DNV CONSULTING

Review of options for provision of Veterinary Surgeons within the Meat Hygiene Service:

report for Food Standards Agency
rev 2, 1st July 2005
CONFIDENTIAL

MANAGING RISK

Review of the Role of the Veterinary Surgeons within the Meat Hygiene Service

for

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contents:

Executive Summary

This report has been commissioned by the Food Standards Agency to assess the cost effectiveness of alternative options for veterinary provision in comparison to current arrangements. It follows on from a previous DNV report "Review of the MHS Management System following Wall Report Recommendations", and from the report "Inquiry into the failure to comply with the requirements to test all relevant 24 – 30 month old casualty animals for BSE" (the Wall Report). Whilst this report was commissioned as part of the response to the Wall Report the issues raised go beyond the immediate concerns of the reintroduction of OTM animals into the food chain. It is important that the issue of the provision of veterinary supervision at meat plants is resolved in order to have a robust MHS in the future.

A set of possible options for veterinary provision at meat plants was developed jointly by the FSA and the MHS. Of the five possible alternatives originally conceived, the FSA determined that three should be taken forward for consideration at this stage, namely:

a) Enhanced Contractor System
b) Fully Employed Competent Authority System
c) Hybrid System

Conclusions

1. The Fully Employed model is estimated to have the lowest cost and should answer most of the questions raised over provision of the OVS.
2. The Enhanced Contractor model is estimated to cost somewhat more than the employed option (£20M as opposed to £18M), and does not meet all of the effectiveness criteria established for OVS provision. However, if well managed it should be able to result in an improvement in OVS competence, one of the fundamental challenges posed by the Wall Report. It therefore remains an option, at least for the short term.
3. The cost of the hybrid model is similar to that of the enhanced contractor option but appeared to be significantly flawed and should not be considered further, at least not in the present form.
4. The effect of inflation is likely to reduce the gap between the employed and contractor options assuming that it remains possible to hold increases in contractor costs to about 2.5%.
5. It is estimated that the new hygiene regulations that come into effect in January 2006 will result in a significant reduction in OVS effort, and a saving of some £6.4M to £8.5M was forecast depending on the model adopted.
6. The costs of management and central services in the MHS represent an additional 26% over the delivery costs. This is a relatively large overhead, even allowing for the nature of the industry. Significant effort would need to made by the MHS management team if this ratio was not to rise as a result of the anticipated cost reductions with the new regulatory regime.
7. Whilst it is concluded that the Fully Employed model is the most cost effective option of the three included for consideration in this study, there are significant risks associated with it. Concerns have been expressed over the ability of the MHS to integrate and manage a large number of OVSs and past experience would appear to support the view that this would represent a significant challenge, potentially jeopardising the ability to deliver the service. Adoption of this model therefore needs further detailed planning to ensure service delivery is uninterrupted and cost adequately controlled.

8. It is difficult to wholeheartedly recommend an option that is inherently long term when not all options have been open for consideration.
9. It is therefore recommended that a more wide ranging review of options is undertaken, at least including the other options originally proposed, before a decision can be taken on the long term future of veterinary provision in the MHS. This needs to be initiated without delay to avoid further uncertainty in this time of great change for the organisation and so that a clear plan for veterinary supervision at meat plants can be developed that will encompass both the short term needs for the reintroduction of OTM animals in the food supply and the longer term.

1.0 Introduction

In May 2004 it was reported that the Meat Hygiene Service (MHS) had failed to ensure that all relevant 24-30 month old casualty animals had been tested for BSE. As a result of this finding, the Board of the Food Standards Agency set up an independent inquiry headed by Professor Patrick Wall with the remit to address issues that led to the testing failures. The report "Inquiry into the failure to comply with the requirements to test all relevant 24 – 30 month old casualty animals for BSE" (the Wall Report) made a number of recommendations for change in order to ensure that the measures were put in place to ensure that similar difficulties would not recur.

Since a number of these recommendations referred to management and communication issues associated with the MHS and its stakeholders, DNV Consulting were asked to conduct a review of the management system in place within the MHS, with particular reference to the potential reintroduction of Over Thirty Month (OTM) Scheme animals into the food chain. The Wall Report identified weaknesses in the current arrangements for supply of Official Veterinary Surgeons (OVS) to meat plant and DNV's report "Review of the MHS Management System following Wall Report Recommendations" (rev 1, 9th February 2005) further highlighted these weaknesses and recommended that:

> *A full assessment of the cost / benefit of the current contract arrangements is conducted together with a review of alternative options in order to devise a rational plan for the future.*

This Report has been commissioned by the Food Standards Agency in response to that recommendation with the objective of assessing the high level costs associated with alternative options for veterinary provision (see below) in comparison to current arrangements and to review their strengths and weaknesses.

Whilst this report was commissioned as part of the response to the Wall Report the issues raised go beyond the immediate concerns of the reintroduction of OTM animals into the food chain. It is important that the issue of the provision of veterinary supervision at meat plants is resolved in order to have a robust MHS in the future.

A set of possible options for veterinary provision at meat plants was developed jointly by the FSA and the MHS (see Appendix I). Of the five possible alternatives originally conceived, the FSA determined that three should be taken forward for consideration at this stage, namely:

a) Enhanced Contractor System
b) Fully Employed Competent Authority System
c) Hybrid System

2.0 Acknowledgements

This study is largely based on information provided by staff at the Meat Hygiene Service and we are grateful for the support and help we received. The assessments have also been informed by a workshop held to discuss the options with members of the MHS management team and a meeting of the Meat Hygiene Policy Forum. The names of all those attending are given in Appendix II and their contributions are gratefully acknowledged.

3.0 The Meat Hygiene Service

The MHS is an Executive Agency of the Food Standards Agency. It was first established as an Executive Agency of the then Ministry of Agriculture Fisheries and Food (now Defra) in April 1995 when it took over meat inspection duties from local authorities and became a single agency responsible for the enforcement of meat hygiene in Great Britain.

The MHS operational workforce consists of some 2,000 full-time, casual and contracted staff in the 'front-line' hygiene inspection teams located in licensed fresh meat premises throughout Britain. In addition, the MHS employs some 200 administrative and managerial staff based at the headquarters in York and at its regional offices.

The inspection teams within plants will normally include an Official Veterinary Surgeon (OVS), a Senior Meat Hygiene Inspector (SMHI) or Senior Poultry Meat Inspector (SPMI), a number of Meat Hygiene Inspectors (MHIs) or Poultry Meat Inspectors (PMIs), and, at beef and/or sheep plants, Meat Technicians (MTs). The number of inspectors depends on the size of the plant, the volume/speed of production and the complexity of its operation. These staff are supported by Regional Veterinary Advisers (RVAs) and Area Managers (AMs).

> **Official Veterinary Surgeons** (OVSs) are qualified veterinary surgeons, who have additionally attained official designation to enforce legislation on public health and animal welfare at slaughter. They are the MHS technical team leaders in each plant, carrying statutory responsibility under the relevant hygiene regulations for ante-mortem inspection, slaughter, post-mortem inspection, and health marking. The majority of OVSs are supplied to the MHS by veterinary contractors.
> **Senior Meat Hygiene Inspectors** (SMHIs) and **Senior Poultry Meat Inspectors** (SPMIs) have line management responsibilities for Meat Hygiene Inspectors and Poultry Meat Inspectors. Their duties include monitoring staff sickness, health and safety, and authorising timesheets and expenses.
> **Meat Hygiene Inspectors** (MHIs) and **Poultry Meat Inspectors** (PMIs) work on the production line alongside plant staff at various critical points, each inspector performing a specific task as the carcases move along the line. They may also assist with ante mortem inspection. MHIs and PMIs ensure that animal welfare and hygiene standards are observed throughout the production process, under the direction of the OVS.
> **Meat Technicians** (MTs) are responsible for checking that beef and sheep carcases are free from Specified Risk Material (SRM), and for supervising the staining of SRM. They also examine cattle passports and ear-tags to ensure that the Over Thirty Month (OTM) Rule – which prohibits entry to the human food chain of cattle over that age – is being adhered to.
> **Regional Veterinary Advisers** (RVAs) are qualified veterinary surgeons who are normally experienced OVSs. They provide veterinary and technical support within their region.
> **Area Managers** (AMs) support the inspection teams in maximising their performance in protecting public health and animal health and welfare. They are responsible for direct liaison with operators of licensed premises and their customer care. They hold their own budgets, and also manage contracts with veterinary and other contractors who provide services in their area. They are home-based, but regularly travel to plants.

New EU Hygiene Regulations come into effect in January 2006 that will have a major impact on the work of the MHS. The regulations allow for the possibility that there need not be 100% veterinary supervision in all meat plants. This has been assumed to allow for reduced veterinary

cover at medium sized slaughter houses (as is already the case in small plant), and also that there is no longer a need for daily visits to cutting plant. This has been estimated to result in a reduction of about 35% over the current 700,000 hours of veterinary supervision at meat plants in the UK (see further detail in Section 4.4.1).

The regulations also allow for changes to the role of the OVS, including the provision for two levels of OVS:

1. Inspecting OVS (I-OVS): Newly qualified or other veterinarians who do not have a high level of auditing or enforcement skills. Main tasks: ante-mortem inspection and oversight of other inspection tasks and health marking including post-mortem inspection at small and medium sized slaughterhouses.
2. Auditing OVS (A-OVS): More experienced veterinarians with proven auditing and enforcement skills. Main tasks: Routine audits of meat plants and technical supervision for the inspecting OVS.

These two roles have been built into the options being considered.

