

A new approach to charges for official controls on meat: delivering efficiency and reform: summary of impact assessment

Overview

Official controls are carried out by vets and meat inspectors in slaughterhouses, meat cutting plants and game handling establishments to ensure that the business is meeting its legal obligations on meat hygiene and animal welfare. They are a legal requirement under EU law. EU law also sets out minimum charges to be made for meat official controls, and requires that the interests of businesses with a low throughput should be considered when setting charges.

The Food Standards Agency (FSA) is responsible for the controls in the UK and charges businesses for the cost of delivery of these controls. Or rather, part of the cost, as for many years there has been a shortfall between the cost of providing the controls and the income from charges. In 2010/11 around 50% of the cost of official controls was paid by industry (Table 1). The shortfall was £31.2m, and this shortfall was met by the UK taxpayer.

Table 1 – 2010/11 Meat official controls cost and funding (excluding TSE costs)

| Current Cost £m | | Funded by FSA £m | | Funded by industry £m | |
|--------------------|-------|---------------------|------|--------------------------|------|
| GB | 56.4* | FSA in GB | 28.9 | GB industry | 27.5 |
| NI | 6.1 | FSA in NI | 2.3 | NI industry | 3.8 |
| Totals | 62.5 | | 31.2 | | 31.3 |

* This figure includes £4.7 million which relates to pension costs over and above the current employer's contributions for currently employed staff. Pension deficit costs will not be included in industry charges from 2011/12 onwards.

In 2010 the FSA Board decided that as the regulator it should not be a function of the FSA to subsidise industry. Full cost recovery for meat official controls would have the effect of relieving taxpayers of costs which should be met by meat establishments, and of increasing efficiency in the conduct of official controls at those establishments.

Following extensive public consultation and further Board discussions, final proposals have now been prepared. Under these proposals full cost recovery for meat official controls is expected to cost the UK meat industry an additional £17.93 million in 2014/15 (£16.36 million in GB, and £1.57 million in NI). The cost to industry is much lower than the shortfall of £31.2 million for 2010/11. This is due to:

- planned efficiencies in the delivery of official controls which will save £5 million in Great Britain (GB) and £0.54 million in Northern Ireland (NI);
- the removal of GB pension deficit costs from the chargeable costs; and
- the support to be provided to low throughput businesses by a tiered reduction from the full cost.

There will be a saving to the taxpayer of £17.93 million, with no negative impact on public health or food safety.

Consultation

The FSA held a UK-wide public consultation from 10 November 2010 to 1 February 2011 on its proposals for moving towards full cost recovery for meat official controls in slaughterhouses, cutting plants and game handling establishments. The consultation was supported by stakeholder events held across the UK, and by an industry questionnaire which requested evidence and data to allow detailed analysis of the impact of full cost recovery across the meat supply chain.

The majority of the written responses to the consultation opposed full cost recovery, and some respondents disputed the principle. However, many industry representatives attending stakeholder meetings accepted the principle of full cost recovery, although not at the current cost.

There was strong support for recognition of the interests of low throughput establishments, but concern that the initially proposed low throughput thresholds and maximum reduction in the full cost charge were too low, and that a single cut-off point for the reduction would distort the market and act as a barrier to business expansion.

With the exception of NI, where the red meat industry expected to pass all additional costs to the livestock producer, there were mixed expectations about the distribution of impact along the supply chain. However, concern was expressed about the impact of additional costs upon the livestock industry, and on the viability of small and medium establishments, and the consequential impacts of potential closures on rural economies. Comments were not generally accompanied by data and evidence.

Support for businesses with a low throughput

The proposed support for low throughput establishments complies with EU charging provisions, supports relevant policy initiatives in the four countries of the UK, and mitigates potential wider impacts.

