. (Consultations were also carried out on the equivalent instruments proposed in Scotland, Wales and Northern Ireland).
20. A summary of the consultation comments and Departmental responses is published on the FSA Website at <http://www.food.gov.uk/consultations/consulteng/2008/mhscharges2009>.

Option and Proposals on which there was consultation

21. The option and proposals on which the FSA consulted are described below. The FSA was open to introducing a combination of the proposals. (The consultation stage IA can be viewed at: <http://www.food.gov.uk/consultations/>)

- Option 1 - do nothing.
- Proposal 1 - introduce generally applicable time-cost charging for meat hygiene controls.
- Proposal 2 - increase meat hygiene control charges by:
- a. inflation (4% assumed⁵), but also introduce a standard hourly rate for calculation of a 95% rebate of PIA costs;
 - b. 6%, but also introduce a standard hourly rate for calculation of a 95% rebate of PIA costs;
 - c. an amount sufficient to recover an additional £3 million charges in total over a full year (estimated to be just under 9%), but also introduce a standard hourly rate for calculation of a 95% rebate of PIA costs.
- Proposal 3 - introduce charges for controls relating to Specified Risk Material (SRM) and the cost of additional BSE controls⁶ of either:
- a. 5% of total time-costs incurred carrying out these official controls from 29 June 2009;
 - b. 5% of those time-costs but to be deferred and begin within 2010/11.
- Proposal 4 - provide for charges to be made for official controls carried out on-farm.
- Proposal 5
- a. require operators to declare the working hours and practices of their business;
 - b. introduce a £400 fee for businesses to initiate a semi-independent review of the MHS's initial assessment of required official control staff levels ; and
 - c. enable businesses to appeal to an independent third person against the MHS's final assessment of required staff levels made as a result of such a review as mentioned in paragraph b.
- Proposal 6 Comments were also sought on whether to continue to adjust charge

⁵ This relatively high estimate of inflation took into account but was lower than the previously estimated overall increases in pay rates for MHS staff (3.9% for OVs and 5.9% for MHIs).

⁶ BSE control costs are paid by Defra, and these figures also appear in Defra calculations.

rates in order to comply with EC minima from January in each calendar year or whether, with effect from 2010, to adjust those rates from the start of each MHS financial year.

22. Taking account of responses to the consultation exercise, it has been decided to pursue, with some modifications proposals, 1, 4, 5a, b & c and 6 from the later date of 28 September 2009. Details on this are set out in paragraphs (25 to 48 inclusive) below that also explain why the other proposals have been deferred or dropped.

Option – do nothing

23. Doing nothing would have meant continuing with the Maclean charging system. Under this, the majority of businesses paid throughput charges, which do not provide an incentive for them to make the most efficient use of the MHS services. There would thus have been no encouragement through charging for them to minimise the official control time the MHS needed to expend and an opportunity to reduce the cost of official controls would have been lost. It would also have meant that charges would not be increased, so in real terms they would have fallen if their value was eroded by inflation.

Proposal 1 – introduction of generally applicable time based charging

24. It was decided to implement this proposal.
25. Businesses will be charged a proportion of the cost of each hour (with quarter hours being the minimum unit of charge) that an official of the MHS works in an approved meat plant to carry out official controls. The chargeable proportion of the cost will be expressed as a discount rate that will be notified to each business. Account will continue to be taken of the interests of small/isolated businesses in determining the proportion of costs that will be charged to them.
26. The move to time-cost charges will mean that throughput charges will need to be calculated only for the purpose of ensuring that the EC minimum rates per animal or per tonne of meat are respected. That is, to ensure that the sum the FSA charges as a proportion of the time costs does not fall below the amount which would have to be charged in order to comply with the EC minima if charging was on a headage/tonne of meat basis, except in circumstances where EC law permits or requires it to do so. An example of a situation where a sum falling below one calculated from EC minima may be charged is where it is appropriate to do so in order to take account of the interests of a low throughput business. The charge must be below the minima if the full time-cost of carrying out the official controls is less than the amount calculated from the minima.
27. The FSA believes that moving to time-cost charging will encourage commercial discipline that will lead to savings for industry and taxpayers. This will be achieved through the more efficient use of available enforcement resources and by clearly setting out the basis of charges for each monthly period. Time-cost charging will also provide stronger incentives for businesses to comply with meat hygiene and animal welfare at slaughter requirements and will be easier, and thus slightly cheaper, to administer than the Maclean system.
28. The move to discounted time-cost charging will not, in itself, affect the level of charges if business practices, throughput and official control time stay the same. This will be achieved by using the Maclean charging system to calculate discount rates. Each business will be charged at a rate discounted to the same extent in percentage terms (compared with full-time costs of official controls) that would have applied under the current charging system if it had remained in place. However, any changes in business practices or throughput could affect the charge because businesses would be charged by the hour. As

explained in paragraph 27 above, the FSA expects that charging by the hour will lead to efficiencies in many cases, meaning that overall charges might be lower, all else remaining equal and subject to continuing compliance with EC minima requirements.