4.0 Options for Veterinary Provision at Meat Plants

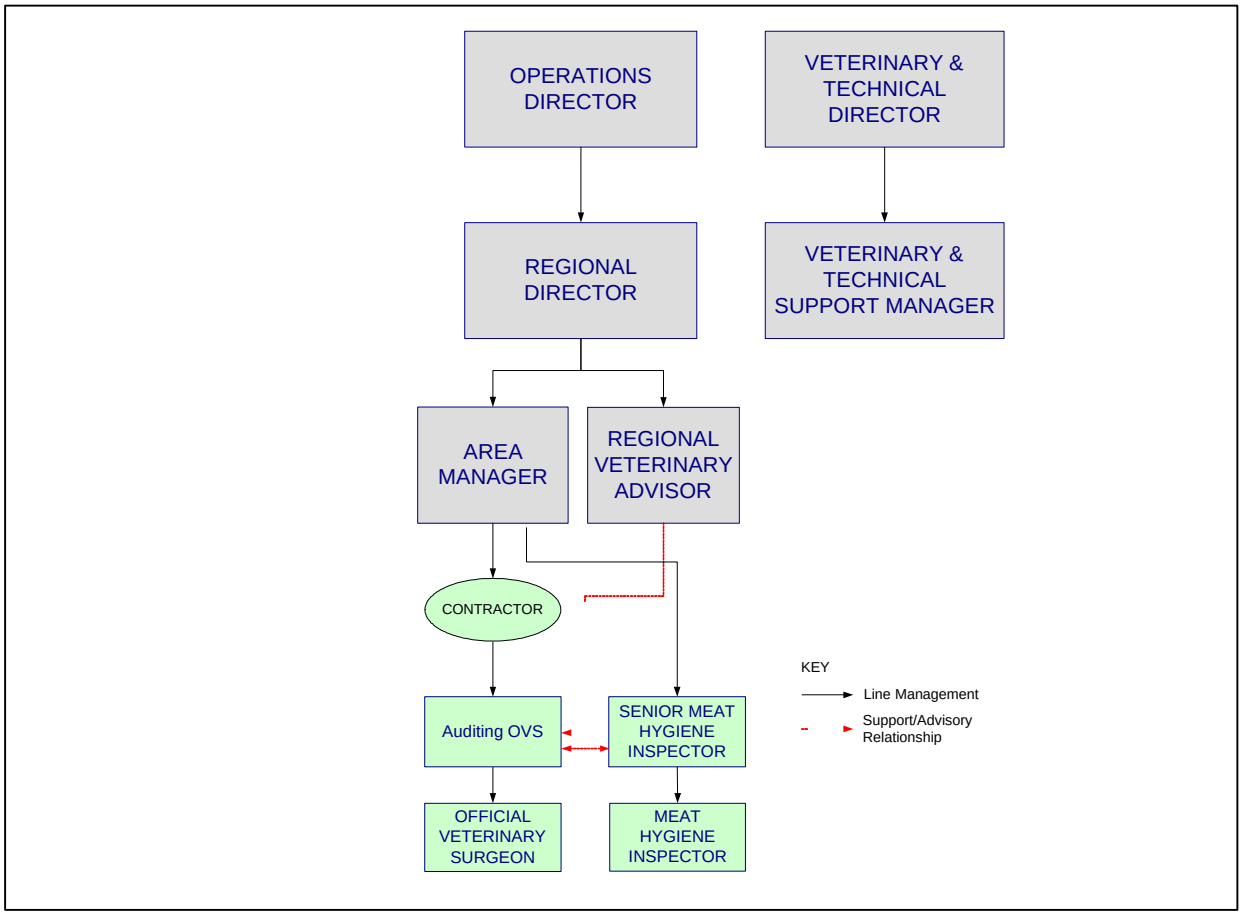
As already noted in the introduction, this study has been asked to consider three options developed by the FSA and MHS. These options are described below together with the assumptions on which the assessment is based.

4.1 Enhanced Contractor System

This option most closely resembles the current arrangement, enhanced by more robust contract management utilising Regional Veterinary Advisors (RVAs) or equivalents to regularly monitor technical compliance through on site visits.

This option would require revised contracts in which the KPIs would be designed to measure "output" rather than "activity", and additional measures including the potential provision of penalty and reward clauses. The model would require sufficient RVA resource to conduct regular visits to assess the technical performance of the contractor and supervise the contract OVS. The frequency of visits would be determined using a risk based approach. The organisational structure for the MHS with this option remains very similar to the present situation as shown in Figure 4.1.

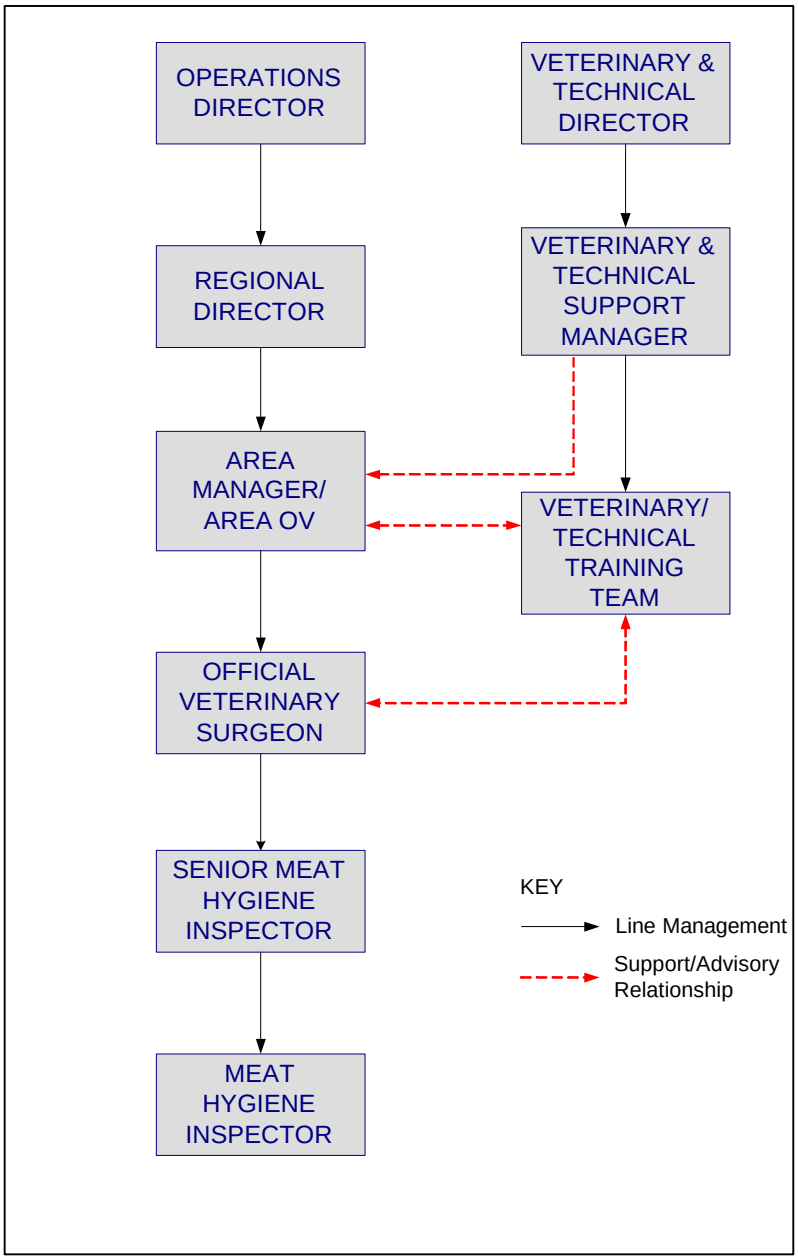
Figure 4.1: MHS Structure – Enhanced Contractor System



4.2 Fully Employed Competent Authority System

This option represents the opposite end of the spectrum of options from the Contractor model, moving from the present system where most OVSs are supplied by contractors to one where the majority would be directly employed by the MHS. It has been assumed that this would lead to a direct line of report on technical matters from the I-OVS at the plant through the A-OVS and up to the Veterinary and Technical Director of the MHS. Contract arrangements would be retained largely to service those plants that operate for limited periods and durations. The revised organisational structure for this option is illustrated in Figure 4.2.

Figure 4.2: MHS Structure – Fully Employed CA System



4.3 Hybrid System

This Option attempts to retain many of the advantages of the Fully Employed System, whilst avoiding the need to employ the majority of the Inspecting OVSs. The key difference with the Contractor Option is a much clearer technical reporting line through the Auditing OVS. It is assumed that the majority of the Inspecting OVSs will be supplied on a contract basis but will be managed by the MHS. The Contractor would address the HR issues for the individual (salary, benefits, etc), but the management responsibility for the work being done would lie with the MHS. The organisational structure for this option is similar to that for the Fully Employed Option.

4.4 Data and Assumptions

The data and assumptions on which the comparison of options has been based are set out below. Detailed cost data for the comparison are given in Appendix III.

4.4.1 Number of Plants and OVS Hours

The number and type of plants serviced by the MHS are summarised in Table 4.1. This shows the assumed operating time for each plant type, the current OVS hours and the estimated requirement for Inspecting OVS hours and plant audit under the new hygiene regulations.

Table 4.1: Summary of Assumptions for Number of Meat Plant

Type of plant	No of plants	Days/wk	Current OVS presence		Inspecting OVS Presence		Plant Audits	
			hrs/day	hrs/yr	hrs/day	hrs/yr	No per yr	days per yr
Small red s/h	125	2	2	25000	2	25000	2	250
Medium red s/h	145	4	8	232000	4	116000	4	580
Large red s/h	60	5	10	150000	10	150000	4	240
Small white s/h	45	2	2	9000	2	9000	2	90
Medium white s/h	20	4	8	32000	4	16000	4	80
Large white s/h	50	5	10	125000	10	125000	4	200
Wild game processing	100	5	1	13000	1	13000	3	300
Stand alone cutting plant	460	5	1	115000	0	0	3	1380
Stand alone cutting plant (LA)	340	5	0	0	0	0	3	1020
Total				701000		454000		4140

Table 4.1 shows a total of 1345 facilities of which 330 are red meat slaughter houses, 115 white meat slaughter houses, 100 wild game processing and 800 stand alone cutting plant (which include 340 catering butchers currently under LA control).

It is assumed that all facilities work 50 weeks per year apart from wild game processing which work 26. The operating periods for each type of facility have been based on data from one area in the South & West region which are assumed to be representative. The data were obtained from the recently completed “Blueprint model” for the area. The Blueprint model is the new resource planning tool being developed within the MHS. It holds details of all plant, their

throughput, OVS hours and details of the MHS staff at each plant. It will be used by individual Area Managers to manage the resources within their area, and will ultimately provide an overview at both regional and company levels.

Using these plant numbers and operating periods with the average OVS presence as shown gives a total of 701,000 OVS hours per year. This is very close to the current actual OVS hours (contract and employed) of 695,500, suggesting that the assumptions are reasonable.

The assumed changes in the need for Inspecting OVS hours with the new hygiene regulations indicate that the total number of OVS hours would reduce from 700,000 to about 454,000. About half of this reduction (115,000) results from taking away the need for daily visits to cutting plant, with a further 132,000 hours from assuming that the OVS presence in the medium slaughter houses can be reduced from 8 to 4 hours per day. This latter also assumes that the OVS can be effectively redeployed on other duties (e.g. audits) for the remainder of the time.

Assumptions on the audit frequency at each type of plant are given in Table 4.1. This is not intended as an accurate estimate of OVS requirements for 2006, but to provide a consistent basis for assessing the relative costs of the options being considered. It has been assumed that average duration of each audit would be one day, allowing for both the plant visit and writing a short report. This allows for variations between the different types of plant and assumes that a standard report format would be used.