The application of the 'low throughput' reduction is illustrated in the Tables 2, 3, 4 and 5 below:

Table 2 - Low Throughput definition

| Establishment | Throughput limit (per year) |
|-------------------------------|--|
| Red Meat Slaughterhouse | 5,000* units |
| Poultry/Rabbit Slaughterhouse | 750,000 birds, 300,000 rabbits |
| Game Handling Establishment | 7,000 deer, 3,000 boar, 250,000 small game, 350 tonnes |
| Cutting Plant | 1,250 tonnes |

*See Table 3

Table 3 – Livestock units

| 1 Livestock Unit is Equivalent to: | Animals |
|---|----------------|
| Adult bovine | 1 |
| Calf | 2 |
| Horse/donkey | 1 |
| Sheep/goat 18kg or more | 10 |
| Sheep/goat less than 18kg | 20 |
| Pig 25kg or more | 5 |
| Pig less than 25kg | 20 |
| Boar | 7 |
| Deer | 3 |

Table 4 - Low Throughput reductions

| Establishment | A (maximum 70% reduction) Throughput limit (per year) | B (maximum 50% reduction) Throughput limit (per year) | C (maximum 25% reduction) Throughput limit (per year) |
|-------------------------------|--|--|--|
| Red Meat Slaughterhouse | First 1,000* units | Over 1000 units - 2,000* units | Over 2,000 units - 5,000* units |
| Poultry/Rabbit Slaughterhouse | First 150,000 birds/300,000 rabbits | 150,001 - 300,000 birds | 300,001 - 750,000 birds |
| Game Handling Establishment | First 3,000 deer, 3,000 boar, 150,000 small game, 250 tonnes | 3,001 – 4,000 deer, 150,001 – 175,000 small game, over 250 tonnes - 275 tonnes | 4,001 - 7,000 deer, 175,001 - 250,000 small game, over 275 tonnes - 350 tonnes |
| Cutting Plant | First 250 tonnes | Over 250 tonnes - 500 tonnes | Over 500 tonnes - 1,250 tonnes |

*See Table 3

Table 5 – Low Throughput establishments – number and support by country

| | England | Scotland | Wales | Northern Ireland | UK |
|--------------------------|---------|----------|-------|------------------|-------|
| Number of establishments | 365 | 60 | 38 | 36 | 499 |
| Estimated discount £m | £2.2m | £0.2m | £0.3m | £0.1m | £2.8m |

Implementation

Full cost recovery would be introduced in a staged move in three steps, beginning with the financial year 2012/13 and with full cost charging from the financial year 2014/15.

Establishments receiving FSA approval after the implementation date (26 March 2012 in GB or after 1 April 2012 in NI) would immediately be charged the full cost of meat official controls (with, if applicable, the appropriate low throughput reduction). Transitional arrangements would not apply, since these businesses would not be making a transition from the current charging policy to the new one.

Cost and Impact

The FSA is committed to reducing the cost of delivering meat official controls for the meat industry in GB by £5 million over the next three years with no inflationary increases. The Department of Agriculture and Rural Development (DARD), which delivers meat official controls on behalf of the FSA in Northern Ireland, is committed to reducing the cost of delivering official controls for the meat industry in Northern Ireland and has developed a plan to deliver efficiencies between 2010/11 and 2013/14, which will result in total savings of at least £0.85 million over 4 years. Savings of £0.54 million are planned for the two years 2012/13 and 2013/14.

Full cost recovery for meat official controls is expected to cost the UK meat industry an additional £17.93 million (£16.36 million in GB, and £1.57 million in NI). This estimate is based on 2010/11 throughput levels and takes into account planned FSA and DARD efficiencies, the removal of GB pension deficit costs, and the provision of support for low throughput businesses. There will be a saving to the taxpayer of £17.93 million, with no negative impact on public health or food safety.

The UK meat market (excluding game) is worth around £6.34 billion, with £3.5 billion accounted for by red meat and £2.85 billion by white meat. Tables 6 and 7 below display the UK retail sales of red meat and white meat (poultry) broken down by meat type showing value and volume sales.