29. The measures being introduced:

- a. are designed to ensure that small businesses already receiving significant support will continue to do so. Large changes in the level of charges to different businesses have been avoided by basing the charges on the Maclean charging system; and
- b. are fully compliant with EC Regulations, including compliance with the EC minima which all Member States have to follow.

30. As mentioned in paragraph 13, some poultry slaughterhouses employ PIAs who carry out certain official controls for the businesses. The FSA encourages plants to employ PIAs as a means to reduce official control costs and to encourage businesses to take responsibility for official controls in their premises. Under time-cost charging, the use of PIAs by a business will contribute to the calculation of the discount it will receive, because the full cost of official controls (MHS and PIA costs) will be used in the calculation.

Proposal 2 – increases in general charging level

31. The analysis of the alternative charge increases considered, indicated that:

- a. increasing charges by 4% would, after taking account of the fall in inflation since the option was first assessed, slightly close the gap between the cost of controls and the charges for those controls. Doing this would be in line with UK Government cost sharing policy and with the FSA's general principle that it is inappropriate for it to subsidise the costs of official controls for business and that FSA expenditure should be aligned more closely with its strategic objectives. A 4% increase would have also made a significant allowance for the ability of industry to meet the additional costs.
- b. increasing charges by 6% would have taken greater account of the FSA's intention that businesses should pay a greater proportion of the cost to the FSA of delivering official controls at approved meat plants, and of the funds available to the FSA. It would also have been more closely in line than a 4% increase with the UK Government's cost sharing policy. It would have also taken significant account of the ability of the industry to meet the additional costs.
- c. increasing charges by an amount sufficient to recover an additional £3 million in total over a full year (previously estimated, based on 2007/08 data, to be just under 9%) would have been a significant move towards closing the gap between the actual cost of delivery of official controls and the charges made to industry for those controls. It would have also had regard to the ability of industry to meet the charges, even though the impact would have been greater than the 4% and 6% options.

32. The FSA also considered the possibility of increasing meat hygiene charges by 12%. However, it was decided not to consult on this because, when combined with additional revenue from the EC minima increases from January 2009, it was estimated based, on 2007/08 data, that it would have generated more than the £3 million that the FSA had decided to seek.

33. Whilst the view of the FSA is that the impact assessment indicated that a modest increase in meat hygiene charges would have been reasonable and in line with Government cost sharing policy, it was decided to defer any increase in charges this year.

Costs of Plant Inspection Assistants

34. It was decided not to implement the proposal to reduce by 5% (from 100% to 95%) the deduction made from meat hygiene charges in respect of the costs borne by some poultry slaughterhouses in employing Plant Inspection Assistants (PIAs) to undertake official controls and to base this deduction on a standard hourly rate of £11 for PIA employment costs instead of agreed actual costs. This decision means that official control charges will continue to take account of 100% of the actual PIA employment costs for each business.

Proposal 3 – charges for SRM and the cost of additional BSE controls

35. The alternatives on which the FSA consulted were to:
- introduce charges for controls relating to Specified Risk Material (SRM) and the cost of additional BSE controls⁷ of either;
 - a. 5% of total time-costs from 29 June 2009;
 - b. 5% of total time-costs to be deferred and begin within 2010/11.
36. The FSA decided not to introduce charging for these controls either from 29 June or during 2010/11. The matter will be considered further at a later date. The intention of the proposed charges was to recover a proportion of MHS costs as a first step in the FSA's intended process of balancing the cost sharing agenda with the need for official controls and the benefit that businesses derive from them. These controls only affect red meat slaughterhouses and cutting plants.