4.4.2 Numbers of Personnel by Option

The total numbers of personnel assumed in the cost calculations for each of the options are summarised in Table 4.2. These are all given in terms of full time equivalents (FTEs).

In the Contractor option it is assumed that the audit OVS requirement would be largely provided by contractors. This would represent some 33120 contractor hours assuming an 8 hour day, or 20 FTEs assuming 1650 available hours per year.

If it is assumed that an employed auditing vet would carry out 120 audits per year this translates to 35 employed staff. 120 audits represents about 60% of their time not allowing for any additional travel time. It has been suggested that this may not allow enough time for other activities, including supervising the OVSs, enforcement activities, providing technical advice etc. Reducing the audit time to about 50% (100 audits per year) would increase the required number of A-OVSs to 41. It is therefore proposed to assume a need for 40 Auditing OVS positions in both the employed and hybrid options.

Table 4.2: Numbers of Personnel by Option

Option	Staff	MHS employed	Contractor	Total I-OVS
Current Situation (March 2005)	AM	29		
	RVA	15		
	OVS	25	400	425
Contractor system	AM	29		
	RVA	21		
	A-OVS		20	
	I-OVS		275	275
Hybrid System	AM	29		
	RVA	8		
	A-OVS	40		
	I-OVS	0	275	275
Fully employed Competent Authority System	AM	29		
	RVA	8		
	A-OVS	40		
	I-OVS	255	20	275

Notes to Table 4.2:

a) FTEs are based on an assumed 1650 working hours per year. This is based on the information that currently employed OVSs deliver 1500 chargeable hours per year without overtime and do an average of 150 hours of overtime.
b) For the contractor model it is assumed an additional 6 RVA (or equivalents) would be needed to deliver the additional audits of OVS activity for enhanced contract management.
c) The 454,000 I-OVS hours identified in Table 4.1 are equivalent to 275 FTEs.
d) In the Hybrid and employed model it is assumed that about half of the present RVA group (8) would be transferred into VTSU to perform a training and CPD role (they may well remain located in the regions). The remaining 7 would become part of the team of A-OVSs. Some of these could be given a specific role of providing veterinary advice to the Regional directors.
e) In the employed model it is assumed that the inspecting time for all small red and white meat slaughterhouses (i.e. 34,000 hrs – 20 FTEs) would continue to be provided by contractors,

4.4.3 Flexibility of Employed I-OVS staff

The question of operational flexibility for the employed I-OVS staff has been raised, both to cover the variations in demand by day of the week, and emergency cover for sickness, injury, etc.

Data from the "Blueprint" for one Area from the South & West region has been examined. This shows the following variation in operating hours and number of plant by day of the week.

Total no. of plant = 22	Mon	Tues	Wed	Thur	Fri
No. of plant	18	14	11	10	11
Operating hours	171	138	104	93	103

This data indicates that there is a factor of 1.7 between the Operating hours on Monday with those on Wednesday to Friday. However, examination of the data show that all the plant that operate on Monday and or Tuesday and not on other days are small red or white meat slaughter houses. Under the employed model these would be serviced by contractors and not by employed staff.

This suggests that it will be possible to provide the required flexibility by using contractors.

It has also been suggested that it may be possible for an experienced MHI to carry out the required ante mortem inspections for limited periods in emergency situations if an OVS was not available. It is understood that this is accepted in some other EU countries.

5.0 Comparison of Costs

Each of the three options has been modelled to determine a comparative annual cost. To achieve this comparison a range of data has been assembled and reviewed. The data and assumptions used are set out in full in Appendix III.

5.1 Context

The context of the cost comparison needs to be explicit. A current cost breakdown for the MHS is shown in the tables below. This is based on the 2004/5 budget which gives a total cost for the MHS of £83M.

Table 5.1: Summary of Current Cost Breakdown

Management Organisation and Support Costs		
Includes:	Accommodation Administration Human Resources Accounts Technical Support (Vet Tec) Information Technology Travel and Subsistence Senior Management Pension Premium payment Other operating costs	
Salary related costs		£7.4M
Non salary costs		£9.5M
Total Management Organisation and Support		£16.9M
Delivery Costs		
Area Managers Salaries		£1.5M
RVAs and EOVSs		£2.1M
Contract OVSs		£22.6M
SHMIs, MHIs, MTs		£38.3M
Contract MHIs		£1.5M
Total Delivery Costs		£66.0 M

For purposes of comparison only the shaded area of the delivery costs are directly within the scope of this assignment. These are the costs which will vary between each of the three options described and will therefore be modelled to support the decision making process. However the overhead costs cannot be ignored. Currently for each £1 spent on salary or contract costs related to service delivery there is an additional burden of 25.6p to cover supporting costs and overheads. This ratio is likely to change for the worse with a decrease in the requirement for hours spent on service delivery with the new hygiene regulations.

Notes:

1. Area Managers and RVAs have been treated as direct delivery costs for the purpose of the modelling and comparison of options. This differs from the current MHS approach. This has been done in order to take account of the variation in numbers of these staff in the different options.

2. The current travel and subsistence costs have been treated as an overhead as is normal MHS practice. An element of this will be a direct delivery cost. However, differences in travel and subsistence costs between the different options have been taken into account in the modelling.

5.2 Cost Comparison

The detailed results of the model calculations for each of the options are given in Appendix III, with the key results extracted and presented here.

The estimated costs for each option and the comparison with the current costs are shown in Table 5.2 and illustrated in Figure 5.1.

The employed option is calculated to have the lowest cost at £17.9M annually. This is despite the fact that the model assumes that all 29 of the present Area Managers are maintained as well as 40 of the new Area Veterinarians. This represents a ratio of 1:4 in terms of management resource for each I-OVS. Reducing the numbers of Area Managers to 10 would deliver a further cost saving of £1M and reduce the employed option cost to around £17M.

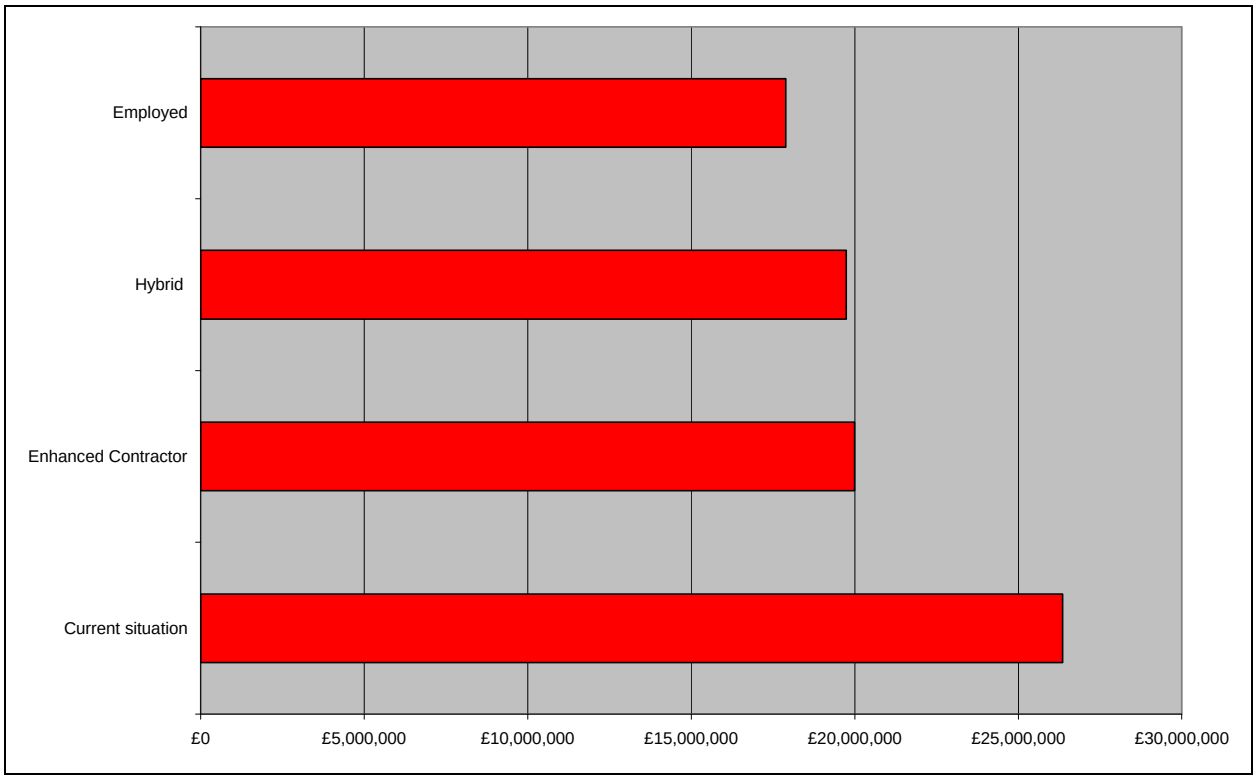
The enhanced contractor option would be significantly more expensive than the employed option at £20.0M. The hybrid option has a very similar level of cost at £19.7M.

Set up costs are significant only in the employed model which would also incur an annual recruitment charge estimated to be up to £125,000 assuming a 10% attrition rate and that this activity could not be absorbed by the HR department.