Table 6 – UK retail sales of red meat, by type, value and volume, 2009¹

| Red Meat | £m | 000 tonnes |
|--------------|--------------|------------|
| Beef | 1,869 | 313 |
| Pork | 905 | 185 |
| Lamb | 666 | 99 |
| Offal | 56 | 25 |
| Total | 3,496 | 622 |

Table 7 – UK retail sales of poultry, by type, value and volume, 2009².

| Poultry | £m | 000 tonnes |
|----------------|--------------|--------------|
| Chicken | 2,440 | 935 |
| Turkey | 340 | 116 |
| Duck and Goose | 66 | 21 |
| Total | 2,846 | 1,072 |

Of a total of 1,214 establishments considered in the impact assessment, 528 (43%) are currently already paying the full cost charge to meet EU charging regulations and so will experience no change under these proposals, 187 (15%) would move from their current discount to full cost recovery, and 499 (41%) would move from their current discount to a tiered reduction of the full cost charge, subject to the EU minimum charge. See Table 8 below.

Table 8 – Analysis of establishments affected by proposals

| Country | Not affected by proposal (i.e. already paying full cost) | | | Affected by proposal (i.e. moving to full cost or tiered reduction) | | | Total number of establishments |
|------------------|--|-----------------|-------|---|-----------------|-------|--------------------------------|
| | LTP* | Other than LTP* | Total | LTP* | Other than LTP* | Total | |
| England | 396 | 12 | 408 | 365 | 140 | 505 | 913 |
| Northern Ireland | 3 | 22 | 25 | 36 | 15 | 51 | 76 |
| Scotland | 61 | 3 | 64 | 60 | 19 | 79 | 143 |
| Wales | 31 | 0 | 31 | 38 | 13 | 51 | 82 |
| UK | 491 | 37 | 528 | 499 | 187 | 686 | 1214 |

* LTP = Low Throughput

¹ Mintel 2010: Red Meat - UK. Market value is from 2009

² Mintel 2010: Poultry and Game Meat - UK

Tables 9 to 12 illustrate the estimated financial impact of full cost recovery, broken down by country and by meat sector.

Table 9 – Estimated increase in charges/revenue by sector – UK (excluding low throughput)

| Sector | Year 1 2012/13 | Year 2 2013/14 | Year 3 2014/15 | Total Cost [†] |
|--|-------------------|-------------------|-------------------|-------------------------|
| Red Meat Slaughter (incl. OFS)* | £4,410,000 | £4,410,000 | £4,410,000 | £13,220,000 |
| Poultry Slaughter (with PIA)** | £2,250,000 | £2,250,000 | £2,250,000 | £6,750,000 |
| Poultry Slaughter (without PIA) | £830,000 | £720,000 | £610,000 | £2,170,000 |
| Game Handling | £50,000 | £50,000 | £50,000 | £140,000 |
| Cutting Plants | £10,000 | £10,000 | £10,000 | £40,000 |
| Total Annual Cost | £7,550,000 | £7,430,000 | £7,320,000 | £22,300,000 |
| Efficiency savings | £1,820,000 | £1,860,000 | £1,580,000 | £5,270,000 |
| Final Annual cost (less efficiency savings) | £5,720,000 | £5,570,000 | £5,740,000 | £17,040,000 |

* OFS – On Farm Slaughter

** PIA – Plant Inspector Assistant

[†]Totals may not sum due to rounding

Table 10- Estimated increase in charges/revenue by country – UK (excluding low throughput)

| Country | Number of affected establishments | Year 1 2012/13 | Year 2 2013/14 | Year 3 2014/15 | Total Cost [†] | Efficiency savings | Final cost (less efficiency savings) [†] |
|-----------------------|-----------------------------------|-------------------|-------------------|-------------------|-------------------------|--------------------|---|
| England | 140 | £5,970,000 | £5,870,000 | £5,770,000 | £17,610,000 | £4,120,000 | £13,490,000 |
| Northern Ireland | 15 | £690,000 | £690,000 | £690,000 | £2,070,000 | £530,000 | £1,540,000 |
| Scotland | 19 | £430,000 | £430,000 | £430,000 | £1,290,000 | £300,000 | £990,000 |
| Wales | 13 | £450,000 | £450,000 | £440,000 | £1,340,000 | £310,000 | £1,030,000 |
| UK[†] | 187 | £7,550,000 | £7,430,000 | £7,320,000 | £22,300,000 | £5,270,000 | £17,040,000 |