Proposal 4 - Charges for official controls carried out on-farm by the MHS

37. A provision has been included in the Regulations that this IA accompanies to enable charges to be made for meat hygiene official control work that is done on-farm or other place of origin if certain conditions are satisfied. The FSA has decided to set the level of charge for each farm/place of origin with reference to the charging discounts that apply to slaughterhouses with similar levels of throughput in order to take account of the needs of low throughput on-farm slaughterers. This is instead of charging for the full cost of the controls, as was proposed in the consultation document.
38. Currently the MHS carry out very few on-farm official controls. It is not known how much, if at all, the volume of this work might change once a charge for a proportion of the cost is introduced. However, the overall impact of the charges will be small as the overwhelming majority of animals for human consumption are slaughtered in approved abattoirs.

Proposal 5a – businesses declaration of working hours and practices

39. The Regulations accompanying this IA require businesses to declare their working hours and practices. This information is to be included in a Business Agreement (BA) with the MHS that will also set out the chargeable official control resources that the MHS allocates to meet the needs of the business. There will be costs associated with the Business Agreement, but since there is currently a requirement for businesses and the MHS to agree operating hours it is expected that any additional costs from requiring businesses to declare their working hours and practices will be minimal.
40. The MHS intends to work co-operatively with each business to enable the official control resource allocation to be kept as low as practicable.

⁷ BSE control costs are paid by Defra, and these figures also appear in Defra calculations.

Proposal 5b – introduction of a fee to initiate a semi independent review of MHS chargeable staff resource allocations

41. The Regulations that this IA accompanies introduce a £250 fee for businesses to initiate a semi-independent review of the MHS's initial assessment of the staff resources needed to carry out chargeable official controls. This is a reduction from the £400 fee that was proposed in the FSA's consultation document. The FSA Board favoured reducing the fee to £250 in order not to unduly deter small businesses from initiating a review.
42. It is not possible to estimate the impact of this fee as it is not known how many businesses are likely to be discontented with the MHS's initial assessment of the staff it needs to effectively carry out meat hygiene official controls at the premises. However, the MHS will be seeking to work cooperatively with business operators, which will minimise the likelihood of reviews being initiated. Also, the £250 fee will be reimbursed if the review finds in the operator's favour or if a subsequent appeal does so.

Proposal 5c - appeals against MHS chargeable staff resource allocations

43. The Regulations provide that where, following a review as described in paragraph 41 above, agreement still cannot be reached between the MHS and the business as to MHS staffing arrangements at the plant, businesses may have recourse to an appeals process. This appeal will be to an independent person nominated by the FSA who will review the evidence of both parties and will determine the appeal. The Regulations provide for the independent person to award appropriate costs.
44. The independent person's determination will be binding on the FSA unless it would mean that it would not fully comply with its obligation under EC law to carry out official controls. In that circumstance, the MHS would provide the staff resources it considered necessary to meet its legal obligations, but would charge the business only in respect of the staff resources considered necessary by the independent person.
45. The FSA expect that there will be few appeal cases, but it is not possible to estimate their number or their complexity and thus their impact in terms of cost.

Proposals 5b and 5c - administration costs

46. The cost to the FSA/MHS of administering reviews and appeals is estimated to be around £1,000 - £2,000 per case on average, including the participation of industry representation at the first stage review and the use of an independent person for cases that are appealed. The total cost for this cannot be estimated because the number of reviews and appeals cannot be predicted, nor is it known the extent to which appeal costs will be awarded for or against the MHS.

Proposal 6 – Applicable date for determining UK minimum charge rates per animal or per tonne of meat

47. EC regulations set out minimum meat hygiene official control charge rates per type of animal or per tonne of meat (by type of meat) that apply to all Member States. These rates are specified in EC law in Euros and need to be converted into Pounds Sterling. Current national regulations provide for the Pound/Euro exchange rate to be set each September to apply from the start of the following calendar year and the consultation document asked whether it would be more appropriate to make such changes from the start of each MHS financial year, starting in 2010. The response to this suggestion was positive.

48. The FSA decided to:

- a. change the implementation date for future changes to UK minimum charge rates that are required due to variations of the £/Euro exchange rate from the start of each calendar year to the start of each financial year; and
- b. change from applying an exchange rate prevailing at one point in time to applying an average exchange rate based on the previous calendar year⁸. This change will moderate the effect of large or small annual changes to charges based on an exchange rate set at a single point in time.

Effect on the protections provided by official controls

49. The scope of official controls will not be affected in any way by implementing the measures described above, so there will be no reduction in the level of consumer protection and the public health benefits afforded by the meat hygiene controls. The move to a time-based charging system will strengthen incentives for businesses to comply with food and animal welfare at slaughter requirements.