Table 5.2: Overall Cost Comparison

Option	**Cost (£M) 2005/6**	**Set-up Cost**
Current	26.4	Not Applicable
Enhanced Contractor	20.0	Not considered material. The current procurement resources would handle contract negotiation
Employed	17.9	Significant one-off recruitment cost of £1,275,000 and an annual recruitment cost of up to £125,000 assuming a 10% attrition rate
Hybrid	19.7	Not considered material – there may be a small cost if OVSs for auditing purposes need to be recruited

Figure 5.1: Overall Cost Comparison



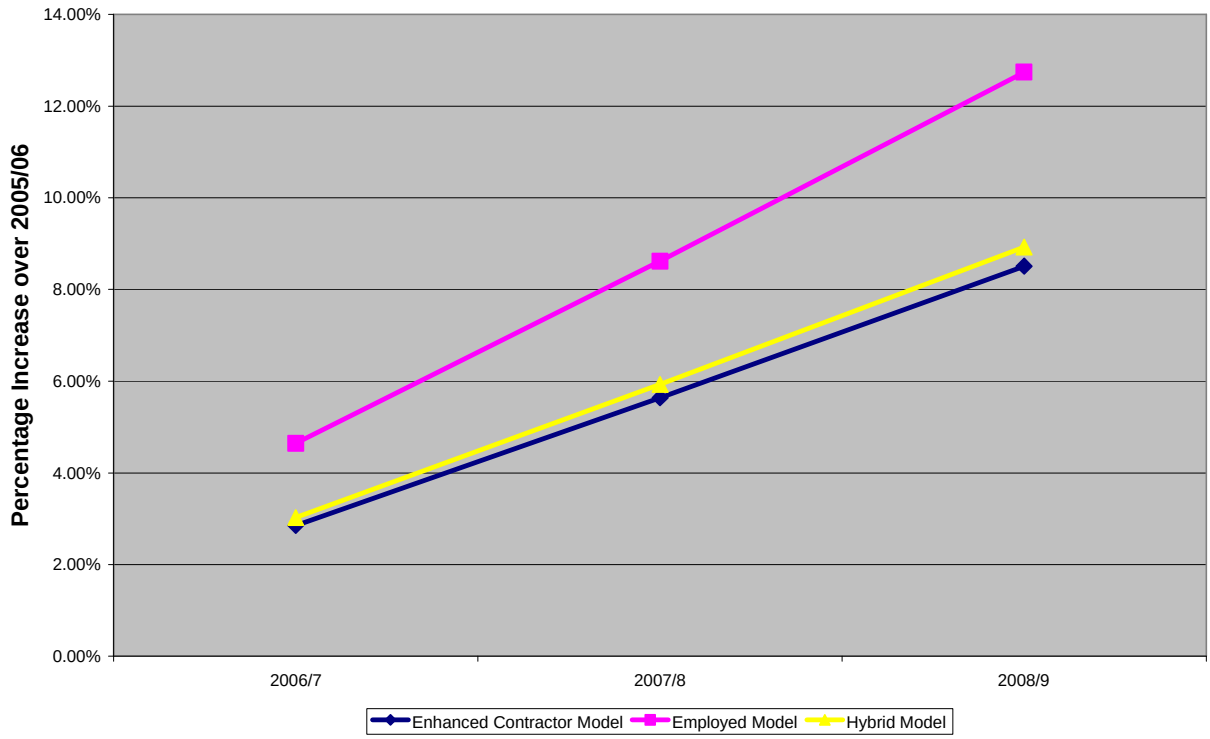
5.2.1 Effect of Inflation

The effect of inflation on each option is illustrated in Figure 5.2. This shows that the costs for the employed model will have risen by about 13% by 2008/2009 whilst those for the enhanced contractor and hybrid options will have risen by about 9%. This differential arises because MHS salary costs are assumed to increase at 5% after year 1 and then 4% annually whilst other costs, including contractor costs, are assumed to increase at an annual inflation rate of 2.5%. The validity of this assumption needs to be tested and it should not just be assumed that salary costs will continue to rise ahead of inflation.

However, even taking this into consideration, by 2008/9 the employed model is still £1.5M less expensive than the hybrid option on an annual cost basis.

Concern was raised that it would be harder to control costs with the employed option than through the contract arrangement and this is reflected in the assumptions made. However,

Figure 5.2: Effect of Inflation of Each option

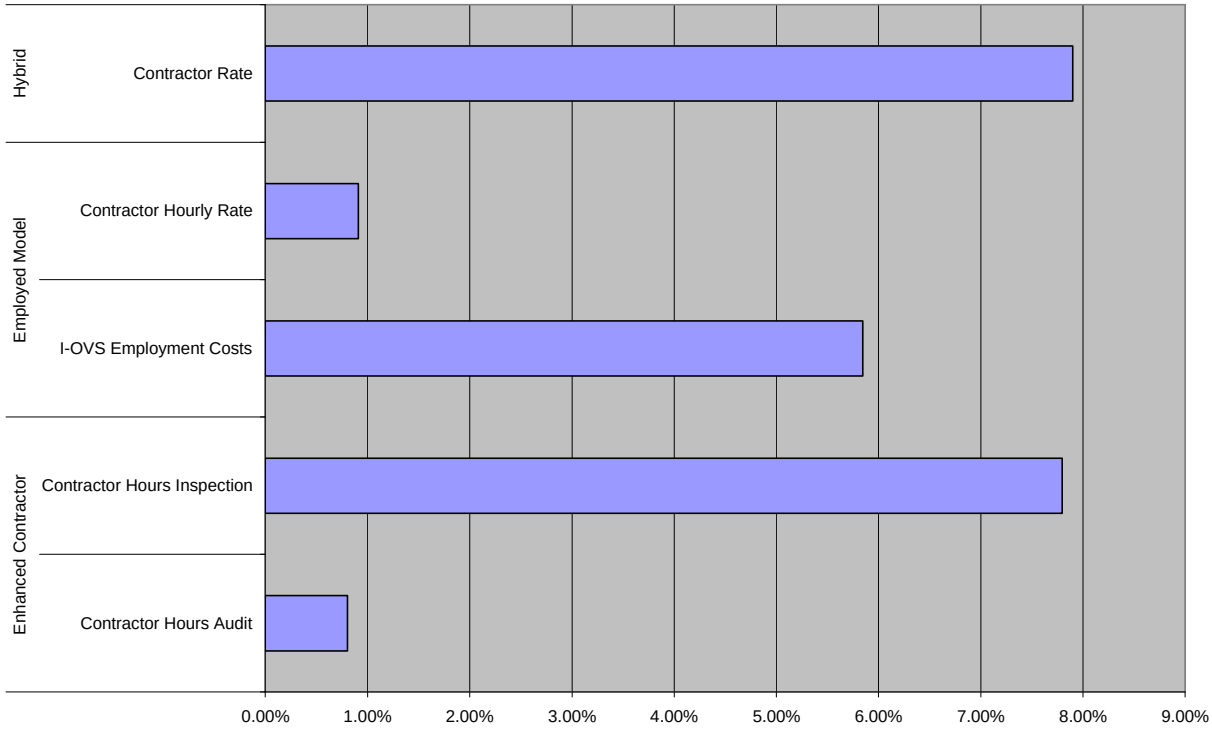


5.2.2 Sensitivities

The sensitivity of the estimated costs for each option to changes in contractor and employment costs is shown in Figure 5.3. This shows the percentage change in the overall cost as a result of a 10% change in the specified parameter. Thus a 10% increase in the contractor rate would result in an 8% increase in the overall cost for the Hybrid option. The 10% figure is not based on forecast scenarios, but is considered reasonable and serves to illustrate the change in total cost generated by such movement.

The sensitivity analysis shows that the options display a similar order of robustness in cost terms. Both the Contractor and Hybrid models are sensitive to contractor costs/hours, whilst the Employed model is more sensitive to the cost of employing the OVSs. Different challenges will exist in controlling these factors depending upon the option selected, whether it will be limiting wage inflation or control of contract rates.

Figure 5.3: Sensitivity to Contractor and Employment Costs
Percentage change resulting from a 10% change in base value



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5.2.3 Other comments

- The employed model highlighted the high cost of servicing the MHS's current pension arrangements. An employer contribution of between 18.6% and 22.3% is currently payable for employed vets. This is significantly higher than in the private sector. The MHS Human Resource department was adamant that these pension arrangements and other MHS terms and conditions would have to be applied to newly recruited staff (even for the new position of I-OVS in the employed model). The constraints cited are union agreements and civil service policy. This area would warrant more investigation as to whether other public sector bodies have used any innovative contracts or employment agreements to alleviate this cost burden.

- In both the enhanced contractor option and the hybrid option there is a risk that a situation could develop where there is an effective oligopoly (where 2 or 3 suppliers dominate 80% or more of the supply). It is clearly possible that this could result in a shift of pricing power to the suppliers. The ability to maintain the contractor price inflation at RPI or there-about would be difficult in this scenario.

- In conclusion, the employed model appears to provide the best value considering cost alone. However there is one significant caveat: the robustness of the assumption on the employment cost of the I-OVS. This assumption would need to be market tested to give assurance that the total employment costs in the employed option are achievable. Linked to this is the attrition rate, an increase in the attrition rate would increase costs. However, the rate of attrition for the existing employed OVSs appears to suggest that the assumption made of 10% turnover per year may be reasonable. The factors are balanced by a number of conservative assumptions built into the model which include the generous allowance of area managers (33) and provision for additional expenses (£892,500).

5.3 Overhead recovery

The impact of each model on the ratio of overhead to delivery cost is shown in Table 5.3.

Table 5.3: Ratio of Overhead to Delivery Cost

	Cost pence/£	Overhead reduction required to maintain status quo
Current	25.6	0
Enhanced Contractor Model	28.3	£1.6M
Employed Model	29.3	£2.1M
Hybrid Model	28.4	£1.7M

Currently there is an overhead recovery requirement of 26p in the pound if all the overheads and operation costs are attributed to the hourly delivery cost (salary and contract). In the enhanced contractor model it is estimated that this figure would rise to 28p in the pound. In this model where contractors are responsible for resource management there could be no argument for an increase in overhead. £1.6M would have to be saved from the central overhead to maintain the current (arguably high) level. A similar argument would apply to the hybrid model where £1.7M would need to be cut from the overhead.

The employed model would also need a reduction in the overall overhead of £2.1M if the ratio of the overhead costs is not to increase. There may be an argument for increased management and support when a large number of OVSs are employed. However significant management time has already been included at the Area Manager and Area Vet level.

In summary, implementation of all three options (or even maintenance of the status quo) would require a review of the overhead structure, and this will represent a significant further opportunity for cost reduction.

Note: For purposes of overhead recovery the MHS uses a different treatment than that above. There are statutory restrictions on the costs the MHS can recover from industry. For example prequalification training and bad debt cannot be recovered. However RVA and Area Managers are treated as an overhead for recovery purposes. Currently the MHS is able to recover 15.3% of the direct labour charge.

6.0 Strengths, Weaknesses and Threats

Whilst cost is clearly a major factor in determining the most appropriate model for OVS provision, there are a number of other factors that must also be taken into consideration. In particular, the reports by both the Wall group and DNV Consulting identified weaknesses in the management arrangements for the provision of OVSs and these must be addressed. In the Note from FSA/MHS setting out the Options for consideration (given in Appendix I) it was stated that significant improvements on the current system could be achieved if it were replaced by one that met the following six criteria:

- OVSs competent at performing the tasks required of them;
- Technical supervision of plant based teams;
- A career structure that will realise the potential of new recruits, retain quality staff and allow for succession planning;
- Integration of OVS and MHI into effective teams;
- Quality technical support for operational teams and regional staff;
- A veterinary/technical reporting line from plant based staff to the Veterinary Director in the MHS and hence to the FSA's Veterinary Director /CVO and hence to the FVO.