[†]Totals may not sum due to rounding

Table 11 - Estimated increase in charges/revenue by sector – UK low throughput

| Sector | Year 1 2012/13 | Year 2 2013/14 | Year 3 2014/15 | Total Cost [†] |
|--|-------------------|-------------------|-------------------|-------------------------|
| Red Meat Slaughter (incl. OFS)* | £24,000 | £244,000 | £377,000 | £646,000 |
| Poultry Slaughter (with PIA)** | £69,000 | £101,000 | £103,000 | £273,000 |
| Poultry Slaughter (without PIA) | £62,000 | £68,000 | £75,000 | £205,000 |
| Game Handling | £1,000 | £4,000 | £10,000 | £15,000 |
| Cutting Plants | £2,000 | £7,000 | £13,000 | £22,000 |
| Total Annual Cost | £158,000 | £424,000 | £578,000 | £1,160,000 |
| Efficiency savings | £92,000 | £93,000 | £87,000 | £272,000 |
| Final Annual cost (less efficiency savings) | £66,000 | £331,000 | £491,000 | £888,000 |

* OFS – On Farm Slaughter

** PIA – Plant Inspector Assistant

[†]Totals may not sum due to rounding

Table 12 - Estimated increase in charges/revenue by country – UK low throughput

| Country | Number of affected establishments | Year 1 2012/13 | Year 2 2013/14 | Year 3 2014/15 | Total Cost [†] | Efficiency savings | Final cost (less efficiency savings) [†] |
|------------------|-----------------------------------|-----------------|-----------------|-----------------|-------------------------|--------------------|---|
| England | 365 | £143,000 | £336,000 | £445,000 | £925,000 | £217,000 | £708,000 |
| Northern Ireland | 36 | £6,000 | £13,000 | £21,000 | £40,000 | £10,000 | £29,000 |
| Scotland | 60 | £5,000 | £25,000 | £43,000 | £73,000 | £17,000 | £56,000 |
| Wales | 38 | £4,000 | £49,000 | £69,000 | £123,000 | £29,000 | £94,000 |
| UK [†] | 499 | £158,000 | £424,000 | £578,000 | £1,160,000 | £272,000 | £888,000 |

[†]Totals may not sum due to rounding

It has been suggested by stakeholders (although not evidenced) that those establishments just above the low throughput threshold of 5,000 livestock units are likely to experience the greatest impact of the move to full cost recovery. Of those 187 establishments that will move to full cost recovery, 123 are medium sized red meat or poultry slaughterhouses. However, this is a broad and diverse category, and of those 123 medium sized slaughterhouses, 85 process at least 10,000 livestock units or equivalent per year, and 38 process between 25,000 and 50,000 livestock units annually.

Stakeholders expressed significant concerns, though not evidenced, that the impact of full cost recovery would be passed on to livestock producers. However, despite repeated requests for data and evidence relating to the distribution of costs across the supply chain using an industry questionnaire and public consultation exercise, the lack of data and evidence submitted means we have had to make assumptions to quantify the distribution of costs across the industry supply chain (livestock producers, slaughterhouses, consumers), using indicative estimates. The tables above show the direct impact upon meat establishments in each country and meat sector. The following tables, for illustrative purposes, show the estimated rise in cost per animal if the full amount of the additional cost of these proposals was passed on to the livestock producer. The estimate does not take into account the reduction in costs planned by the FSA and DARD. Please note prices are approximate.