Impact on individual businesses

50. As explained in paragraph 28 above, the move to discounted time-cost charging will not of itself affect the level of charges.

Implementation

51. The MHS will implement time cost charges and the other measures for which the Regulations provide in GB, in accordance with their usual procedures. These include notifying businesses of the new system of charging for meat hygiene controls and about the other measures. They will explain that the new system of charges has been designed to keep the level of charge to each business unchanged, as explained in paragraph 28 above. They will also explain that any increase to charges that may be agreed in future will be notified separately.

52. It is possible that the above measures will result in some increase in the cost of pursuing debt recovery, for example if introducing discounted time-cost charges lead to an increase in the number of disagreements about charges owed. The introduction of charges for official controls carried out by the MHS on-farms is likely to have a negligible effect on the cost of debt recovery due to the small number of charges that are likely to be made.

Monitoring

53. The MHS will monitor the implementation of the measures in GB in accordance with their usual procedures. The effect of the measures will be reviewed in April 2010 to establish their actual costs and benefits and the achievement of their desired objectives.

Enforcement

54. The MHS will enforce the measures in GB.

55. The Regulations implementing the measures take account of Hampton principles. This applies, in particular, to the way that they have been drafted to be easily understood and easily implemented, the information requirements that will be made of businesses, the sanctions that may be applied and the easy availability of free advice about charges.

⁸ Calculated using the first exchange rate to be published each month in the C series of the Official Journal of the European Community.

Sanctions

56. The measures do not change 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.

Compensatory simplification

57. The introduction of generally applicable time-cost charging will be simpler to administer and easier to understand than the Maclean charging system that it replaces. In addition, the cost of chargeable official controls has been reduced due to increases in MHS efficiency and they are expected to reduce further as a result of further efficiency savings being made, partly driven by time-cost charges. The MHS expects that many approved businesses will see fewer hours charged for meat official controls.

Carbon Impact Assessment

58. The measures being implemented are unlikely to have any impact on emissions of greenhouse gases.

Competition Assessment

59. The introduction of generally applicable time-cost charging is unlikely to affect significantly the ability of approved meat businesses to compete or affect their incentives to do so, as all such businesses within the UK will be affected by them. The FSA does not expect that these measures will directly or indirectly limit the number or range of approved meat businesses.
60. Limited information is available on the profile of the meat processing sector. However, some analysis has been possible for red meat slaughterhouses. Based on employment information for 27 medium and large businesses in GB in 2007⁹, it has been possible to infer an average number of employees per animal unit. Data on throughput for red meat slaughterhouses has been converted into animal units, and the result used to estimate the number of employees and assign each business to a size category. This suggests that approximately three quarters of red meat slaughterhouses are micro businesses, approximately 15% are small, approximately 10% are medium-sized and only 1% or so are large.¹⁰

Annual cost per organisation by size

61. The financial impact of the measures is expected to be very small, with most having a zero impact on costs. Businesses initiating reviews that find against them will incur costs of £250.

Administrative burdens

62. The measures that are being implemented will slightly reduce the administrative burden on approved meat businesses and the impact of them is expected to be minimal.

⁹ Source: Plimsoll 2007

¹⁰ Note that these estimates are based on a small sample of medium-sized and large firms, and the average applied to all businesses. 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.

Small Firms Impact Test

63. Discounts will continue to be targeted to provide support to smaller and geographically remote plants in accordance with EC requirements and in a manner consistent with the FSA's wider policy towards such businesses.

Sustainable development/environmental/health

64. The measures that are being implemented will have little if any impact on the delivery of the Government's five principles of sustainable development, on the environment or in relation to public health. Introducing generally applicable time-cost charges is more sustainable because it gives businesses an incentive to use MHS resources more efficiently, which will enable resources to be reduced without compromising the level of health benefits and protection.

Race/disability/gender equality

65. The FSA does not envisage an impact.

Human rights

66. The FSA does not envisage an impact.

Rural proofing

67. The measures being implemented would mainly affect rural areas, as they are where many slaughterhouses, game handling establishments, cutting plants and farms are located. However, they are likely to have little impact on the rural economy as the introduction of generally applicable time-cost charging, which is the main measure, would be cost-neutral and would affect all similar businesses. Thus, the present rural/urban balance would be likely to be unaffected.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	No	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No