These criteria have been used as the basis for assessing the effectiveness of each of the options. Strengths and weaknesses have also been considered in terms of three additional headings:

Practicality	For the purposes of this exercise practicality is considered to cover how readily managed the alternatives might be, the required timeframe for implementation, and the likely acceptability of the options to stakeholders.
Flexibility	Ability to meet fluctuations in the demand for OVSs, both in the short term (day to day) and long term.
Stability	Potential for impact on the MHS, the contractors or the OVSs
Effectiveness	Ability to meet the six criteria as given above

Whist the information presented below does not constitute a detailed risk assessment against the various criteria, it does reflect both the views of the DNV team and key issues raised during interviews and meetings with FSA, MHS and additional stakeholders. The information is summarised under the criteria described above, followed by a brief summary of the strengths and weaknesses (or risks) associated with the options.

6.1 Enhanced Contractor Option

This option most closely resembles the current situation and as such would require least change for MHS and contractors. Prerequisites for the introduction of an enhanced contractor option would include the need for a new round of tendering and adjustments to the current contract to monitor and ensure delivery against MHS expectations. This would be unlikely to result in major changes to MHS staffing levels, although those within the contractor organisations would reduce in line with the decreased effort required under the regulatory regime coming into existence in 2006.

However, one challenge facing the MHS is that many of the contract arrangements in place are due to expire in the relatively near future, some as soon as August 2005. In order to provide stability in the short term it is therefore anticipated that the contracts currently in place will be extended until April 2007, although these are subject to a 3 month termination clause which will allow for flexibility should an alternative option be selected.

Practicality	Could be implemented most rapidly with least change to the existing management structures and functions. Practical challenges around the need to modify contract arrangements including difficulties relating to whether contractors would accept penalty clauses and the potential that these would be reflected in increased contract rates reflecting an altered risk profile. Under the current arrangement significant resource is dedicated to contract management, with around 66 contract organisations currently engaged by the MHS. Time would be required to recruit additional RVAs and roles would need to be defined as at present they have no responsibility for the OVSs on the plant. Questions were also raised over whether the current RVAs would be the right people to take a leading role in assessing OVS performance.
Flexibility	Large degree of flexibility in both the short and long term as Contractors are required to provide adequate staffing for current demands, yet if changes to legislation or industry were to occur the MHS would not face the need to conduct large numbers of redundancies.
Stability	Concerns over the high turnover of OVSs (reportedly 20 to 25% per year), and lack of control over selection and placing of OVS personnel, and an inability to develop individuals within the organisation.
Effectiveness	OVS competence: changes to the contract requirements and KPIs and increased focus on assessing technical competence should have an impact. Technical supervision of plant teams: Concerns over the lack of veterinary supervision of the plant staff provided by the MHS, although introduction of A-OV may improve the present situation. Career structure: may not address high contract OVS turnover or provide any career structure.

	Integration of OVS and MHI into effective teams: problems likely to remain over the relationship between the OVS and meat inspection teams within plants and difficulties in performing the role of team leader would remain. Quality technical support: direct link between VTSU and the operational OVS in the plant: should be more effectively addressed through revised management structure but reliant on changes to contract and role of A-OV to make significant impact. A veterinary / technical reporting line from plant based staff to the Veterinary Director in the MHS: not clear how this would be achieved as contractor would remain responsible for I-OVS.

The major strengths of this option are that as the closest to the existing system, it is likely to require the lowest investment in MHS resource to implement the required changes. It also provides a high degree of flexibility, limiting the requirement for the MHS to engage and manage a large number of specialist personnel. The lack of need for the MHS to offer this relatively highly paid group of personnel 'standard civil service' terms and conditions was also identified as a strength within the contracted model.

In terms of weaknesses, this model does not address all of the effectiveness criteria set out above which were based on the issues raised in the Wall Report. The additional supervision of the OVSs to assess technical performance, stricter contract requirements and the inclusion of the auditing OVS role should allow the competence of the OVSs to be controlled more effectively. However, it would appear unlikely that this model would result in significantly increased OVS retention rates (e.g. lack of career structure, organisational belonging), and issues around MHS control over OVSs and the ability of the OVS to manage the plant team or improve the team dynamic would likely remain.

In summary, this option appears strong in terms of limited change required and flexibility, but perhaps weak in relation to many of the criticisms levelled in the Wall Report in relation to provision of competent OVSs under the control of the MHS and operating as team leaders in the plant. It should also be remembered that the MHS has not yet introduced an effective contract management system despite several years of managing the contractor system, and a significant management burden is associated with this activity which arguably blurs the lines between operational and veterinary priorities.

6.2 Fully Employed Competent Authority System

In many ways the strengths and weaknesses described for the contractor system are reversed for the fully employed model and this would represent the largest change to the status quo with the need to employ (and more importantly manage) a majority of the OVS provision.

Prerequisites for this option would include the recruitment of the employed OVSs, determining terms and conditions (including those already employed), managing the move away from the widespread use of contractors in a phased manner, and ensuring that there is no gap in service provision and that resourcing levels are in line with industry requirements throughout that period. There would also be a need to introduce revised supervisory and support mechanisms (e.g. A-OVs) and potentially modify existing arrangements (e.g. AMs)

Practicality	Radical departure from the current arrangement with the associated challenges surrounding robust management of change, consuming

	significant time and management resource for successful implementation Perceived difficulties in recruiting might be reduced through use of recruitment agencies. Potential for significant training requirements, although a reasonable assumption would appear to be that a majority of OVS personnel employed would come from the existing labour pool in MHS and contract organisations. Continuing requirement to manage a proportion of part time OVS provision from large animal practices.
Flexibility	May reduce the operational flexibility of the MHS, partly through constraints of civil service–type terms and conditions, but also sensitivity to longer term decreases in demand for service through legislative change or industry contraction Experience from existing employed OVS scheme have highlighted issues including potential difficulties with requiring staff to work flexibly (e.g. in different plants). This is by definition a long term option and if adopted now could limit the possibility to consider alternative options (e.g. a Control Body option) in the future.
Stability	Major impact on the business of the larger OVS suppliers in particular and would need careful planning and phased approach. Potential to generate crisis if contractors were to decide that an exit strategy were appropriate prior to a controlled changeover being implemented.
Effectiveness	OVS competence: MHS would have greater opportunity to screen and select OVSs with the appropriate set of skills for the task. Technical supervision of plant teams: should lead to closer integration with A-OV role and stronger links to VTSU. Career structure: In part simply through employed status, but also through clearer progression within the veterinary function in the organisation. Integration of OVS and MHI into effective teams: Should be easier but will still require management effort and specific training for the OVS. Quality technical support: direct link between VTSU and the operational OVS in the plant: should be more effectively addressed through revised management structure. A veterinary / technical reporting line from plant based staff to the Veterinary Director in the MHS: also better addressed through the revised management structure.

The major perceived strengths of this option are the apparent ability to meet the effectiveness criteria and to allow the MHS to bring the major competency upon which the organisation relies in-house and gain management control over the resource which is currently managed externally. However, with that control comes responsibility and the need to manage the resource effectively, and serious concerns were raised by stakeholders over the ability of the

MHS to manage a change of such magnitude. This was further compounded by concerns over the inflexibility that such a system might entail, particularly when charging regimes might change in future with the full burden of the service being applied to industry.

Further threats include the need to maintain business continuity and potentially reduced flexibility (although as discussed in Section 4.4.3 sufficient flexibility may be built into this model), and would rely on good planning and implementation to avoid serious business interruption with follow on impact for industry. There would also be the loss of competition in the market and a feeling was expressed that the enhanced conditions likely to be offered could make the employed OVS a less flexible individual and remove market forces to drive down cost (the view was frequently expressed that a similar effect had been achieved through the introduction of headage charges where market forces had effectively been greatly reduced).

The increased role of veterinarians in a management capacity was also strongly questioned in some quarters within the MHS, although with suitable selection, training and support there would not appear to be any inherent personality trait of veterinarians that should preclude them from such a supervisory role.

In summary, this option offers the largest potential gains in terms of the effectiveness of OVS provision and management control of core competence by the MHS, but also represents the largest risk. It would require fundamental changes to MHS structure and the market for contract OVS provision, which could result in failure to deliver core services. Low confidence amongst stakeholders regarding the ability of the MHS to manage such a transition was a strong and consistent theme.

6.3 Hybrid System

Many of the features of the contractor model apply to the hybrid option, the notable difference being the transfer of management responsibility effectively from the contractor to the MHS. This option would result in a major change to the role of the larger contractors to that resembling a specialist employment agency, and require a new tendering process and radically different contract arrangements.

Practicality	Significant change for both the MHS and contractors with one assuming greater responsibility in line with a reduction for the other. Need to retain simplified contract management function as competency would be under the direct control of the MHS. MHS likely to want to control deployment as well as technical competency, further questioning the benefits from utilising contractors. Expansion of the number and management competency requirements for A-OV and potential role ambiguity between operational and technical managers. May also be significant issue around whether the contract OVS would become an employee by default since they would be performing a core MHS function and effectively be managed by the organisation. Could result in the need to provide MHS terms and conditions.
Flexibility	The flexibility of the contract arrangement would be largely maintained, although assumes deployment would be managed

	equally effectively by MHS.
Stability	Likelihood that role of the larger contractor organisations would be reduced to largely that of a recruitment agent and administrator with presumably a significant impact on value-added and fee rates and market attractiveness. Potentially less impact on large animal veterinary practices, which may need different contract arrangements to reflect differing roles and functions.
Effectiveness	OVS competence: should allow the MHS to have greater control over the OVSs supplied than at present and also gain greater control over deployment. Technical supervision of plant teams: as for the fully employed option as the A-OV will be employed staff. Career structure: Not clear that this would be addressed by this option. Integration of OVS and MHI into effective teams: Whilst there may be some improvement over the contractor model, it is unlikely to lead to a situation whereby the I-OVS would be in a position to assume management responsibility for the MHI team within the plant. Quality technical support: should be addressed as for the fully employed option. A veterinary/technical reporting line from plant based staff to the Veterinary Director in the MHS: should be addressed as for the fully employed option.

The strengths of this option are that the changes are less radical than those under the employed model and there is the opportunity for the MHS to have closer integration of veterinary professionals. There would also be continued benefits through outsourcing including market competition and the provision of terms and conditions which may be inferior to those within the civil service. The benefits from flexibility are largely the same as the contractor model, although additional onus would be placed on MHS management were they to become responsible for resourcing and allocation of vets in plants.

However, the option may be fatally flawed as the level of integration may be such that the contractors may effectively become employed due to the nature of the relationship, resulting in an entitlement to terms and conditions for employed personnel. They would also face a major change in function from which there would presumably be downward pressure on rates potentially resulting in further market concentration, shortages of supply, or reduced quality as the contractors seek to cut cost to maintain margins. As with the employed model there would need to be careful management of transitional arrangements to ensure continued delivery of the service. An additional threat would be a lack of clarity relating to roles and responsibilities between contractor and MHS, including allocation of responsibility / authority, resulting from two line management structures.