Table 13 - Full Cost Recovery Charge as a Percentage of Estimated Producer Value* per Carcase

| Animal | Estimated Producer Value per Carcase | Element of price attributable to official control costs | | Price increase | |
|---------|--------------------------------------|---|----------|----------------|------------------------|
| | | Current | Proposed | In cash terms | As percentage of Value |
| Chicken | £1.99 | £0.03 | £0.07 | £0.03 | 1.72% |
| Bovine | £447.91 | £4.75 | £9.51 | £4.75 | 1.06% |
| Sheep | £52.58 | £0.43 | £0.86 | £0.43 | 0.81% |
| Pig | £80.60 | £1.11 | £2.22 | £1.11 | 1.38% |

Source: Maximum FSA Operations throughput charge rates, Defra dressed carcase weights, AHDB saleable yield proportions data and producer prices, wholesale and retail prices from the *Meat Trades Journal*. Note: Differentials and totals may not equate and sum due to rounding.

Table 14 Full Cost Recovery Charge as a Percentage of Estimated Producer Value* per Carcase

| Animal | Estimated Producer Value per Carcase | Estimated Full Cost Recovery Charge per Animal | As percentage of value |
|---------|--------------------------------------|--|------------------------|
| Chicken | £1.99 | £0.07 | 3.4% |
| Bovine | £447.91 | £9.51 | 2.1% |
| Sheep | £52.58 | £0.86 | 1.6% |
| Pig | £80.60 | £2.22 | 2.8% |

Source: Maximum FSA Operations throughput charge rates, Defra dressed carcase weights, AHDB saleable yield proportions data and producer prices, wholesale and retail prices from the *Meat Trades Journal*. Note: Differentials and totals may not equate and sum due to rounding. *Estimated producer value is calculated by taking the saleable carcase weight (kg) and multiplying this by the average producer price per kg.

If all additional costs from full cost recovery were to be passed on to the consumer (we consider this to be extremely unlikely), prices would be estimated to rise as follows (please note products prices are approximate, and for illustrative purposes only):

Table 15 Distribution of Full Cost Charge per Type of Meat Cut

| Product and price | Product and price | Element of price attributable to official control costs | | Price increase | |
|-----------------------|-------------------|---|----------|----------------|------------------------|
| | | Current | Proposed | In cash terms | As percentage of price |
| Whole chicken | £4.19 | £0.007 | £0.014 | £0.01 | 0.16% |
| Lean mince per kg | £3.90 | £0.010 | £0.019 | £0.01 | 0.24% |
| Pork loin chop per kg | £6.38 | £0.039 | £0.077 | £0.04 | 0.61% |

Source: Maximum FSA Operations throughput charge rates, Defra dressed carcase weights, AHDB saleable yield proportions data and producer prices, wholesale and retail prices from the *Meat Trades Journal*. Note: Differentials and totals may not equate and sum due to rounding.

Notes:

(1) Double the current maximum FSA Operations charge has been used as a proxy for full cost recovery rates. Throughput charge of £4.707 for an adult bovine, £0.423 for a sheep > 18kg and £1.101 for a pig ≥ 25kg.

Legal position

These proposals do not require additional legislation, and are made on the basis of the powers provided in Regulation (EC) No. 882/2004 and the domestic implementing regulations made in 2009, i.e. the Meat (Official Controls Charges) (England) Regulations 2009 and equivalent legislation in Northern Ireland, Scotland and Wales. The FSA will discuss the proposals with Ministers of all four countries of the UK before any changes are introduced. The FSA participates in the UK Government's reducing regulation initiative, and these proposals will be considered by the Reducing Regulation Committee before being introduced.

Charging systems in other EC Member States vary. The proposals are fully compliant with EU Regulations, which all Member States have to follow. They have been designed to comply with the requirement of the EU Regulation that the competent authority should, in setting charges, consider the interests of those businesses with a low throughput.