It should also be remembered that the new arrangement may be less attractive in some ways to OVSs and some may choose to leave if the new role is seen as having few of the benefits from contracted employment (e.g. vehicle, etc.) nor those of being employed.

In summary, the hybrid model appears to a have fundamental issue around employment rights of the OVS were they to be subject to direct MHS management and this could render the option invalid. There are potential benefits from greater MHS control over the OVS, but also a reduced role for the contractor which could result in a loss of some benefits to be derived from the market approach. The management model also appears complex with the need to retain both a high degree of contract management expertise as well as developing the technical supervision element, with the potential for role conflict and unnecessary duplication of effort.

7.0 Discussion and Conclusions

During the course of this exercise it became clear that the decision as to which option to select was both complex and controversial, with timing a key issue. Perhaps not surprisingly, no clear consensus emerged during the study as to which of the alternatives was preferable due to a number of factors including difficulties of forecasting demand for MHS services, resistance to change, vested interest, and often a lack of confidence in the MHS's ability to deliver.

Cost was perhaps the most straightforward issue in many ways, although the need to project into the future when determining the anticipated workload and resource needs required some serious thought on the part of the MHS. It is also perhaps of concern that it took an exercise of this nature to bring the respective parties together to determine such needs given that the anticipated changes are only a few months away.

Costs need to be examined both in relation to the overall figure and relative values for the three options. In relation to the total cost figure it appears that there is likely to be a significant reduction in OVS effort as a consequence of the new regulatory requirement in 2006, and a saving of some £6.4M to £8.5M was forecast depending on the model adopted. This figure relies on a number of assumptions including that the structure of the industry remains stable, contractor and MHS costs increase in line with expectations, and supervision levels are as anticipated. Since this represents a significant cost reduction on the part of the MHS it is considered essential that any further work is conducted by the organisation as a matter of priority to confirm these figures as they will have a significant impact on the organisation in 2006.

In relation to the relative cost of the options, the employed model was the lowest (£17.9M), with little to choose between the hybrid and enhanced contractor approaches (both approximately £20M). However, there are sensitivities which could influence these figures including wage inflation and changes to contractor costs which need to be taken into consideration. The effect of inflation will be to reduce the difference between the employed and contractor options, assuming that increases in contractor costs can be held to 2.5%, although it is estimated that the employed option is still £1.5M less than the contractor option by 2008/2009. As these could alter the profile significantly further attention should be directed towards ensuring that the assumptions made are (and remain) valid and reasonable.

An additional issue which has been raised relating to cost is the relatively large overhead associated with the MHS with the costs of management and central services representing an additional 26% over the delivery costs. Although this partly reflects factors including the nature of the industry (geographical spread, working practices, etc.) and lack of investment in IT, the figure does appear to be at the high end of expectations. Of equal concern is that if this ratio is not to increase above the existing level, given the anticipated cost reduction under the new regulatory regime, substantial savings (estimated in the region of £1.6 to £2.1M) would need to be made even to maintain the status quo. No immediate plans to address this issue were raised during discussions with MHS, and the existence of a zero redundancy policy is likely to make such changes extremely difficult in the short term.

In order to ensure conservative values were used in the model staffing levels were maintained around those currently found within the organisation. However, this threw up some anomalies including the expectation that with declining I-OVS presence and introduction of greater supervisory presence from veterinary staff (in particular the A-OV) there should be some decrease in middle management, with the AM the most likely candidate. Indeed within the employed model it would appear that a greatly reduced number of AMs would be appropriate, perhaps by as much as two thirds of the total, potentially removing a further £1M from the cost of operation.

If these potential savings are taken in conjunction with the anticipated need to address overhead reduction in line with the reduced workload forecast for 2006, the employed model could result in costs nearer to £13.4M, with the hybrid and contractor models being in the region of £16.9 and £17.3M respectively. Thus when the potential for alteration to organisational structure is taken into consideration, the employed model appears to represent an opportunity for further saving over the other alternatives.

Issues were also raised around the organisational structures, roles and responsibilities appropriate to the three models. Although these were drawn up in consultation with MHS and based largely upon alterations to the existing mechanisms they are at a fairly high level and require further deliberation. A process mapping exercise is currently underway and this presents an opportunity to further scrutinise roles and functions in order to determine the right delivery organisation, and the area must be revisited in the light of findings from this exercise.

The assessment of the Strengths, Weaknesses and Threats associated with each of the options in terms of the additional parameters of Practicality, Flexibility, Stability and Effectiveness has identified important differences between the options. The contractor model relies primarily on two factors to ensure the model delivers acceptable OVS performance; introduction of the A-OV and changes to the contract arrangement to ensure improved performance. These are backed up by increased inspection (presumed to be by RVAs) to ensure technical competence of the OVSs. There are some practical challenges in ensuring that these mechanisms are designed and delivered to overcome shortcomings already discussed, although this model is least likely to require major changes to MHS management systems and associated roles.

As such, the model was attractive as a short term measure to industry stakeholders; indeed to some the use of contractors appeared to an acceptable option even in the longer term. It was also argued by some that the perceived difficulties with the contractor model were more a consequence of the OVSs delivering what was being required by MHS policy (e.g. 'zero tolerance in plants'), and that contractors were effectively being punished for effective delivery of a policy which had resulted in a significant deterioration in relations with industry.

However, there was also a strong view in some quarters that the current arrangement was unacceptable, particularly in the longer term, and that a full 'root and branch' review of the MHS was required to ensure that the changes proposed would not only address the issues, but leave the organisation fit for purpose in the long term. There were also clear concerns expressed over the ability of the MHS to manage a large population of employed OVSs, and a desire not to allow too great a change until the future of the charging arrangement became clear since reverting back to a contractor arrangement might then not be a feasible option.

The hybrid arrangement appeared to suffer from a number of significant and possibly fatal flaws. Not only could there be concerns over the status and employment rights of the OVSs supplied by the contractor, but the role of the contractor would appear to be reduced to a point whereby the value-added would be greatly diminished, yet it was not clear that this would necessarily be accompanied by a proportionate reduction in rates. This could lead to a situation where the MHS increased the management burden whilst maintaining a major cost in terms of OVS supply.

A major criticism of the employed model was that it offered what was seen as a relatively inflexible solution, compounded by the introduction of civil service terms and conditions which were widely cited as further limiting flexibility and opportunity for cost control when compared to the contract arrangement and terms under which contract OVSs currently operate. However, perhaps the largest concern expressed was not in relation to the role and structure of the model, but more directed towards the MHS management team and their ability to manage the increased number of veterinary staff, leading to potential business continuity issues, as well as increased cost.

In summary, the contractor and employed models, although recognised as being imperfect were both considered capable of delivering the service, although in cost and effectiveness terms the employed model appears to have a significant advantage at least in the short term. However, the ability to effectively implement and manage the employed model was seen as a major risk, and the inability to do so could lead to a significant threat to the service, the magnitude of which should not be underestimated.

In summary:

- The enhanced contract model remains an option; it does not meet all the effectiveness criteria but if well managed should be able to result in an improvement in OVS competence, one of the fundamental challenges posed by the Wall Report. It does not address the OVS in the plant acting as the team leader and it is likely that high turnover of OVS personnel within contracting organisations will remain an issue, leading to an ongoing situation where high turnover results in instability and associated difficulties within a key group of staff;
- On a cost basis the employed model appears superior and answers many of the questions raised over provision of the OVS. However, there are significant risks associated with this approach including the ability of the MHS to integrate and manage a large number of OVSs and past experience would appear to support the view that this would represent a significant challenge, potentially jeopardising the ability to deliver the service. Adoption of this model therefore needs further detailed planning to ensure service delivery is uninterrupted and cost adequately controlled.
- The hybrid model appeared to be significantly flawed and should not be considered further, at least not in the present form.

Although this exercise concentrated on the immediate challenges faced by the MHS, a view taken by several industry stakeholders was that a more widespread review of the MHS was required before adopting any of the options under discussion. The project team have a degree of sympathy for this view, particularly since there is presently a move towards mapping MHS processes and this is seen as an urgent and vital activity in resolving issues around roles and responsibilities across the organisation. The present study could therefore be accused of pre-empting the findings of this exercise which may be ‘putting the cart before the horse’.

A further limitation of the study is considered to be that the option of a delegated control body was excluded from consideration. Both the project team and some stakeholders believed that this should be included in any long term consideration of options. This option should include the transfer of the entire meat hygiene team to a private contractor leaving the role of the MHS greatly simplified and largely one of policy, audit and control. Once the decision is taken that the OVS should be contracted out it is difficult to argue that the same does not apply to the MHI, particularly when failure to do so results in the two parts of the plant team operating in different organisations, and with inconsistent terms and conditions and management structures;

In trying to reach an overall conclusion on the most effective option to recommend the study team is caught in a quandary. Within the limitations of the scope of the study the most cost effective option must be the employed model; the hybrid model has been discarded, and whilst the contractor model offers greater flexibility it does not meet all the concerns raised in the Wall report. However, industry stakeholders do not wish to see a move to what is perceived to be a model which will be extremely difficult to reverse once in place, and where there is little confidence in the MHS’s ability to manage the arrangement both through the transition period and into the longer term, in relation to both cost control and effectiveness. It is therefore difficult to wholeheartedly recommend an option that is inherently long term when not all options have been open for consideration.

It is therefore recommended that a more wide ranging review of options is undertaken, at least including the other options originally proposed, before a decision can be taken on the long term future of veterinary provision in the MHS. This needs to be initiated without delay to avoid further uncertainty in this time of great change for the organisation and so that a clear plan for veterinary supervision at meat plants can be developed that will encompass both the short term needs for the reintroduction of OTM animals in the food supply and the longer term.

Appendix I – Options for Provision of Inspection Teams at Meat Plants

OPTIONS FOR PROVISION OF INSPECTION TEAMS AT MEAT PLANTS
(Rev 5, 17th March 2005)

Recent reviews of MHS management systems

1. The Wall Report recommended three major management measures to improve the delivery of MHS activities at plant level. They are:

    - To develop a proper monitoring system and supervisory structure for OVSs and MHIs,

    - To improve contractor accountability for technical performance or provide MHS line management for contracted staff, and

    - To develop a more integrated service by making key linkages more effective.

2. Deloitte and Touche had previously reviewed MHS management and reported in February 2001. They concluded that the provision of the veterinary attendance levels required to comply with the prescriptive requirements of the Directives would be a major challenge given that there was a background of concerns about the quality of OVSs at that time. They suggested the main problem facing MHS was the retention of quality in-house staff and recommended clearer career development paths, job enlargement and enrichment, and specialisation. They also recommended that the MHS:

    - Attempted as a matter of urgency to increase recruitment of directly employed OVSs,
    - Made greater use of part time and retired OVSs, and
    - Attempted to attract significant numbers of UK graduates back into meat hygiene work.

3. On reporting line issues Deloitte and Touche recommended:

    - The establishment of a single chain of management from OVS (who would take responsibility for team management within the plant) to POVS and Regional Director.

4. These four particular recommendations have not yet been taken up. However the MHS is undertaking an ongoing pilot project to assess the benefits in terms of service quality and costs and management implications of using directly employed OVSs rather than contracted OVSs. In the meantime a contract management system has been put in place to strengthen the delivery of service by contractors, with responsibility for compliance with the legislation resting with Area Managers (AM), not veterinarians. The Principle Official Veterinary Surgeon (POVS) role was converted to a Regional Veterinary Advisor (RVA) to provide technical advice to regional management, but without direct responsibility for standards in plants.

5. The recent findings of DNV Consulting suggest that the changes introduced by MHS following the Deloitte and Touche report have been counterproductive in some areas.

Veterinary staff based in regions no longer have knowledge of the actual standards of service being delivered by plant based teams. However benefits in business management have resulted in better controls on staffing and significant financial savings. One aspect DNV make clear is that in a changing regulatory environment the impact of any further changes needs to be carefully assessed before further changes are made. Stakeholder involvement will be essential in that process.

What improvements are needed?

6. Distilling the findings of the recent reviews it would appear that significant improvements on the current system could be made if it were replaced by one that provided the following six criteria;

    - *OVSs competent at performing the tasks required of them,*
    - *Technical supervision of plant based teams,*
    - *A career structure that will realise the potential of new recruits, retain quality staff and allow for succession planning,*
    - *Integration of OVS and MHI into effective teams,*
    - *Quality technical support for operational teams and regional staff,*
    - *A veterinary/technical reporting line from plant based staff to the Veterinary Director in the MHS and hence to the FSA's Veterinary Director /CVO and hence to the FVO.*

OVSs competent at performing the tasks required of them

7. UK veterinarians do not qualify highly skilled in meat hygiene and audit, but do have basic clinical skills, which are honed in the first few years of practice. Some graduates from other Member States lack these clinical skills, but may have expertise in food science. Further training of OVSs is therefore essential to fit them for their role. This cannot be achieved prior to designation, and is difficult to achieve with the current system, which results in an approximate turnover of 25% (120) of OVSs each year.

8. The new EU Hygiene Regulations divide the veterinarians' tasks into inspection tasks for which clinical skills are required and audit tasks for which meat hygiene experience and audit skills are required. They also allow for probationary OVSs to work under supervision, less than fully qualified OVSs to carry out inspection tasks at small slaughterhouses and wild game premises and for audit to be carried out at risk-based frequencies.

9. Better OVS competence could therefore be achieved by restricting newly qualified and other veterinarians, who have not developed audit and enforcement skills, to inspection tasks, and concentrating audit and meat hygiene training on the smaller number of OVSs needed to carry out audit of operators' procedures. These two types of OVS are called "inspecting OVSs" and "auditing OVSs" for the purposes of the remainder of this paper.

10. This structure is supported by the proposed training scheme for OVSs under H3. The RCVS has accepted the proposal for OVS training to be linked to the RCVS post-graduate CPD module system. Achieving the modules in band B would lead to 'inspecting OV'. An auditing OV would be expected to gain the module in band C.

11. The new EU Hygiene Regulations remove the strict requirement for OVSs to be present throughout post-mortem inspection. This may allow for greater use of part time, experienced veterinarians from agricultural practices, with well-developed clinical skills, to act as "inspecting OVSs" and carry out ante-mortem inspection and oversight of other inspection tasks and health marking including post-mortem inspection at small and medium sized slaughterhouses.

12. Annex 1 contains some assumptions for assessing relative costs of the options identified. These are very much "best guesses" but they suggest that in the region of 33 "auditing OVSs" would be required if they were to each carry out 120 audits per year. An important aspect of the cost/benefit analysis will be to make a comparison of the cost of providing "auditing OVSs" against the savings resulting from the new EU Hygiene Regulations removing the requirement for permanent OVS supervision of slaughterhouses and daily supervision of cutting plants.

Technical supervision of plant based teams

13. The more highly trained cadre of "auditing OVSs" visiting plants at risk based frequencies to carry out auditing tasks, particularly in relation to HACCP based principles and Good Hygiene Practice, would provide appropriate personnel to supervise the technical performance of plant-based teams of OVSs, MHIs and MTs. Auditing OVs would be responsible for the technical standard of MHS service delivery including enforcement arising from operator non-compliance. "Auditing OVSs" would be responsible for achieving compliance to MHS internal veterinary audit. AMs would retain all their non-technical management functions.

A better career structure for operational staff

14. The introduction of the more highly trained "auditing OVSs" would provide an additional step in the career path of veterinarians in meat hygiene. In the longer term there may be scope to explore the use of non-veterinarians to carry out audit tasks, especially at cutting plants where clinical skills are not needed, and inspection tasks at small slaughterhouses without the daily supervision of an OVS. This may provide an avenue for career progression for MHIs. The new EU Hygiene Regulations, which will remove the strict requirement for an OVS to be present during post-mortem inspection, also provides an opportunity for suitably trained MHIs to take charge of the meat inspection team during the OVS's absence.

Integrated plant based teams

15. The problems resulting from the lack of well-integrated plant based teams, when a contractor supplies the OVS and the MHIs are employed by the MHS, have been clearly spelt out by the recent reviews. It is a difficult issue to resolve, when in most cases this arises when the OVS responsible for the work of the MHIs on a daily basis is inexperienced in management. It is compounded by the frequent changes of OVS, which prevent relationships, trust and understanding from being developed. UNISON does not support any move to provide line management by a person out with the organisation. There a number of options that could be considered:

    - Ideally each plant-based team would be made up of either all employed or all contract staff. In this scenario the "inspecting OVS" would directly manage the MHIs,

- A less than ideal alternative reflecting the current practice would be for the "inspecting OVS" to be supplied by a contractor and the MHIs are employed. In this case improvements to the existing model of an ESMHI line managing the MHIs, could be made with the "inspecting OVS" role in technical management being clearly defined and understood throughout the MHS,

- A further option would be a variant of the previous scenario but for the OVSs to be directly contracted to the MHS.

Quality technical support for plant and regional staff

16. The introduction of employed "auditing OVSs" would necessitate an increased capacity in the provision of technical support and the facilitation of information exchange between the Competent Authorities (MHS customers) and regional and operational staff. "Auditing OVSs" could undertake a variety of additional duties that have to be delivered, including:

    - Ensuring operational teams understand and implement changes to the MHS Operations Manual
    - Delivering technical training packages and ensuring operational staff are adequately trained to undertake the duties allocated to them.
    - Assessing trainee MHIs and probationary OVSs
    - Making final assessment of slaughterers for slaughterers' licenses.
    - Approving premises post 2006 when that role is transferred from MHVD.

A Veterinary/technical reporting line from plant staff to the Veterinary Director/CVO of the Competent Authorities involved and hence the FVO

17. Difficulties resulting from OVSs not being responsible for technical performance of employed MHS staff have been highlighted not only by the recent reviews, but also by the FSA Veterinary Director's difficulty in communicating with individual veterinarians in order to provide assurances to the FVO. There may be doubts as to whether the current arrangement, where the reporting line involves the OVS reporting to the Competent Authority via his or her employing contractor, would be acceptable to the FVO. It may be that next year the FVO would expect such arrangements to be covered by the provisions of OFFC relating to Control Bodies, and it would be advisable to seek the Commission's opinion as to whether this is so, if it is intended to continue to make contractors responsible for standards. Under OFFC Control Bodies can, if agreed by comitology, carry out specific tasks delegated to them by the CA, but not take enforcement action. This may in effect rule out contractors carrying out enforcement activities.

18. There would appear to be little alternative, if an effective functional reporting line for technical issues is to be achieved, other than to have a layer of regionally based veterinarians responsible for technical standards in plants. This could be provided by employed "auditing OVSs" being made responsible for a group of premises, with an "inspecting OVS", whether employed or on contract, accountable to him or her. The "auditing OVSs" would report in turn to either a regional lead "auditing OVS" or a regional veterinary manager (RVM) who would be responsible for ensuring consistent and accurate technical delivery and enforcement inn the region. These lead "auditing OVSs" or RVMs would report on technical issues at least, to the Veterinary Director of

the MHS, and hence ensure the link is established to either the Veterinary Director of the FSA, for public health issues, or the CVO, for animal health and welfare issues, and hence to the EU Commission.

Models to be considered

19. A number of models or combinations of models could deliver the above criteria to a greater or lesser extent. It is suggested that the following systems are subject to cost/benefit analysis and stakeholder scrutiny:

a) Contractor system

The existing system enhanced by more robust contract management utilising RVAs to regularly monitor technical compliance through on site visits. (It would be advisable to seek the view of the EU Commission on the acceptability of OVSs not responsible directly to Competent Authority carrying out enforcement activities before investing heavily on this option.)

b) Fully employed Competent Authority system

MHIs, "inspecting OVSs" and "auditing OVSs" all employed by MHS and reporting on technical matters via a lead "auditing OVS" or RVM to the MHS Veterinary Director. Regional Directors would retain responsibility for all business functions.

c) Hybrid system

The existing system but with "inspecting OVS" contracted directly to the MHS and responsible to employed "auditing OVS" The "auditing OV" would be responsible for the performance of the team, and report as in b) above. Part-time "inspecting OVSs" would be sourced from agricultural practices as well as meat hygiene practices.

d) Single Control Body system

MHIs and "inspecting OVSs" employed by a single Control Body, independent of FSA, approved under OFFC to carrying out all inspection tasks, with employed "auditing OVSs" responsible for technical standards and carrying out all enforcement, and reporting as in b) above.

e) Multiple Control Body system

As in d) above but with contracts given to a number of Control Bodies for the provision of teams of MHIs and "inspecting OVSs" to carry out inspection tasks for groups of plants or areas.

Annex 1

Assumptions on OVS presence and auditing frequency to be used in comparing options

NOTE: These assumptions are not meant to provide accurate estimates of OVS requirements for 2006 but to provide a basis for assessing relative costs of the various options.

Type of plant	No of plants	Presence required for "inspecting OVS"	Annual audit frequency and duration	Audit days per year
Small red s/h	125	1 hour 1 or 2 days per week	2 x	250
Medium red s/h	145	4 hours daily	4 x	540
Large red s/h	60	8 hours daily	4 x	240
Small white s/h	45	1 hour 1 or 2 days per week	2 x	45
Medium white s/h	20	4 hours daily	4 x	80
Large white s/h	50	8 hours daily	4 x	200
Wild game processing	100	I hour daily in season	3 x	300
Stand alone cutting plant	800	N/A	3 x	2400
Total				4055

Notes
Farmed game processing premises are included in slaughterhouses.
Slaughterhouses include slaughterhouse with co-located cutting and processing plants.
30% of FT red meat slaughterhouses are assumed to be large.
50 out of 70 FT white meat slaughterhouses are assumed to be large.
Wild game processing plants include 50 plants currently under LA control.
Cutting plants include 340 catering butchers currently under LA control.

Appendix II - List of Individuals and Organisations taking part in Workshops

MHS Workshop
Foss House York, 18th May 2005

Attendees:	Jane Downes	- Veterinary &Technical Director	(Chair)
	Mike Greaves	- Director of Operations	
	Kathryn Davies	- Director of Corporate Services	
	Mike McEvoy	- Director of Finance	
	Monica Redmond	- Director of HR	
	Mike Dore	- Finance	
	Penny Howarth	- Regional Director, North Region	
	Paul Thomas	- Regional Director, Central	
	Robin Harbach	- Regional Director, S&W	
	Stephen Mulholland	- Regional Director, Wales	
	Spencer Dawson	- Regional Director, Scotland	
	Peter Hewson	- FSA	
	Paul Holley	- FSA	
	Elspeth MacDonald	- FSA Scotland	
	Philip Comer	- DNV Consulting	
	Paul Huntly	- DNV Consulting	
	David Salmon	- DNV Consulting	
	Peregrine Pocock	- Note Taker	

STAKEHOLDER MEETING
Aviation House, 1st June 2005

NAME OF ATTENDEE	ORGANISATION
Stephen Lomax	AIMS
Peter Scott	British Meat Processors Association (xBMF)
Peter Bradnock	British Poultry Council
Ted Wright	British Poultry Council
Jason Aldiss	British Veterinary Association
Dr Charles Trotman	Country Land and Business Association
Andrew Hoon	Deer Initiative and Deer Management Qualification
Jane Gibbens	Defra
Jimmy Allimadi	Defra
Alan Horine	Guild of Welsh Lamb and Beef Suppliers
Mike Attenborough	Meat and Livestock Commission
Michael Seals	National Farmers Union
Gail Macdonald	National Farmers Union of Scotland
Richard Stevenson	National Federation of Meat and Food Traders
Brenda Snowden	Northern Ireland Meat Exporters Association
Jill Nute	Royal College of Veterinary Surgeons
Alistair Donaldson	Scottish Association of Meat Wholesalers
Hamish Deans	Scottish Federation of Meat Traders Association
Philip Stocker	Soil Association
Ron Spellman	UNISON

FSA/MHS/DNV ATTENDEES

Peter Hewson	FSA/MHVD
Joanna Fullick	FSA/MHVD
Sylvia Ankrah	FSA/MHVD
Julie Monk	FSA/ED
John Bush	FSA/MHVD
Milorad Radakovic	FSA/MHVD
Shaun Whelan	FSA/COMMS
Adrienne Conroy	FSA/TSED
Stephen Hendry	FSA Scotland
Jane Downes	Meat Hygiene Service
Philip Comer	DNV
Paul Huntly	DNV

Appendix III - Cost Comparison Data and Model Output

1 Cost Drivers

Having determined the delivery costs that need to be compared to support the comparison of the three options it is important to understand the key cost drivers at this level and hence the basis for cost comparison.

1.1 Contract OVS hours and costs

The contract OVS hours for each option have been determined in the previous chapters. Two rates for OVSs are used in the modelling. For contract I-OVSs an average rate of £34.34 per hour has been applied. This is consistent with the current and forecasted billing mix by contractors. A higher rate of £49 per hour has been used in two circumstances. In the employed option small red and small white plants are still serviced by contractors. However due to size and geography the average hourly rate for these types of plants is currently £48.50 and £45.45 respectively. Hence £49 is a pessimistic assumption in the model. The £49 per hour figure has also been used for the cost of a contract A-OVS in the enhanced contractor option. It is assumed contractors will use a much higher hourly figure for audit than inspection.

1.2 Employed Vets and Area Managers

The numbers of RVAs, E-OVS, A-OVSs, I-OVSs, AMs in each option has been described in the previous chapters. The salary cost basis for each of these posts is described in the table below:

Table III.1: Salary data used for modelling

Position	Base	NI %	Pension %	Total Apr-2005	Used in models
AM	40,600	9.3	22.3	53,430	53,500
I-OVS	32,000	9.3	18.6	40,928	41,000
E-OVS	40,200	9.3	22.3	52,903	53,000
RVA	45,150	9.3	22.3	59,417	59,500
A-OVS	40,200	9.3	22.3	52,903	53,000

I-OVS is an assumed new position in the employed model
A-OVS will be equivalent to an E-OVS for salary purposes

The salary data used is correct at April 2005. A pay award is expected in August 2005 and the effect of this and of any changes in grade or pension contribution is estimated at 5%. The current salaries have been used for purposes of modelling.

1.3 FTE Basis

For the calculation of full time equivalents required to carry out I-OVS duties it has been assumed that each employed OVS will deliver 1500 ‘chargeable’ hours and would work 150 hours overtime. This is in line with current E-OVS performance. The remaining 424 hours is to cover holidays, training, sickness and maternity/paternity leave.

1.4 Overtime Costs

These have been assumed for the I-OVSs at £20 per hour (1.25 times the average hourly rate). The figure is an estimate but is not sensitive in any of the models. The entitlement to enhanced payments for overtime depends on the grade at which the I-OVS is employed. At SSO grade there is no entitlement to enhanced payments whilst below this overtime is paid at 1.5 times.

1.5 Information Technology, Mileage and Laundry

In the employed option there will be a number of costs currently born by the contractors which the MHS will have to cover. Provision of a laptop computer to each I-OVS, expenses for mileage, and laundry costs have been estimated at £3,500 per year for each I-OVS (laptop-£2,000; mileage-£1,000; laundry-£500). This gives a total of £892,500 for additional expenses in the employed option compared with the other two options. Other expenses such as lease cars and consumables are considered to be similar between options and have not been modelled.

1.6 Recruitment Costs

A recruitment cost of £5,000 per I-OVS or equivalent has been used in the model. The MHS HR department estimated a higher figure than this (over £9,000). However, when recruiting a large number of staff, there are significant economies of scale to be achieved. Such economies are usually leveraged through the use of outsourced recruitment providers. A number of large organisations exist which specialise in this work for Government and the public sector. Typically a fee of 15% of the annual salary of the recruit is charged (dependant on the exact nature of the service provided). On this basis £5,000 is used for each new recruit in the modelling.

1.7 Attrition Rates

The attrition rate of employed vets is only material to the employed option. An assumption has been made that 10% of I-OVSs will leave in a given year. The establishment of secure employment with a veterinary career path is considered to contribute to greater stability in the veterinary workforce. However this should still be regarded as a sensitivity in the decision making process.

1.8 Cost Inflation

For the projections of costs in future years a differential of 1.5% has been used between contractors cost inflation (set at 2.5%) and MHS salary inflation (set at 4%). This based on the belief by the MHS that it is easier to control contractor costs than the MHS salary cost.

2. Model Outputs

The tables on the following pages describe the output from the modelling exercise in terms of costs and sensitivities.

2.1 Current Costs

The data determined for the key cost drivers has been applied to the current situation. The model gives a cost of £26.3M which compare well with the 2004/5 actual of £26.2M.

	No.	Rate	Cost 2005/6
Area Managers	29	53500	£1,551,500
RVA	15	59500	£892,500
EOVS	25.1	53000	£1,330,300
EOVS Overtime Hours	3765	20	£75,300
Contractor Hours	655376	34	£22,505,612
Total			**£26,355,212**

2.2 Enhanced Contractor ModelN- 2005/06

	No.	Rate	Cost
Area Managers	29	£53,500	£1,551,500
RVA	21	£59,500	£1,249,500
Contractor Hours Audit	32760	£49	£1,605,240
Contractor Hours Inspection	454000	£34	£15,590,360
Total			**£19,996,600**

Enhanced Contractor Model – Sensitivities

	-5%	Base	+5%	+10%
Contractor Hours Audit	£19,916,338	£19,996,600	£20,076,862	£20,157,124
Contractor Hours Inspection	£19,217,082	£19,996,600	£20,776,118	£21,555,636

Enhanced Contractor Model – Effect of wage and cost inflation

Financial Year	2005/6	2006/7	2007/8	2008/9
	£19,996,600	£20,566,540	£21,124,819	£21,698,820

2.3 Employed Model 2005/06

	No.	Rate	Cost 2005/6
Area Managers	29	£53,500	£1,551,500
RVA	8	£59,500	£476,000
A-OVS (managing vets)	40	£53,000	£2,120,000
I-OVS	255	£41,000	£10,455,000
I-OVS Overtime hours	38250	£20	£765,000
Contractor Hours	33250	£49	£1,629,250
Additional Costs per I-OVS	255	£3,500	£892,500
Total			**£17,889,250**

Employed Model - Sensitivities 2005/6

	-5%	Base	+5%	+10%
I-OVS Employment Costs	£17,366,500	17,889,250	£18,412,000	18,934,750
Contractor Hourly Rate	£17,807,788	17,889,250	£17,970,713	18,052,175

Employed Model - Effect of reducing the number of area managers

Number of Area Managers	29 (Base)	20	10	0
	£17,889,250	£17,407,750	£16,872,750	£16,337,750

Employed Model - Effect of wage and cost inflation

Financial Year	2005/6	2006/7	2007/8	2008/9
	£17,889,250	£18,720,669	£19,430,724	£20,168,211

Set-up costs and ongoing recruitment

	Number	Cost per recruit	Total Costs
Initial Recruitment	255	£5,000	£1,275,000
Annual Recruitment	25	£5,000	£125,000

2.4 Hybrid Model – 2005/6

	No.	Rate	Cost
Area Managers	29	£53,500	£1,551,500
RVA	8	£59,500	£476,000
A-OVS	40	£53,000	£2,120,000
Contractor Hours	454000	£34	£15,590,360
Total			**£19,737,860**

Hybrid Model – Sensitivities

	Base	+5%	+10%	+15%
Contractor Rate	£19,737,860	£20,517,378	£21,296,896	£22,076,414

Hybrid Model – Effect of wage and cost inflation

Financial Year	2005/6	2006/7	2007/8	2008/9
	£19,737,860	£20,334,994	£20,908,692	£21,499,345

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